

GAO

Report to the Chairman, Subcommittee
on National Security, Emerging Threats,
and International Relations, Committee
on Government Reform, House of
Representatives

September 2004

EMBASSY MANAGEMENT

Actions Are Needed to Increase Efficiency and Improve Delivery of Administrative Support Services



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Highlights

Highlights of [GAO-04-511](#), a report to the Chairman, Subcommittee on National Security, Emerging Threats, and International Relations, House Committee on Government Reform

Why GAO Did This Study

Costs for overseas posts' administrative support services have risen nearly 30 percent since fiscal year 2001, reaching about \$1 billion in 2003. These costs are distributed among 50 agencies through the International Cooperative Administrative Support Services (ICASS) system, which was designed to reduce costs and provide quality services in a simple, transparent, and equitable manner.

Since ICASS was implemented in 1998, its performance has not been systematically reviewed. GAO was asked to examine (1) whether ICASS has led to efficient delivery of administrative services and (2) whether ICASS is an effective mechanism for providing quality services.

What GAO Recommends

GAO recommends that the ICASS Executive Board (1) eliminate duplicative administrative support structures where possible, (2) reengineer processes by seeking innovative managerial approaches, (3) develop strategies to improve ICASS accountability, and (4) ensure that all personnel participating in ICASS receive detailed training.

We received comments on a draft of this report from the ICASS Executive Board and 9 executive agencies. All those commenting on the draft generally agreed with our recommendations, but each emphasized different aspects.

www.gao.gov/cgi-bin/getrpt?GAO-04-511.

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

EMBASSY MANAGEMENT

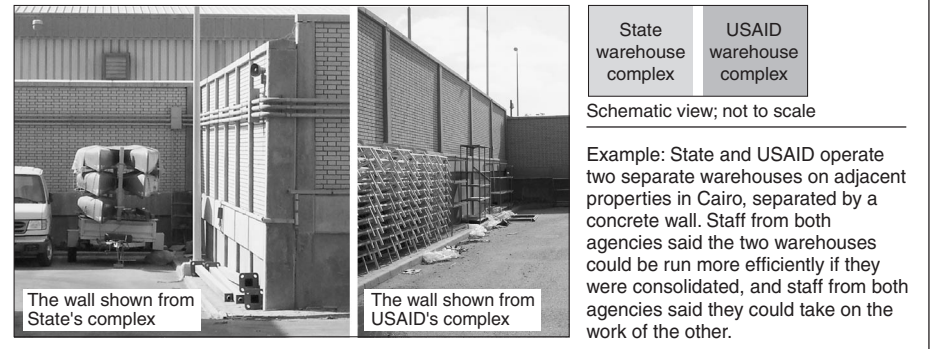
Actions Are Needed to Increase Efficiency and Improve Delivery of Administrative Support Services

What GAO Found

ICASS has not resulted in more efficient delivery of administrative support services because it has neither eliminated duplication nor led to efforts to contain costs by systematically streamlining operations. GAO found that agencies often decide not to use ICASS services and self-provide support services—citing reasons of cost, programmatic needs, and greater control—which can lead to duplicative structures and a higher overall cost to the U.S. government. Although some agencies' reasons for self-providing services may be supportable, GAO found that agencies rarely made business cases for why they chose not to take ICASS services initially or withdrew from services later. In addition, service providers and customer agencies have undertaken few systematic efforts to consolidate services or contain costs by streamlining administrative support structures. Furthermore, GAO found that deterrents to consolidating and streamlining administrative structures largely outweigh the incentives. However, there are efforts, both internal and external to ICASS, that may address some of the obstacles that prevent ICASS from operating more efficiently.

Based on the system's primary goals, ICASS is generally effective in providing quality administrative support services in an equitable manner, although not to the extent that it could be if certain impediments were addressed. GAO found that ICASS is simple and transparent enough for customers to understand its basic principles. Furthermore, most personnel agree that ICASS is more equitable than its predecessor. However, ICASS strategic goals lack indicators to gauge progress toward achieving them, and progress toward achieving posts' performance standards is not annually reviewed or updated. Other obstacles to maximizing ICASS include limits to overseas staffs' decision-making authority, which can diminish ICASS's goal of "local empowerment." Finally, GAO found that training and information resources, which could enhance participants' knowledge and implementation of ICASS, are underutilized.

Independent State and U.S. Agency for International Development Warehouses on Adjacent Properties in Cairo, Egypt



Source: GAO.

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Abbreviations

CLO	Community Liaison Office
DEA	Drug Enforcement Administration
FAAS	Foreign Affairs Administrative Support
ICASS	International Cooperative Administrative Support Services
ISO	International Organization for Standardization
NEC	New Embassy Compound
OMB	Office of Management and Budget
USAID	U.S. Agency for International Development

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United States Government Accountability Office
Washington, D.C. 20548

September 7, 2004

The Honorable Christopher Shays
Chairman, Subcommittee on National Security,
Emerging Threats, and International Relations
Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

The U.S. government spent nearly \$1 billion in 2003 to provide administrative support services to more than 250 overseas posts worldwide. These costs are divided among more than 50 agencies and subagencies with staff assigned to these posts primarily through the International Cooperative Administrative Support Services (ICASS) cost-distribution system. The Department of State (State) has the primary responsibility for operating the system and employs approximately 18,000 workers to provide more than 30 basic administrative support services. A primary purpose for developing ICASS was to achieve greater efficiencies in the delivery of basic administrative support services to federal employees at overseas posts. The system was also intended to ensure that users of overseas facilities receive quality administrative support services, that they each pay the costs associated with the amount of services they use, and that all users have a say in determining how resources are allocated. In light of rising budget deficits, it is important that overseas employees receive administrative support services in the most cost-effective manner possible.

Since ICASS was fully implemented in 1998, its performance has not been systematically reviewed.¹ Therefore, you asked that we examine (1) whether ICASS has led to efficient delivery of administrative services and (2) whether ICASS is an effective mechanism for providing quality services. To answer these questions, we reviewed ICASS policies and procedures; interviewed headquarters officials from nine departments about customer satisfaction, quality of service, training, cost-containment measures, and

¹The Department of State's Inspector General reviewed the initial implementation of ICASS in 1999, but because the system was so new, its success in accomplishing its goals and objectives could not be assessed. See U.S. Department of State and the Broadcasting Board of Governors, Office of the Inspector General, *Audit of the Selection of Service Providers in the International Cooperative Administrative Support Services (ICASS) System*, 00-PP-005 (Washington, D.C.: March 2000).

numerous other issues;² attended meetings of the ICASS Executive Board and the ICASS Working Group in Washington, D.C.; and reviewed global surveys implemented by the ICASS Service Center and State's Center for Administrative Innovation. In addition, we observed ICASS operations at seven embassies and conducted telephone interviews with staff at an eighth post.³ We conducted our work from April 2003 through August 2004 in accordance with generally accepted government auditing standards. See appendix I for additional information on the scope and methodology used to complete this report.

Results in Brief

ICASS has not led to efficient delivery of administrative support services by eliminating unnecessary duplication of these services or by streamlining operations to contain costs. From the start of the program, many agencies decided not to subscribe to some ICASS services, opting instead to provide some administrative support services for themselves. When agencies self-provide these services at overseas posts, it can create duplicative administrative systems that increase overall government costs. While agencies cited affordability concerns, programmatic needs, and control issues as reasons for not subscribing to ICASS services, we found that they rarely provided detailed business cases that rationalize decisions to self-provide support services. Furthermore, agencies that provide administrative support services (service providers) and those that receive the services (customer agencies) have undertaken few systematic efforts to consolidate or streamline administrative support structures. Officials from State and other agencies reported that few incentives exist for post personnel to contain costs by consolidating or streamlining services, and incentives that do exist are not adequate to overcome organizational disincentives. However, there are a number of efforts under way or in the planning process, both internal and external to ICASS, which may address some of the obstacles that prevent ICASS from operating more efficiently.

²In Washington, we interviewed staff from the U.S. Departments of Agriculture, Commerce, Defense, Homeland Security, Justice, State, and the Treasury; the U.S. Peace Corps; and the U.S. Agency for International Development.

³We conducted fieldwork at U.S. embassies in Bern, Switzerland; Cairo, Egypt; Dakar, Senegal; Dar es Salaam, Tanzania; Lima, Peru; San Jose, Costa Rica; and Vienna, Austria; and telephone interviews with U.S. embassy staff in Conakry, Guinea. In Vienna, we also conducted fieldwork at the U.S. missions to the International Organizations in Vienna, and the Organization for Security and Cooperation in Europe.

ICASS is a generally effective mechanism for delivering quality administrative support services; however, obstacles exist that prevent the system from fully achieving its goals. We found that agencies generally approve of the quality of ICASS services, but the level of satisfaction is difficult to quantify. We also found that ICASS is simple and transparent enough for customers to understand its basic structures. Moreover, agency officials at posts and headquarters agree that ICASS is more equitable than the cost-sharing mechanism it replaced. Nevertheless, it is difficult to determine the extent to which ICASS is meeting some of its stated strategic goals because they lack indicators to gauge progress. Moreover, despite a requirement to annually review service performance standards, posts seldom do so. Other obstacles to maximizing the system include limits to overseas staffs' decision-making authority, which can diminish "local empowerment" by affecting their ability to make decisions on the best use of a post's resources. In addition, customers and service providers do not take full advantage of ICASS training and other available information resources, which further limits the system's overall effectiveness.

This report contains recommendations to the ICASS Executive Board, which is chaired by the Assistant Secretary of State for Administration and includes equivalent-level officers from participating agencies, to (1) eliminate duplicative administrative support structures where possible; (2) contain costs by reengineering processes and seeking innovative managerial approaches; (3) develop strategies to improve ICASS accountability; and (4) ensure that all ICASS participants receive detailed training on their roles, responsibilities, and authorities. We are making our recommendations to the ICASS Executive Board because it is the highest level ICASS policy-making body. As such, it has the responsibility for addressing worldwide administrative service improvements and cost reductions.⁴

We received written comments on a draft of this report from the ICASS Executive Board and nine agencies that are primary participants in ICASS—the Departments of State, Defense, Justice, Agriculture, Commerce, Homeland Security, and the Treasury; the U.S. Agency for International Development; and the U.S. Peace Corps. (See apps. IV-XIII.) The ICASS Executive Board said it plans to take a more active role in the overall management of ICASS. The board agreed that action was needed to

⁴U.S. Department of State, *Foreign Affairs Handbook*, 6 FAH-5 H-501 (Washington, D.C.: April 1998).

eliminate duplication, contain costs by reengineering business processes, and improve accountability. The agencies generally agreed with our recommendations. State emphasized the importance of eliminating wasteful duplication, whereas other agencies emphasized the importance of containing costs. The non-State agencies believed that our report focused too much on eliminating duplication and not enough on containing costs of support services billed to them. As a result, we made modifications to the report to stress that elimination of unnecessary duplication and containment of costs were equally important. We believe that implementation of our recommendations will help the executive branch both reduce wasteful duplication and contain costs while improving overall management of the ICASS system.

Background

The operation of U.S. embassies and consulates requires basic administrative support services for overseas personnel, such as building maintenance, vehicle operations, and travel services, among others. Traditionally, these services were provided by State. In 1955, State established the Shared Administrative Support Program under which it provided administrative support services, on a reimbursable basis, to other agencies. The Foreign Affairs Administrative Support (FAAS) system, under which State paid fixed support costs and agencies paid the remaining administrative support costs, was established in 1976. However, FAAS's cost-allocation processes were opaque and customers felt that fees were not in line with the quality of services received. During the 1980s and 1990s, overseas posts experienced increases in staffing from nontraditional foreign affairs agencies and demand for services. In addition, agencies' growing dissatisfaction with how the system operated and shrinking resources led, in part, to the establishment of ICASS.⁵

⁵In the Omnibus Consolidated Appropriations Act, 1997 (Pub.L. No. 104-208), Congress mandated that "a system shall be in place that allocates to each department and agency the full cost of its presence outside of the United States." According to State, ICASS also operates under various sections of the Department of State Basic Authorities Act, including a provision establishing a working capital fund for the Department of State (22 U.S.C. § 2684) and a provision authorizing State to enter into agreements with other agencies under certain conditions to consolidate administrative services (22 U.S.C. § 2695). In addition, the ICASS councils operate under the general authority of the Economy Act (31 U.S.C. § 1535), which authorizes under certain conditions for the provision of goods and services on a reimbursable basis from one agency to another.

Primary Goals of ICASS

ICASS is a performance-based cost distribution system designed to provide quality administrative support services at the lowest cost while attempting to ensure that each agency pays the true cost of its overseas presence. According to the *Foreign Affairs Handbook*, the system's four primary goals are as follows:⁶

- *Contain or reduce costs.* ICASS seeks, in part, to contain or reduce overall government costs for overseas administrative support services. Service providers and customers are to select the most cost-effective methods for providing services by choosing among competitive alternatives, whether internal or external to the U.S. government. The system's designers felt this cooperative approach would encourage greater participation by agencies that traditionally operated their own administrative support structures and would ultimately lead to a reduction in duplicative structures; streamlined service provision; and, therefore, savings through the development of economies of scale.
- *Provide quality administrative services and increase customer satisfaction.* Under ICASS, the customers and service providers at each post are responsible for agreeing on service standards that define quality, cost-efficient service at that post. The local ICASS Council, comprised of senior managers representing each agency at a given post, is responsible for tracking and evaluating service provider performance in meeting cost and quality standards.
- *Establish a simple, transparent, and equitable cost-distribution system.* ICASS Councils are supposed to agree on a transparent method whereby the basis for all post- and nonpost-related ICASS service costs can be shown to and understood by customers and service providers both at the posts and at Washington headquarters. Moreover, a database containing billing, budgeting, and other management information was developed and can be accessed by all participants in the system. ICASS seeks to encourage equity by charging customers their fair share of administrative service costs at posts and by giving agencies a greater voice in how shared administrative services are managed and delivered.

⁶These goals are mutually supportive, and the order in which they are presented does not imply their relative importance.

-
- *Promote local empowerment.* Under ICASS, posts were granted more responsibility and authority to manage their resources because posts were seen as best positioned to determine the levels of administrative support needed. Under the previous system, these decisions were made centrally in Washington. However, under ICASS, decisions on the services that will be provided at a post, the methods for providing them, and who will provide them are made at the post by the local ICASS Council. Moreover, posts have the primary role in resolving disputes between customers and service providers.

Service Subscription and Cost Distribution

Agencies obtain support services by subscribing to cost centers, which are groups of similar services bundled into larger categories (see app. II). All agencies with American direct-hire staff must subscribe to two cost centers: the Basic Package—services that can only be obtained by the embassy, such as securing diplomatic credentials from the host country—and services provided by the Community Liaison Office, such as providing welcoming and orientation materials, assisting family members with employment opportunities, and helping enroll dependent children in education programs. All remaining cost centers are optional for agencies. Costs of services are distributed among customers enrolled in each cost center either on the basis of the number of people an agency has at post (capitation) or on the amount of service the agency actually uses (workload). In addition, agencies may modify the level of services cost centers provide by taking the full amount, a medium level, or a low level. Agencies selecting medium or low levels of services are charged 60 percent and 30 percent of the full costs associated with the cost center, respectively.

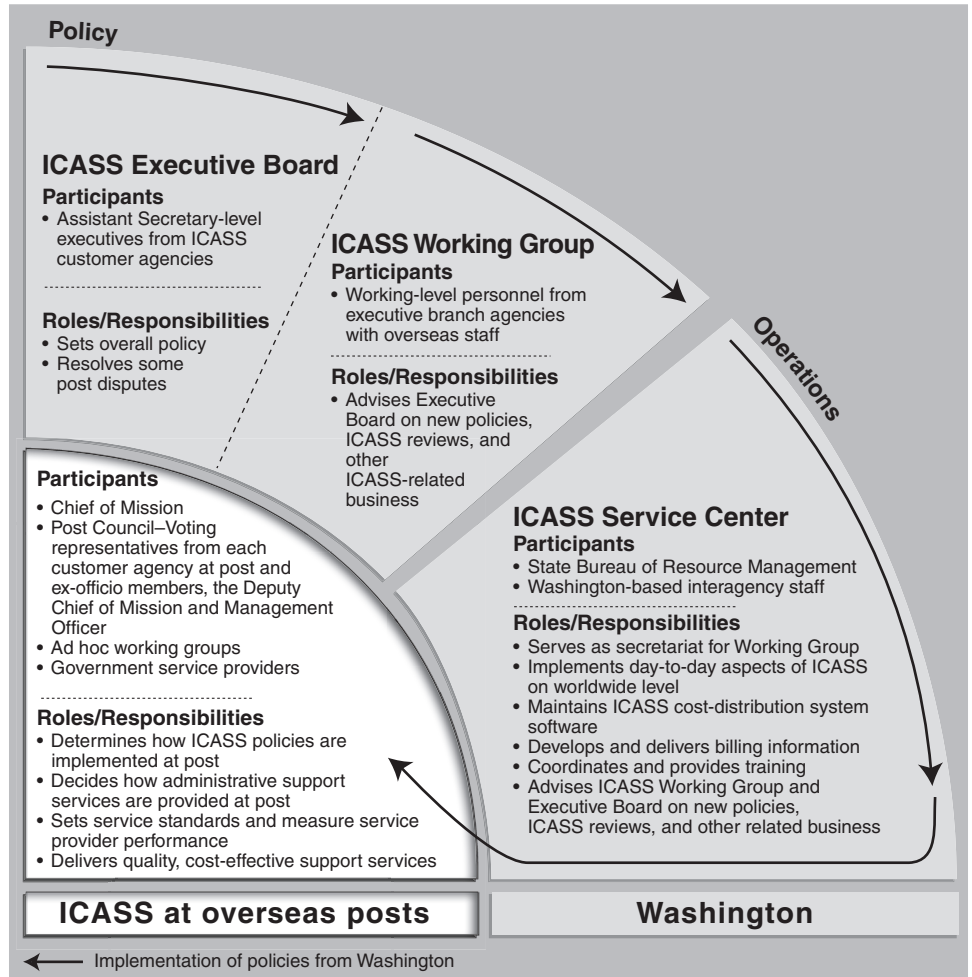
Principal Actors and Decision Making

ICASS is a two-tiered system based in Washington and at overseas posts that relies on collaboration among multiple agencies to develop and implement ICASS policies (see fig. 1). The *Foreign Affairs Handbook* details the responsibilities of three Washington-based ICASS bodies.⁷ The ICASS Executive Board is the top decision-making authority within ICASS and is responsible for reviewing and making policy and providing leadership in addressing worldwide improvements and cost reductions for

⁷U.S. Department of State, *Foreign Affairs Handbook*, 6 FAH-5 H-500 (Washington, D.C.: April 1998).

administrative services. It also resolves issues and disputes raised by Washington-based or overseas ICASS groups. The Assistant Secretary of State for Administration permanently chairs the Executive Board, and members generally include assistant secretary-level officers from participating agencies. The interagency ICASS Working Group, which is open to all agencies represented on ICASS Councils at overseas posts, is a staff arm of the Executive Board responsible for presenting policy issues to the board, making policy decisions when delegated to do so by the board, resolving issues raised by posts, and reviewing and approving nonpost costs and factors. The ICASS Service Center, an interagency-staffed office organizationally located in State's Bureau of Resource Management, is primarily responsible for overseeing worldwide ICASS operations, including providing support to embassies and consulates on training, financial, and budgetary matters and general guidance on implementing ICASS. The Service Center also provides support to the Working Group and the Executive Board in developing new policy, but the center has no policy-making authority of its own.

Figure 1: Principal Actors in the ICASS System and Their Respective Roles and Responsibilities



Source: GAO, based on the *Foreign Affairs Handbook* and interviews with ICASS Service Center personnel.

Although general ICASS policy is set in Washington, overseas diplomatic posts are responsible for decisions on implementing the system. At the core of operational decision making is the post's ICASS Council. This is an interagency body consisting of representatives from each of the agencies at the post that receive ICASS services. Representatives to the ICASS Council must be direct-hire U.S. citizen employees and are usually the local head of the agency they represent. A Council Chair elected by the representatives for a 1-year term heads the group. ICASS Councils are charged with

developing all local policies on what services will be available at the post; how those services will be delivered; whether State, another agency, or a contractor will provide the services; and how fees are established and customers charged. The councils are also responsible for developing ICASS performance standards for all services provided at their respective posts; for annually reviewing service providers' performance and customer satisfaction; and for updating standards, as needed. Although consensus building is the preferred mode for decision making, voting is allowed on a one funding-code, one-vote basis. However, agencies that are not subscribed to a specific ICASS service may not vote on decisions that affect that service.

Although they are chiefly tasked with overseeing ICASS operations and service delivery, the Deputy Chief of Mission and service provider representatives also participate as ex-officio council members. In this capacity, they provide advice and technical assistance to the representatives but are not authorized to vote on matters affecting the post's ICASS policies or operations. Locally employed staff, such as foreign nationals, and others may also provide technical assistance to the council, both in terms of making presentations or participating in local working groups assigned to a specific task, but they have no formal role in helping the council achieve consensus on issues.

The Chief of Mission⁸—who is usually a U.S. ambassador but could also be a Charge d'Affaires, Consul General, or Director of a U.S. Office (such as in Pristina, Kosovo), depending on the post—retains the ultimate oversight and responsibility for ICASS at overseas posts. In cases where the Chief of Mission vetoes a decision, or implements a decision contrary to the ICASS Council's desires, the council may appeal the decision to the Executive Board in Washington.

⁸According to the Foreign Service Act of 1980 (Pub.L. No. 96-465), as amended, "chiefs of mission" are principal officers in charge of diplomatic missions of the United States or of a U.S. office abroad, such as U.S. ambassadors, who are responsible for the direction, coordination, and supervision of all government executive branch employees in a given foreign country (except employees under a military commander).

ICASS Has Not Eliminated Duplicative Administrative Support Structures or Streamlined Operations

ICASS has not resulted in efficient delivery of administrative support services or achieved economies of scale because it has neither eliminated costly duplication of administrative support services nor led to systematic cost-containment measures and the streamlining of operations. From the start of ICASS, many agencies did not sign up for ICASS services and decided instead to self-provide administrative support services, which created duplicative administrative systems that can raise overall government costs. While agencies cited affordability concerns, programmatic needs, and control issues as reasons for not subscribing to ICASS services, we found that they seldom provided detailed business cases that justified decisions to self-provide support services. In addition, neither service providers nor customer agencies have made systematic efforts to contain costs by consolidating or streamlining services. Moreover, ICASS structures designed to encourage and reward managerial reforms are not adequate for overcoming strong disincentives deriving from resource management authorities and parochial interests of both customers and service providers. However, State and the U.S. Agency for International Development (USAID) have recently taken some steps to make the delivery of embassy support services more efficient.

Agency Self-Provision of Support Services Can Lead to Duplicative Structures and Higher Costs to Government

When agencies choose not to subscribe to ICASS services, they still have administrative needs that must be filled, which may lead to the establishment of redundant administrative structures at posts. From the very beginning of the program, agencies frequently chose not to take some ICASS services available to them. In fiscal year 1998, the average rate of non-State agencies' participation in available cost centers ranged from about 31 percent to about 87 percent (see app. III).⁹ Decisions to not take ICASS services at the program's onset may represent missed opportunities to achieve economies of scale. When an agency opts out of a service it needs, it often must provide that service either by creating new positions at the post or securing the service from the local market. This results in a duplication of services—a situation where an agency creates an administrative structure similar to, but apart from, what it could receive under ICASS. There are often defensible reasons for an agency to develop such a structure, such as demonstrated program needs or logistical

⁹The range in participation rates is for all agencies that subscribed to ICASS services at 10 or more posts.

constraints. Less supportable duplication, however, exists when agencies self-provide services without any apparent demonstrated need.

The State Inspector General reported in 2000 that although self-provision rather than subscribing to an ICASS service may save individual agencies money, it can also result in increased costs for agencies that continue taking the ICASS service, as well as for the U.S. government overall.¹⁰ Officials in Washington and at posts said that adjustments to a post's ICASS personnel are generally not made to compensate for the reduced ICASS workload that occurs when agencies opt out of a cost center. As a result, the ICASS costs associated with that cost center remain the same and must be distributed among a smaller population of subscribers. In addition, overall costs rise due to the new costs associated with the agency's self-provision of the service. For example, USAID in Dakar recently identified a need to obtain vehicle maintenance services outside the ICASS structure because the location of its new offices in relation to the ICASS vehicle maintenance facility prevented USAID from getting convenient, timely service.¹¹ As a result, USAID developed and implemented a business plan to contract with a local service station near its offices, which USAID officials expected would reduce their fixed costs for this service from about \$21,200 under ICASS in 2003 to about \$7,400 in 2004 (see fig. 2).¹² However, although USAID notified the post ICASS Council of its intention to withdraw from the ICASS service, the reason for its doing so, and its general plan to contract with a local vendor for its vehicle maintenance needs, the agency did not provide details on how it would receive the needed services, nor did the council request that information or discuss whether USAID's new approach could be adopted postwide. Moreover, despite a reduction in the workload associated with 13 USAID vehicles, there was no change in the composition of ICASS staff responsible for vehicle maintenance after USAID withdrew from the service.¹³ Thus, the approximately \$21,200 for labor and ICASS redistribution charges formerly

¹⁰State Inspector General, 00-PP-005.

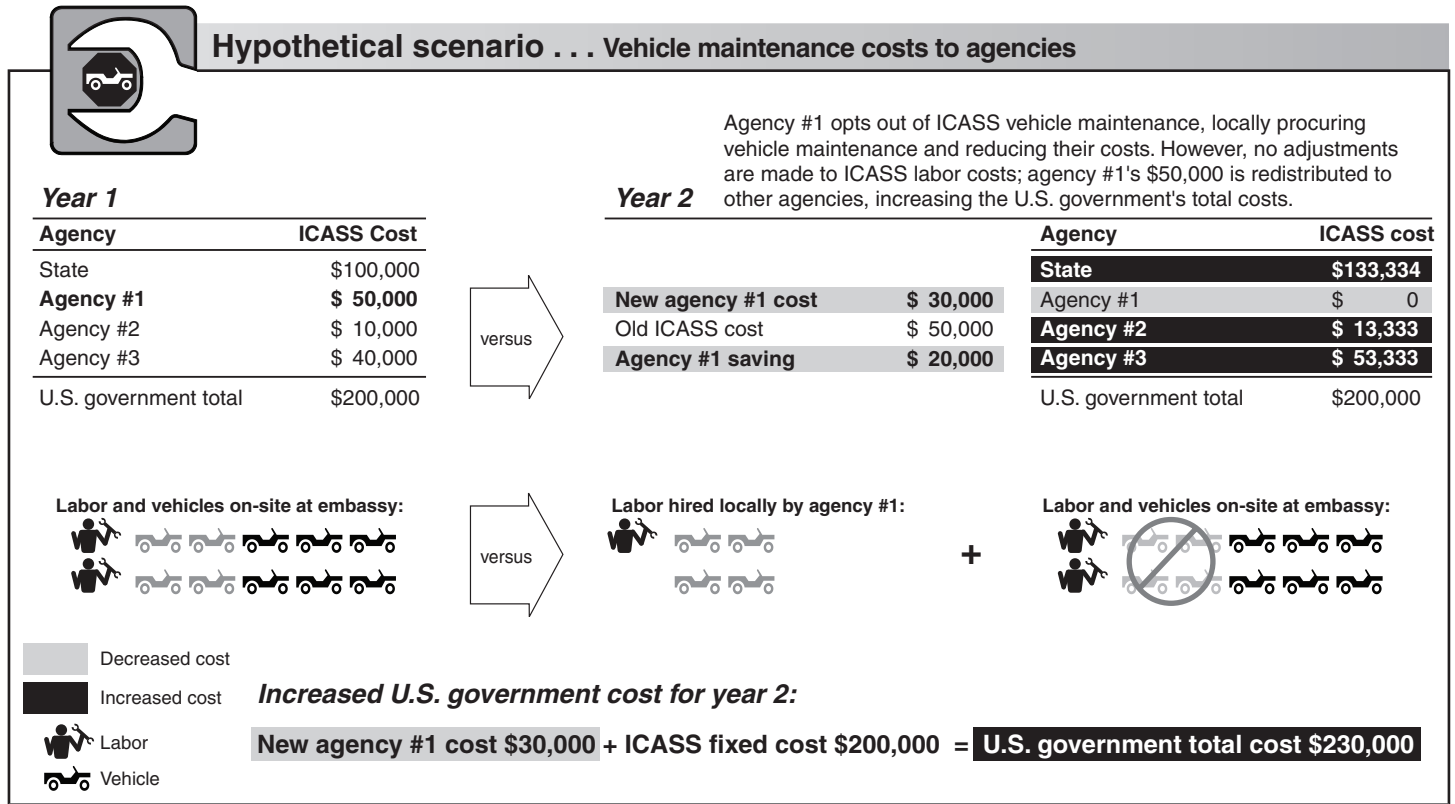
¹¹USAID occupies office space in Ngor. USAID officials reported that during business hours, a one-way trip from its offices to the embassy's vehicle maintenance lot in Dakar could take more than 1 hour.

¹²Vehicle maintenance costs for 2003 and 2004 include those under the USAID Operating Expenses, Regional Inspector General, and Development Assistance accounts.

¹³According to State, after USAID withdrew its vehicles, other agencies in Dakar added vehicles.

associated with USAID's bill would be distributed among agencies that retain their service subscriptions. In addition, labor costs associated with USAID's newly self-provided service represent increased overall government spending because the agency now pays additional people (i.e., the local vendor) to provide a service it could otherwise receive from existing embassy employees. Thus, total government costs for vehicle maintenance in Dakar would rise by about \$7,400.

Figure 2: Effects of Agencies' Decisions to Opt out of ICASS Services on Total Governmental Costs



Example . . . USAID vehicle maintenance cost (Dakar, Senegal)

2003 (actual)	Labor	+	ICASS redistribution	=	Total
USAID vehicle maintenance costs	\$13,953	+	\$ 7,234	=	\$ 21,187
Total USAID's ICASS cost to U.S. government	\$13,953	+	\$ 7,234	=	\$ 21,187
versus					
2004 (estimated)					
USAID vehicle maintenance costs	\$ 7,398	+	N/A	=	\$ 7,398 ← Net saving of \$13,789 to USAID
USAID's ICASS costs redistributed to remaining agencies	\$13,953	+	\$ 7,234	=	\$ 21,187 ← USAID's 2003 ICASS labor and redistribution costs, redistributed to other agencies
Total cost to U.S. government				=	\$ 28,585 ← Increase of \$7,398 to U.S. government, when no changes are made to ICASS labor

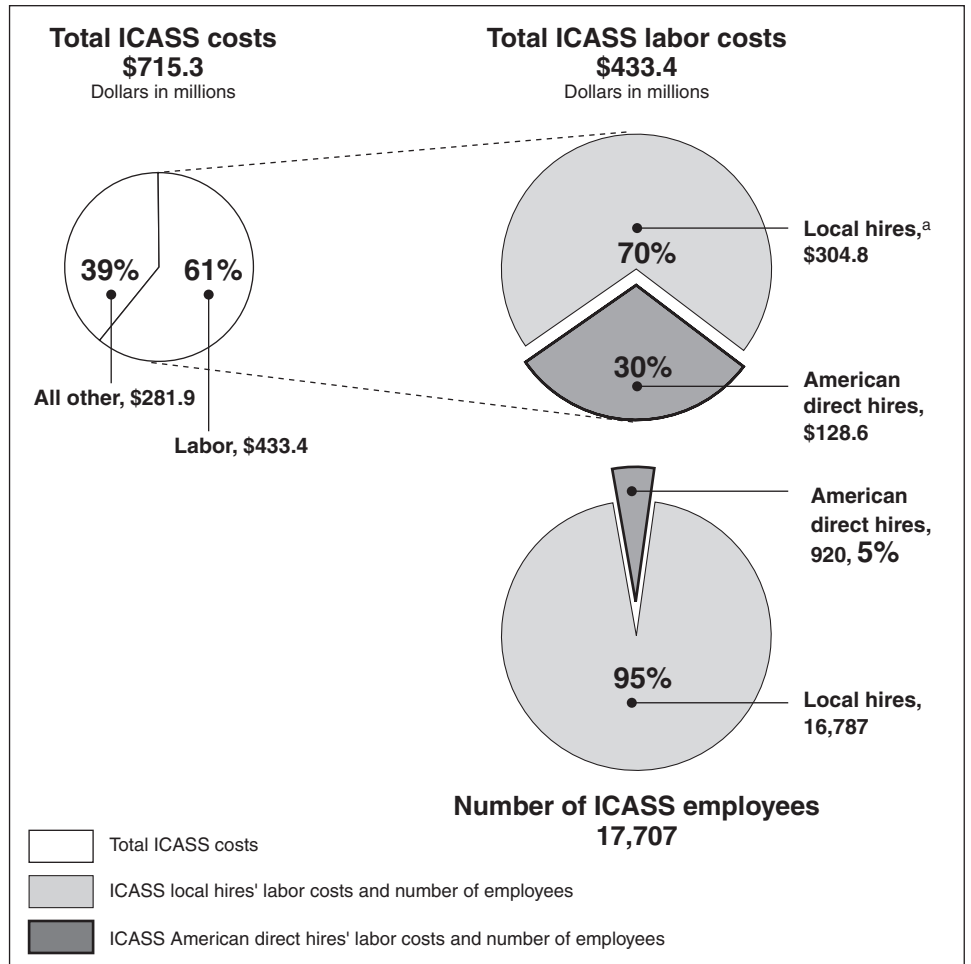
Sources: GAO analysis of USAID data; State Inspector General; Nova Development (clipart).

Agencies Cite Cost, Unique Program Circumstances, Greater Control, and Lack of Need as Reasons for Self-Providing Services

Agency officials in Washington and the field said the most common reasons for not subscribing to a service are the cost of the service, agencies' unique programmatic circumstances, agencies' desire to have greater control over services, and a lack of need for some services.

Agencies cited two cost-related reasons to seek administrative support outside of ICASS. First, many agencies said that ICASS services are too expensive, in part due to the high labor costs associated with U.S. government employees hired to work overseas, and reported that they could self-provide the same services for less money by hiring local labor. Under ICASS, customers pay the salaries and benefits for both Foreign Service officers and foreign nationals who provide administrative support services. Figure 3 shows that in 2000, labor costs comprised over 60 percent of total ICASS costs. American direct-hire employees comprise roughly 5 percent of ICASS employees but represent 30 percent of the total labor costs. State estimates the average annual cost of maintaining a Foreign Service officer at an overseas post to be about \$346,000 per year.

Figure 3: Total ICASS Costs, Total ICASS Labor Costs, and Number of ICASS Employees, Fiscal Year 2000



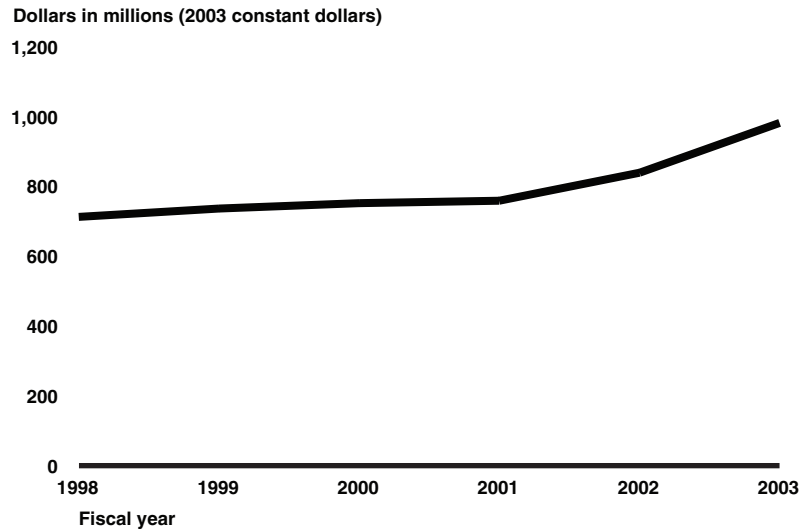
Source: GAO analysis of ICASS Service Center data.

^aLocal hires include personal service contractors, Foreign Service nationals, and other locally employed staff.

Second, agency officials reported that ICASS cost increases have forced them to place greater emphasis on finding savings, including examining the need to continue subscribing to some ICASS services. Total ICASS costs rose 29.4 percent between 2001 and 2003, from \$758 million to \$981 million, as a result of new security requirements following the terrorist attacks of September 11, 2001; State's increased hiring of American personnel;¹⁴ new services to be provided; and adjustments to the exchange rate, among other reasons (see fig. 4). As a result, agencies have chosen to subscribe to fewer ICASS services than in previous years (see app. III). Of the 23 agencies located at 10 or more posts in both 2001 and 2003, 21 had lower participation rates in 2003 than in 2001. Participation rate reductions ranged from 1.4 to 6.6 percentage points. In addition, 18 of the 23 agencies paying ICASS fees at 10 or more posts in both 1998 and 2003 had participation rates that were lower in 2003 than in 1998, ranging from 0.7 to 14.1 percentage points. Because of rising costs and budgetary constraints, the U.S. Commercial Service reduced its average subscription rate for all services available at all posts at which it has a presence from 83.8 percent in 2000, one of the highest rates for any agency, to 74.8 percent in 2003.

¹⁴Under State's Diplomatic Readiness Initiative, the department plans to hire 1,158 staff above attrition during fiscal years 2002-2005.

Figure 4: Total ICASS Costs, Fiscal Years 1998-2003



Source: GAO analysis of ICASS Service Center data.

Agencies also cited unique programmatic circumstances associated with overseas programs that require them to self-provide services. For example, Peace Corps officials in Dakar stated that the remote location of Peace Corps volunteers throughout Senegal, combined with the need for staff in Dakar to make routine visits to these remote locations, requires that the office own, operate, and maintain a vehicle fleet separate from the ICASS vehicle service. Similarly, a U.S. federal law enforcement officer in Vienna said that all of his agency’s overseas officers are authorized to maintain a government-owned vehicle because they need immediate access to transportation on a 24-hour basis. In addition, because USAID’s offices in Egypt and Senegal are in locations outside the respective main U.S. embassies, these offices employ staff to provide administrative support services, such as nonresidential building operations.

Agencies also cited control as a factor for self-providing services. Some customer agency officials perceived an implicit service delivery bias toward State employees, saying State employees’ needs are placed ahead of others. Although we discovered no evidence—hard or circumstantial—supporting this contention, agencies throughout the eight posts we examined stated that they maintained their own vehicle fleets so they would have immediate transportation access. In addition, unless an

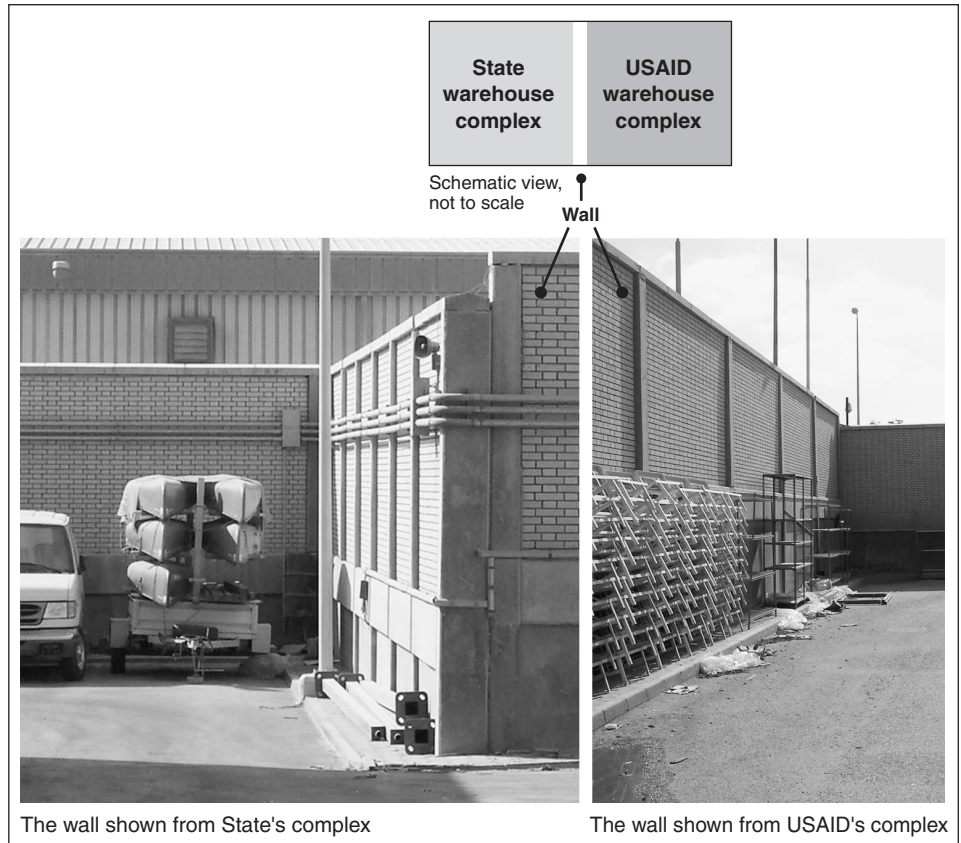
ambassador requires all agencies at a post to participate in the furniture pool, the Drug Enforcement Administration (DEA) provides furniture for its American workers outside of ICASS. Officials in Washington said this is because DEA felt there was an implicit bias toward State personnel, both in terms of priority of distribution and furniture quality. Supplying its employees with furniture gave DEA greater control over both these aspects and better met its employees' needs, according to the agency.

Finally, some agencies choose to opt out of a service because they do not actually need the service at post. For example, the Foreign Agricultural Service processes payroll and travel services in the United States for American employees overseas, and the Department of Defense has no need to subscribe to personnel services for local staff in posts where it does not employ foreign service nationals. In addition, some agencies occupy offices provided by host country ministries and thus have no need for services such as nonresidential maintenance or local guard services.

Fieldwork Revealed Numerous Redundant Structures

Despite the reasons agencies cited for self-providing support services, in our fieldwork, we found numerous cases of duplicative administrative structures that seemed to be unnecessarily redundant. For example, State and USAID operate two separate warehouses on adjacent properties in Cairo, separated by a concrete wall (see fig. 5). Staff from both agencies said the two warehouses could be run more efficiently if they were consolidated, and staff from both agencies said they could take on the work of the other. In Dar es Salaam, Tanzania, USAID and State provide redundant services in 14 ICASS cost centers despite occupying buildings 30 feet apart on the newly built embassy compound. According to post officials, these redundant support structures include shipping and customs, cashiering, human resources, home fuel and water delivery, janitorial services, warehousing, housing/leasing services, motor vehicle operations and maintenance, procurement, travel services, budgeting and financial planning, contracting, and housing maintenance. Furthermore, according to the 2003 ICASS Global Database, USAID was not billed for information management services, International Voice Gateway access, payroll, and personnel services for American and foreign national employees. Although we did not assess the rationale of each service USAID self-provides in Dar es Salaam, both USAID and State officials acknowledged that some of the services could be consolidated. Officials in Washington confirmed that the above examples are common occurrences worldwide.

Figure 5: Independent State and USAID Warehouse Operations on Adjacent Properties in Cairo, Separated by a Wall



Source: GAO.

Lack of Business Case for Self-Provided Services Hinders Posts' Ability to Maximize Cost-effectiveness

Agencies seldom engage in a disciplined process for rationalizing decisions to opt out of services, which often limits posts' ability to benefit from innovative managerial approaches to service delivery. ICASS is a voluntary system, and agencies are not required to justify their decisions for self-providing services they could obtain through ICASS. Although some agencies' reasons for self-providing services outside the system may be supportable, we found that their decisions to do so are generally made without a disciplined business case based on analyses of alternatives, including how the alternatives affect the individual agency, other agencies at post, and overall government costs. We found that business cases were

not made when agencies first opted out of ICASS services when the system began and also subsequently when agencies have withdrawn from services.

The *Foreign Affairs Handbook* states that an agency must notify the post ICASS Council of its plans to withdraw from a service; however, that notification process is not intended as a justification for approval for withdrawing from ICASS services. Rather the notification is designed to ensure that all member agencies benefit from service options that are more cost-effective than existing ICASS services. Issues to be discussed in the notification include the reasons for withdrawing, where and how the agency will obtain the service, whether the council should consider the alternate service source for all member agencies, and any potential cost savings. However, agencies are not required to provide detailed analyses, such as cost-benefit analysis, for these notifications.

Although we found that ICASS Councils enforce the notification requirement, they seldom examine agencies' self-provided services for potential ways to improve ICASS services. In interviews at our case study posts, ICASS Council members said that agencies informed the ICASS Council before ending subscription to an ICASS service, as required, but frequently did not present information beyond the requirements. Furthermore, ICASS Councils at the posts we visited did not seek information on whether agencies' service arrangements outside of ICASS could be adapted for use by the rest of the ICASS customers at post. Without such explanations and discussions, posts may have missed opportunities to improve existing ICASS services or adopt more cost-effective alternatives.

Few Systematic Efforts Have Been Made to Consolidate or Streamline Administrative Support Structures

ICASS seeks to encourage elimination of redundant administrative support services and to contain costs through innovative managerial approaches to service delivery that could lead to economies of scale. However, we found that few systematic efforts to consolidate duplicative administrative structures or streamline administrative processes have occurred at either the postwide or worldwide level.

Of the eight posts we examined, Embassy Vienna has taken the most proactive approach to streamlining services. In recent years, the post has made numerous efforts to streamline services, including reducing the number of vehicle mechanics, revamping warehouse operations, changing processes for procuring administrative supplies, upgrading and changing utilities contractors, competitively sourcing the in-house upholstery

operation, reducing the travel services contract to 20 hours per week and moving that office off the compound, and establishing a furniture pool in which each agency in Vienna voluntarily enrolled. Embassy officials also reported services in 15 ICASS cost centers that could be wholly or partially outsourced. Other posts we examined also conducted efforts to consolidate services—for instance, Embassy Lima made changes in how it delivers telephone and some maintenance services and discovered a way to reduce electricity bills by 7 percent—but these efforts generally focused only on one or two services at the post, rather than a more systematic approach like that taken in Vienna.

Potential for Consolidation and Streamlining during Planning for New Embassy Compounds

One area with great potential for consolidating and streamlining operations is in the planning for New Embassy Compounds (NEC). In response to the 1998 bombings of U.S. embassies in Dar es Salaam, Tanzania, and Nairobi, Kenya, State embarked on a \$21 billion program to replace about 185 embassies and consulates. The size and cost of building an NEC is directly related to the number of staff set to occupy it and the type of work they will perform. According to State, per capita building costs average about \$209,000 per office for space for top embassy management, \$59,300 per office in controlled access (or classified) space, \$28,100 per office in noncontrolled access (or nonclassified) space, and \$4,900 per person for nonoffice space.

In 1999, a law was passed requiring that all U.S. agencies working at posts slated for new construction be located on the new site unless they are granted a special waiver.¹⁵ Although in the past there were logistical reasons for agencies to self-provide support services “off compound,” justifications based on proximity have less weight as agencies become colocated on the new compounds. In April 2003, we reported that staffing projections for NECs were developed without a systematic or comprehensive rightsizing approach—assessments of the security environment; mission requirements; cost of operations; and potential rightsizing options, which would include consideration of consolidating and streamlining administrative support operations.¹⁶ Following our report, State implemented a formal process with criteria for developing, vetting, and certifying staffing projections for NECs. The new process requires

¹⁵See 22 U.S.C. § 4865.

¹⁶GAO, *Embassy Construction: Process for Determining Staffing Requirements Needs Improvement*, [GAO-02-411](#) (Washington, D.C.: Apr. 7, 2003).

posts to review all positions under Chief of Mission authority, including administrative support, even if they are not colocated in the embassy or consulate at the time projections are made.

Considering the high costs associated with constructing new embassy compounds, the staffing projection process is an opportune time for posts to examine administrative platforms. In addition to reducing annual U.S. government expenditures for support services, consolidating and streamlining services at this stage would likely reduce the overall costs of embassy construction because such actions would result in reduced office space needs in the NEC. Four of our eight case study posts have either recently completed construction of an NEC (Embassies Dar es Salaam and Lima), begun constructing an NEC (Embassy Conakry), or are in the planning stage for an NEC (Embassy Dakar). Officials at the first three posts indicated there was no discussion, or they were unaware of discussions, of consolidating or streamlining administrative support services when developing staffing projections for the new compounds, although at the time their respective projections were due, no formal guidance or requirements existed for what posts should include.¹⁷ Nonetheless, these posts may have missed opportunities to minimize construction costs for their new compound. Furthermore, during our December 2003 site visit to Dakar, officials indicated that consolidation of duplicative administrative services has not been considered in planning for the new NEC despite the fact that most agencies are or will be colocated on the new compound.

ICASS Structures Do Not Overcome Disincentives to Streamlining

During our work, we found that deterrents to consolidating and streamlining operations outweighed the ICASS structures and tools designed to encourage innovative managerial reforms. Among these deterrents were the ICASS Councils' lack of authority to fully manage ICASS resources, as well as service providers' and customers' focus on their own interests rather than the collective interests of the agencies at post. Further, tools such as the ICASS Working Capital Fund and a formal

¹⁷Staffing projections for new embassy compounds are usually finalized 18 months prior to receiving funding for the project. In January 2003, the ICASS Service Center sent a worldwide cable providing guidance to posts on items for consideration when projecting ICASS staffing needs at new embassy compounds. However, at the time the cable was sent, construction for Embassies Dar es Salaam and Lima had long since commenced and Embassy Conakry had completed its projection process and was awaiting final funding approval.

ICASS awards program did not work as envisioned and thus did not provide sufficient impetus for consolidation and streamlining efforts.

Councils Lack Authority to Fully Manage ICASS Resources

The *Foreign Affairs Handbook* states that ICASS Councils are responsible for determining “which services are to be provided, by whom, and at what level,” and for evaluating cost and staffing alternatives and establishing budgets for posts’ ICASS operations. However, according to the Director of the ICASS Service Center, there are no “[ICASS] guidelines, rules, or regulations stating that ICASS Councils set staffing levels of the service provider.” Indeed, agency headquarters and field staff agreed that while they have input on whether an existing position is staffed, they do not have input on actually setting the number of ICASS positions at a post. As a result, the agency providing services determines the staffing complement needed to deliver the services. This seeming contradiction to ICASS councils’ authorities was designed, in part, to minimize micromanagement by the local councils. Nonetheless, it reduces a council’s ability to streamline ICASS operations and manage the largest potential source for savings—labor costs. For example, an ICASS Council could decide to outsource an ICASS service, yet it would have no authority to adjust ICASS personnel to reflect the changed in-house labor needs for that service.

Focus on Own, Rather Than Collective, Interest

Rather than the cooperation the developers of ICASS envisioned, both service providers and customer agency personnel focus primarily on their own interests. Reforms that reduce the costs of administrative support structures, whether streamlining practices or consolidating services to a single provider, should lead to reductions in staffing levels. However, we found that service providers are reluctant to implement reforms that would reduce ICASS staffing levels. Officials said that reforming administrative support operations requires significant time and effort that administrative officers at posts said they often do not have. Moreover, administrative officers at posts reported that there are few incentives to reduce ICASS costs, and that few rewards come to those making administrative structures more efficient. As a manager at one of our case study posts succinctly put it, “You don’t get ahead by firing people and making waves.”

Customer agency personnel also focus on self-interests. Faced with budget constraints and rising ICASS costs, agencies have been forced to discover ways to reduce spending. In some cases, agencies’ first choice has been to opt out of ICASS services, either on orders from their respective Washington headquarters or because of decisions made locally. For example, to save money, the U.S. Commercial Service in Vienna has withdrawn from numerous cost centers since 1998, including those for

budgeting and fiscal (1998), information technology support (1999), administrative supply and vehicle maintenance (2001), International Voice Gateway telecommunications (2002), and American personnel services (2003). In other cases, agencies do try to work under the ICASS rubric; but because they cannot fully engage in resource management, they become frustrated and consider opting out. For example, in Dakar, USAID has proposed pilot testing a new method for delivering residential maintenance services, but it has been unsuccessful in gaining approval to conduct the pilot test. Although USAID has not yet made a decision to withdraw from that cost center, officials in Dakar expressed frustration over the high costs associated with residential maintenance and indicated that withdrawal from the service could be an option.

In addition to agencies' self-interests, personal interests of post personnel sometimes hinder reform efforts, particularly those related to streamlining processes. At Embassy Bern, post management reported suggesting that the American staff get local bank accounts and/or automatic teller cards, which they said would have the dual effect of reducing costs associated with check cashing—\$17 per check in Bern—and allowing the current cashier to be trained for work in other services that are understaffed. Post officials stated, however, that customers resisted changing the service because it would require them to leave the embassy to cash a check. As a result, the post missed chances to reduce ICASS costs and improve service quality by cross-training staff.

ICASS requires that post councils and service providers work together to choose the most cost-effective method for delivering services. This requirement was designed to ensure selection of the best methods for delivering services by examining all available competitive alternatives, including those developed or adopted by customers who self-provide services they could otherwise obtain through ICASS. In theory, this requirement would lead to the most efficient delivery of ICASS services because it would be in the interest of both customers and service providers to discover the least expensive method for delivering services at the levels needed by the post. However, as previously noted, post ICASS Councils have not systematically considered the service options available to them. Some post officials reported that program requirements demand too much of their time to conduct analyses showing how the embassy as a whole would benefit from new approaches to service delivery. Moreover, only a few agencies other than State have the capacity to actually provide services

to other agencies, and only one agency other than State, USAID, actually does this on a very limited basis.¹⁸

ICASS Tools Are Not Working as Envisioned

The Working Capital Fund is a no-year fund that permits posts to retain a portion of their unobligated funds from one fiscal year to the next. This tool allows posts some fiscal flexibility by reducing the pressure to engage in wasteful end-of-year spending on items they may not need. It provides ICASS Councils with an opportunity to engage in long-term planning and have greater autonomy in allocating resources—factors that were expected to ultimately lead to greater efficiencies. Although some of the posts we visited did roll over some funds from one year to the next, post officials said they were afraid they would lose an equivalent amount of money in future years if they demonstrated they could save in the current year. As a result, posts prefer to spend their entire budget within the fiscal year it is disbursed. In technical comments on a draft of this report, the ICASS Executive Board stated that it was unaware of any case in which carried-over funds were withdrawn from a post because it “actively supports posts carefully stewarding and planning for the best use of funds.” However, the Executive Board did acknowledge that future funding targets could be adjusted downward for posts that carry over significant funds so that money could be redirected to other underfunded posts.

Customers and service providers stated that the program designed to reward individuals and posts for developing innovative approaches to service delivery does not overcome the disincentives previously described. The ICASS Service Center has three annual awards for contributions that lead to improved quality of service and/or greater efficiencies. The ICASS Outstanding Leadership Award recognizes contributions from individual post employees who best acted as agents for change to improve the quality of services and/or reduce costs at overseas posts. The ICASS Team Achievement Award goes to the one team worldwide that best improves service delivery and customer satisfaction and/or achieves cost savings. Finally, the Diplomatic Readiness Goal Sharing Award rewards one or two teams worldwide for establishing new goals that improve a post’s capacity to achieve U.S. objectives. Despite the stated purposes of these awards, we found that they did not motivate overseas staff to seek innovative approaches for delivery of ICASS services. Results from a global survey conducted by the ICASS Service Center in 2002 showed that the rewards

¹⁸USAID provides ICASS services in nine posts and is the primary provider for all services in Podgorica, Serbia-Montenegro.

system did not meet service providers' and customers' expectations. Moreover, State and agency officials reported that the awards program does not motivate their staff to seek innovative methods for delivering administrative support services. Customers and providers agreed that the success of ICASS at a post was highly personality driven, and that innovative reforms derive from individuals or teams interested in reducing costs or improving services, rather than from the potential to receive an award.

Efforts Are Under Way to Promote Consolidation and Streamlining of Services

Recently, State and USAID initiated an effort that could greatly affect ICASS service delivery and costs, and State began three other initiatives that could have significant impacts on ICASS. Two of the efforts, a study of the potential for consolidating support services at four overseas posts and implementation of a tool to help rationalize service delivery, were generated specifically to make service delivery at posts more efficient. The remaining two approaches, centralizing administrative functions and sharing the costs of embassy construction, were generated outside of ICASS but could have significant ramifications for costs under the system.

Study on Consolidation and Streamlining at Four Posts

In November 2003, State and USAID reached an agreement to examine consolidation of duplicative administrative functions at four posts: Embassies Cairo, Dar es Salaam, Jakarta, and Phnom Penh. The goal of the study was to "identif[y] and eliminat[e] wasteful and/or unnecessary duplication wherever...improved service and/or cost savings accrue to both agencies."¹⁹ In May 2004, State and USIAD issued their report stating that they found "significant advantages in consolidating motorpools, warehousing/property management, residential maintenance, and leasing at every post" and that in every case, consolidation would improve services and reduce costs. The reports recommendations are currently being implemented.

ISO 9000 Certification for Administrative Support Services

Another effort involves bringing embassies' administrative support services into compliance with quality management principles developed by the International Organization for Standardization (ISO). These principles, known as ISO 9000, were developed with the goal of ensuring that an

¹⁹Memorandum of Understanding, "Department of State and U.S. Agency for International Development Pilot Project for Combining Selected Administrative Support Operations Under the International Cooperative Administrative Support Services (ICASS) Program," signed November 21, 2003.

organization's products or services satisfy a customer's quality requirements and comply with any regulations applicable to those products or services. The ISO 9000 principles, which apply to both for-profit and nonprofit organizations, stress customer focus; detailed documentation of processes, including specific and quantifiable performance criteria; and continuous tracking of performance and improvement in systems. Five embassies—Brussels, Cairo, London, Vienna, and Warsaw—were selected for a pilot study on applying ISO 9000 quality management principles and achieving ISO 9000 certification. We believe this certification has the potential to lead to significant cost reductions for ICASS because it would require service providers to focus on quality and timely service delivery and to eliminate inefficient practices. Moreover, it would require that ICASS service providers and ICASS Councils rationalize staffing levels—the primary costs associated with service delivery. State officials believe ISO 9000 certifications would, in the long term, provide an incentive for consolidating duplicative services because as unit costs decline, agencies would become more amenable to subscribing to support services that were less costly than those they self-provide.

Pilot Program to Relocate More Functions to Regional Centers

State also has begun an effort to centralize functions that are not location-specific to regional centers in the United States and abroad. Although this effort evolved from the rightsizing initiatives in *The President's Management Agenda*,²⁰ it could also significantly reduce ICASS costs and consolidate delivery of ICASS services. State plans to begin this effort at posts within the Bureau of Western Hemisphere Affairs by relocating some administrative support activities to the Florida Regional Center in Fort Lauderdale. State estimates that up to 90 American direct-hire positions could be removed from overseas posts at a savings of as much as \$140 million over the first 5 years of the effort. These cost savings would be passed directly to other agencies in the form of lower ICASS bills. State officials said that if this pilot program works well in that bureau, State would consider expanding the effort to other regions.

Capital Security Cost Sharing as Financial Incentive to Consolidate and Streamline Services

State and the Office of Management and Budget (OMB) have recently proposed a new program that would require agencies with overseas staff to help finance the cost of the embassy construction program. The Capital Security and Cost-Sharing Program, if implemented, would require agencies to share construction costs based on the per capita proportion of

²⁰Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002* (Washington, D.C.: August 2001).

total overseas staff and the type of space (controlled access, noncontrolled access, or nonoffice) they need. As a result, non-State agencies would be required to share about \$61 million in costs in 2005, about \$147 million in 2006, and about \$233 million in 2007 (see table 1). Moreover, costs for constructing office space designated for ICASS service providers would be distributed among agencies on the basis of their respective proportions of total ICASS expenditures for the year. Agencies' ICASS-related contributions for sharing construction costs are estimated to total about \$23 million in 2005, about \$46 million in 2006, and about \$68 million in 2007. By 2009, non-State agencies would share about one-third of the estimated annual \$1.4 billion construction fund. These charges are in addition to fees that agencies pay under ICASS. OMB officials believe the new capital cost sharing requirement will spur all agencies, including State, not only to scrutinize staffing for their program needs but also to consolidate duplicative administrative structures and develop creative ways to deliver support services. However, another possibility is that agencies could withdraw from ICASS services at increasing rates, as they have done since 2001, to compensate for their increased costs.

Table 1: Actual and Estimated Fees under the Capital Security Cost-Sharing Program, Fiscal Years 2005-2007

Agency/Type of space	Fiscal year		
	2005	2006	2007
	Actual cost	Estimated cost	Estimated cost
State			
Agency space	\$102,557,400	\$253,837,205	\$402,398,120
ICASS space ^a	60,090,841	120,181,678	180,272,516
Subtotal	\$162,648,241	\$374,018,883	\$582,670,636
Other agencies			
Agency space ^b	\$60,896,849	\$146,888,647	\$232,880,439
ICASS space	22,774,802	45,549,602	68,324,404
Subtotal	\$83,671,651	\$192,438,249	\$301,204,843
Total	\$246,319,892	\$566,457,132	\$883,875,479

Source: GAO analysis of State data.

^aAssumes State's proportion of total ICASS costs remains constant at the 2005 rate (about 72.5 percent).

^bCost estimates for 2006-2007 do not reflect agencies' rent credits or charges derived from agency staffing projections for an NEC.

ICASS Is Generally Effective in Providing Quality Services Based on Its Stated Goals, but Impediments Still Hinder Its Success

Based on the system's primary goals, ICASS is generally effective in providing quality administrative support services, although not to the extent that it could be if certain impediments were addressed. Global surveys and interviews at case study posts show that agencies generally approve of the quality of ICASS services; but because customer satisfaction is not routinely tracked by ICASS Councils at posts, it is difficult to determine the extent to which customers are satisfied. We found that ICASS is simple and transparent enough for customers to understand the basic structures that govern service provision at post. Furthermore, virtually all personnel involved in setting policy or implementing ICASS at posts and in Washington agree that the system is more equitable than the previous cost-distribution mechanism for overseas administrative support services. However, it is difficult to determine the extent to which ICASS is meeting its stated strategic goals because they lack indicators to gauge progress. Moreover, posts rarely implement a requirement to annually review service performance standards. Other obstacles to maximizing the system's effectiveness include limits to overseas staffs' decision-making authority, which can weaken ICASS's goal of "local empowerment." Finally, we found that available training and informational resources that could enhance participants' knowledge and implementation of ICASS are underutilized.

ICASS Customers Generally Are Satisfied with Service Quality, but Quantifying Levels of Satisfaction Has Proven Difficult

Results of a global ICASS survey indicated that customers are generally satisfied with ICASS services. In 2002, the ICASS Service Center surveyed the ICASS Executive Board and Working Group members, State Department Regional Bureaus, service provider personnel, post ICASS Council members, Chiefs of Mission, and Deputy Chiefs of Mission. Responses showed that ICASS customers generally agreed that ICASS facilitates efforts to improve the quality of life and work at posts. Further, in 24 of 25 service areas, customers reported that the Service Center was generally effective in meeting its performance standards.²¹ However, the Service Center survey's response rate was about 42 percent, which limits the degree to which these results are generalizable.

ICASS customers at our case study posts typically confirmed the survey results, stating that they were generally satisfied with the overall quality of

²¹The only area where the survey found that the Service Center consistently fell short of customer expectations was in promoting and managing the ICASS awards program.

the ICASS services they receive. Some customers said ICASS provided better services than they could provide themselves. Others stressed that, although they had specific complaints about services, they were pleased with the overall service quality. We found that customer complaints about service quality were generally the result of unique cases or circumstances regarding a specific service at an individual post. Moreover, customers reported that in cases where they had complaints, they generally knew where to get solutions and that corrective measures were generally implemented quickly and to their satisfaction. Customers at our case study posts rarely cited poor service quality as the reason to consider withdrawing or to actually withdraw from a service.

Although we found that customers are generally satisfied with ICASS services, quantifying customer satisfaction is difficult because post ICASS Councils are not maximizing the use of annual local customer satisfaction surveys. We found that not all post ICASS Councils administer regular customer satisfaction surveys, as recommended by the ICASS Service Center. A global survey conducted by State in 2001 said that 32 percent of 56 posts responding had not performed a customer satisfaction survey in at least 3 years. Although all but two of our case study posts reported administering at least one customer satisfaction survey in the last 3 years, only one post reported that the ICASS Council had input in the creation of its post's surveys. Most surveys were conducted unilaterally, either by the management team or a specific management office. Some customers said these surveys failed to accurately measure customer satisfaction because survey questions did not provide them with an opportunity to express their real concerns or because customers did not think the surveys would lead to service improvements. In addition, while State's global survey reports that 61 percent of respondents said service had improved, only 38 percent reported they had actually measured improvements.

Post Staff Have Basic Understanding of ICASS Structure

Based on interviews with customers and service providers at post, we found that most understood the basic ICASS structures and that ICASS therefore generally meets its goal of being a simple and transparent system. Most customers demonstrated that they generally understood which administrative support services they received from ICASS and which services they did not receive because of their respective agencies' subscription choices. Customers also said they generally understood how bills were calculated and how costs were distributed at a basic operational level. Service providers generally understood which agencies had subscribed to the services.

However, customers were largely unaware of their roles and responsibilities as post ICASS Council members and how to effectively utilize their authority to improve ICASS operations at posts. Some council members told us the ICASS Councils at their posts did not deal with issues with which they thought they should be dealing, such as how to contain and reduce costs. At three posts that held local ICASS Council meetings during our site visits, we found that discussions focused on routine ICASS tasks, such as reviewing an individual agency's billing questions, that would be better discussed in other forums. For example, in Cairo, part of one ICASS Council meeting addressed why one agency's housing maintenance bill was so high. After some discussion, the council chairman and a financial specialist agreed to meet with the council member after the meeting to resolve the issue.

Customers Say ICASS Is Generally Equitable, yet Several Systemic Equity Problems Remain

ICASS customers typically said that ICASS implementation is generally equitable, but we found that some potentially inequitable policies still exist. Customers agreed that the system was more equitable than its predecessor, the FAAS system. Customers from some agencies with whom we spoke said that under ICASS, they paid for few, if any, services they did not use. In addition, service providers told us that, under ICASS, they know which ICASS customers subscribed to their service and could ensure that customers generally received only the services for which they paid.

Some service providers noted, however, that it was difficult to deny a nonsubscriber's request for help, and some said that they occasionally provided some services to nonsubscribers. Medical services staff, for example, said they were professionally obligated in some cases to serve embassy staff and dependents, whether or not they were signed up for medical services. ICASS customers who paid for these services did not complain about such cases.

ICASS customers also said that ICASS costs and services were equitably allocated among the customers taking services at posts. Special arrangements whereby individual agencies received services at a different cost than other agencies at posts were common under FAAS. Such side deals are not allowed under ICASS, and we found no evidence of them occurring. ICASS permits service providers to directly charge any agency for using a service that can be easily identified as benefiting that specific agency, and some customers confirmed that this occurred.

Nonetheless, agency staff at posts reported perceptions that service provision was not always equitable. Some customers told us they believed that State employees received preferential treatment in both the quality and priority of service because ICASS employees report directly to State management officers. Although we found no evidence to substantiate these allegations of systematic preferential treatment, the perception of bias affected customers' morale.

Other equity issues involve the methodology for distributing costs generated by temporary duty and regional ICASS staff. At the posts we visited, costs incurred by temporary duty personnel were typically distributed among all ICASS customer agencies at a post, rather than just the agency sponsoring the temporary duty staff. Although the ICASS Executive Board approved a new policy that details how posts may charge temporary duty staff for these incurred costs, fewer than 30 posts have implemented policies worldwide. In addition, some costs associated with ICASS staff providing regional services are borne solely by the "home" post. For example, the regional medical staff based in Vienna, Austria, serves several posts, yet the service costs are paid by agencies in Vienna. Agencies with offices in the Balkans but not in Vienna, such as USAID, receive benefits from these services. Some agency staff said such situations were inequitable since agencies were receiving benefits for which they did not pay. In technical comments on a draft of this report, the ICASS Executive Board stated that this inequity is being addressed, citing four posts—Embassies London, Vienna, Pretoria, and Singapore—that have successfully petitioned to have costs for medical evacuation services distributed on other than a home post basis. However, although this is a costly service, it was only one of the many services provided by the regional medical units at these posts where the costs are borne solely by the home post customers.

ICASS Lacks Measurable Goals and Performance Indicators

A chief barrier to effective implementation of ICASS derives from the lack of measurable goals and performance indicators. ICASS is consistent with the approach set forth in the Government Performance and Results Act, which requires that most agencies (1) establish 5-year strategic plans, (2) set measurable performance goals in annual performance plans, and (3) annually report on performance toward achieving the performance goals. Annual performance plans should provide direct linkages between the agencies' strategic plans and their day-to-day activities. As previously stated, ICASS has four strategic goals, and although progress toward achieving them could be measured, the system's designers did not set

clearly defined and measurable performance goals and how progress toward achieving those goals would be assessed. For example, the *Foreign Affairs Handbook* states that ICASS is to be an equitable system, and defines “equity” as agencies paying “their fair share of post administrative costs based on usage.” However, the handbook does not provide specific, measurable indicators by which progress toward achieving the goal would be monitored and evaluated. Moreover, annual reviews of progress toward achieving ICASS strategic goals have not been conducted. As a result, it is difficult to state whether ICASS as a system is accomplishing what it set out to do: establish an efficient, fair, and effective cost-distribution system.

The *Foreign Affairs Handbook* also states that the ICASS Council and services providers at each post cooperate to set standards for administrative services so that service provider performance can be monitored. The handbook states that these performance standards should be specific, measurable, achievable, relevant, results-oriented, and time-specific and that performance should be evaluated each year. Although all posts we examined had adopted performance standards, providers’ actual performance was not annually assessed against posts’ ICASS performance standards. The handbook states that ICASS Councils should monitor service providers’ “overall performance against agreed upon standards”²² and provide “an annual written assessment on the quality and responsiveness of the services furnished by the service provider to the customer, using the agreed upon service standards as the performance yardstick.”²³ Councils should also routinely review standards to ensure that they remain relevant. ICASS Service Center officials said that few ICASS Councils either reviewed or updated standards on a routine basis, and we found that none of the eight posts we reviewed conducted full assessments of performance against the standards. At some posts, the service providers did conduct customer satisfaction surveys; however, these surveys do not assess whether service providers achieved the standards. We did, however, find that some of our posts had reviewed the relevance of their standards in recent years. Embassies Vienna and Dar es Salaam last updated their standards in the past year, while three others last updated standards in 2001, and 1 in 2000. During our fieldwork, Embassies Conakry and Lima,

²²U.S. Department of State, *Foreign Affairs Handbook*, 6 FAH-5 H-301.4 (f) (Washington, D.C.: April 1998).

²³U.S. Department of State, *Foreign Affairs Handbook*, 6 FAH-5 H-301.4 (g) (Washington, D.C.: April 1998).

indicated they had begun efforts to revise their standards, which had not been updated in several years.

ICASS Councils' Ability to Make Decisions Can Be Weakened by Other Decision-Making Authorities

A further impediment to maximizing ICASS's effectiveness is that local empowerment, granted to allow posts the ability to manage their resources through the ICASS Councils' decision-making authority, has not been fully exercised. We observed that decisions made by ICASS authorities were at times subordinated to decisions by other authorities. We also found that, although the system was designed to give local ICASS Councils a wide range of responsibilities to ensure cost-effective use of resources, many council representatives were reluctant to actively participate in ICASS decision making.

ICASS Governance Structure Is Sometimes Subordinated to Other Authorities

The ICASS governance structure at times comes into conflict with other authorities, resulting in a loss of its power to make decisions. For example, one U.S. ambassador required that all agencies at post that wanted to reside in post-owned housing would also have to participate in the furniture pool. Discussions at two ICASS Executive Board meetings indicate that agencies were concerned because they would be required to subscribe to a voluntary ICASS service—the furniture pool—to receive another service—embassy housing—that had never come under the ICASS structure. Moreover, agencies were anxious that this action could be a precedent for State to link other voluntary ICASS services to either the two mandatory ICASS services (see app. II) or other non-ICASS services. A State official said that on appeal, the ICASS Executive Board voted to overrule the ambassador, but the board's chairman said that as State's representative to the board, he would advise the Secretary to support the ambassador.

In addition, agency representatives reported that post management can be unwilling to allow councils to explore alternatives for service delivery. For example, post management at one of our case study posts was reluctant to support an agency's feasibility study on potential cost-efficient options to deliver services, citing security concerns. This unwillingness discouraged the customer agency from seeking innovative ways to reduce ICASS costs and improve services. Agency officials in Washington agreed with our observation that council members who make proposals often face an unreceptive environment. As a result, few council members feel motivated to seek reforms in service delivery.

Officials from both State and customer agencies commented that local empowerment is sometimes not fully exercised because council members feel that the big issues are out of the post's control. For example, the methodologies for determining how ICASS services will be charged are defined at the Washington level among agencies, and some officials said there is very little flexibility for posts to adapt them to local needs. In addition, overseas employees, including State personnel, receive demands from, or can be overruled by, Washington headquarters, which limits their autonomy to make decisions that reflect the needs and circumstances at post. For example, of the 467 instances that agencies withdrew from services between 2000 and 2002, agencies reported that about 24 percent of the time it was because their respective headquarters directed them to do so.²⁴ Officials at the posts we examined stated that headquarters also frequently pressured them to reduce costs without explicitly directing them to withdraw from specific services.

Agency Representatives Are Reluctant to Assume ICASS Roles, Responsibilities, and Authority

Another barrier to local empowerment is the reluctance by some agency representatives to assume ICASS responsibilities. In addition to the organizational disincentives discussed in the previous section, some post staff indicated the amount of time it takes to actively participate more fully in ICASS would compete with the time available for their primary programmatic responsibilities. For example, some agency representatives have regional responsibilities that require spending much of their time at other posts, which limits their time to become involved in ICASS decisions. In addition, some agency representatives expressed a lack of interest in getting involved. As a result, many agency representatives participate in the decision-making process only by reviewing their agency's ICASS bill.

Training and Information Resources Are Not Being Used to Full Advantage

Numerous sources of information dedicated to ICASS policies and program guidance—such as Washington- and post-based training and a Web site maintained by the ICASS Service Center—exist for customers and service providers. However, we found that few individuals make full use of these

²⁴Data based on analysis of the ICASS Global Database, which contains information on the reasons agencies provide for service withdrawals. Reasons for withdrawal cited by agencies are placed into one of seven categories, including (1) agency found a more responsive service provider, (2) agency found a less expensive service provider, (3) agency was incorrectly paying for a service it was not utilizing, (4) agency departure from post (end of mission), (5) agency's Washington directive, (6) no reason was given by agency, and (7) reason other than above. Our analysis excluded service withdrawals resulting from an agency's departure from a post.

resources to gain the knowledge base that would help them implement ICASS most effectively. The failure to make full use of information resources, particularly training, limits local ICASS Council effectiveness because representatives have varying degrees of understanding and acceptance of their roles and responsibilities in council decision making and about the mechanisms by which ICASS operates. Moreover, the staff primarily responsible for day-to-day ICASS operations seldom received detailed training on the system.

Training Is Available Prior to Assuming Overseas Positions but Often Is Not Taken

The Foreign Affairs Training Center provides two ICASS training courses for State and other agency staff. The “Executive Seminar” provides agency representatives with a general understanding of ICASS and their roles and responsibilities, and “Working with ICASS” offers more in-depth training targeted at both service providers who make daily use of the system and customers who want more detailed knowledge of how the ICASS system works. All of State’s management officers are required to receive at least some ICASS training prior to deployment overseas.²⁵ However, most non-State employees are not required to take either of the training classes. In fact, only five customer agencies—the Defense Security Cooperation Agency, the Foreign Agricultural Service, the U.S. Commercial Service, USAID, and DEA—reported requiring that at least some of their overseas officers receive ICASS training prior to an overseas assignment, and staff from the first four of these agencies were the most consistently active customer representatives on the ICASS Councils at the posts we visited. However, we found that the representatives from most other agencies had not taken or been provided the opportunity to take the recommended training and, as a result, were required to learn their duties while “on the job.” Most agency personnel responsible for overseeing their agencies’ participation spend only a small amount of their time dealing with ICASS issues—sometimes as little as 2 or 3 hours per month. ICASS Service Center officials expressed concern that personnel going overseas without the benefit of training would need significantly more time to learn how to work within the program’s sphere of activities than those who had received training prior to arriving at post.

The ICASS Service Center also developed a post-specific curriculum. This training is available to agency representatives, local ICASS staff, and other

²⁵Financial Management Officers receive the full training from the “Working with ICASS” course, while other management officers receive training on the basic principles of ICASS and the roles and responsibilities of ICASS participants.

officials who might not otherwise get ICASS training. The training is centered on circumstances specific to the post so that staff may gain a better understanding of how to apply ICASS principles and procedures. Service providers at posts that had received this training felt that training local Foreign National employees is important because the local staff are responsible for the system's day-to-day operations at post, and they would likely continue to be employed at the post long after the American employees rotated to other posts. In Lima, which had post-dedicated training just prior to our site visit, we found both providers and customers were energized to put what they had learned into practice. The ICASS Service Center confirmed our observation, saying that Foreign National employees seemed especially appreciative of the opportunity to receive this training.

ICASS Web Site Is Not Utilized Fully

In addition to the training it offers, the ICASS Service Center maintains a Web site, www.icass.gov, which is a source of historical and current information on policy guidance, procedures, best practices, training opportunities, staff contacts, budgets, and meeting minutes of the ICASS Executive Board and the Washington ICASS Working Group. We found this site to be a useful source of information, yet many overseas staff, both service providers and customers, were unaware of this resource despite it being advertised through numerous media—cables, listservs, chat rooms, and departmental notices, among others.

Conclusions

The U.S. Government annually spends nearly \$1 billion and employs approximately 18,000 Americans and foreign nationals to provide administrative support services for embassies and consulates. In the current fiscal environment, it is essential that all U.S. agencies look for ways to contain spending. ICASS was designed, in part, to contain costs of overseas administrative services. However, the system has not achieved that goal because it has not led posts to eliminate unnecessary duplication or to reengineer the processes by which they deliver administrative support services. Although there are many supportable reasons for an agency to self-provide services, we saw many instances where decisions to do so did not appear to be based on valid business cases or other factors that led to clearly demonstrated benefits. We also saw few instances of posts systematically reviewing service delivery or searching for alternatives that could make service delivery less costly, such as contracting for services with local vendors, placing greater reliance on regionally supplied services, making better use of technology, and systematically considering “best

practices” developed and implemented by others. Consolidation and streamlining did not occur because implementing innovative reforms required great personal effort to effect a change in the status quo. As a result, U.S. taxpayers are supporting costly and unnecessarily duplicative administrative structures at overseas posts. Moreover, deficiencies in the ICASS mechanism itself inhibit service delivery efficiency. Despite the existence of at least three types of available training, posts’ agency heads and ICASS Council representatives frequently do not know their roles, responsibilities, and authorities as decision makers and operators of the system, and staff providing service frequently have not received levels of training that would allow them to truly understand and run the system more efficiently. In addition, customers have few mechanisms by which they can hold service providers accountable, and those that are available have often been ineffectively implemented.

Recommendations for Executive Action

To ensure more efficient delivery of embassy administrative support services, we recommend that the ICASS Executive Board take the following five actions:

- The board should aggressively pursue the elimination of duplicative administrative support structures at U.S. overseas facilities with the goal of limiting each service to the one provider that local ICASS Councils have determined can provide the best quality service at the lowest possible price. This effort should include
 - encouraging agencies not subscribing to ICASS services to submit detailed explanations (business cases) of how they will fulfill these service needs and at what cost so that potential benefits can be shared by all ICASS customers at post and
 - ensuring that the consolidation and streamlining of support services are key factors when posts develop staffing projections for new embassy compounds, as required by State.
- The board should work to contain costs by reengineering administrative processes and seeking innovative managerial approaches through competitive sourcing, regionalization of services, improved technology, and adoption of other best practices developed by agencies and other posts.

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- The board should also consider developing independent teams to review ICASS operations at overseas posts and to recommend and implement reforms that reduce duplicative administrative structures and contain costs.
 - The board should develop strategies to improve the system’s accountability, which could include
 - clearly defining the long- and near-term goals and objectives of ICASS, developing measurable indicators to track performance, and presenting annual reports on the progress toward achieving the goals and objectives;
 - ensuring that post ICASS Councils annually evaluate service provider performance and customer satisfaction and annually certify that performance standards are relevant, specific, and accurately reflect customer needs; and
 - requiring that post ICASS Councils annually certify that they have sought opportunities to streamline and consolidate ICASS services by implementing best practices developed either by local staff or other posts.
 - The board should ensure that all personnel responsible for implementing ICASS operations at overseas posts receive detailed training on their roles, responsibilities, and authorities, including detailed customer service and other technical training for Americans and foreign nationals responsible for the actual delivery of services.

We are making our recommendations to the ICASS Executive Board because ICASS is an interagency operation that relies on the collective input of affected agencies. As such, the Executive Board must approve decisions that affect ICASS policies and operations.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from the ICASS Executive Board and nine agencies that are primary participants in ICASS—the U.S. Departments of Agriculture, Commerce, Defense, Homeland Security, Justice, State, and the Treasury; the U.S. Agency for International Development; and the U.S. Peace Corps. Their comments, along with our responses to specific points, are reprinted in appendixes IV-

XIII. The board and agencies also provided technical comments, which we have incorporated throughout the report where appropriate.

The ICASS Executive Board agreed with the report. The board indicated that it met several times in recent months and has decided to take a more active role in the overall management of the ICASS system. It said it is trying to eliminate duplicative administrative support structures where possible and cited a recent State/USAID Shared Services Study, which ICASS partially funded, that reviewed support services at several posts and concluded that consolidating some services could save costs and improve quality. The board also endorsed efforts to reengineer business processes, citing State Department efforts to centralize certain support operations at regional support centers in Bangkok, Thailand; Paris, France; Frankfurt, Germany; Ft. Lauderdale, Florida; and Charleston, South Carolina. The board also agreed that strategies must be developed to improve ICASS accountability. Finally, the board noted that cost management is a priority.

The U.S. Departments of Agriculture, Commerce, Defense, Homeland Security, Justice, State, and the Treasury; the U.S. Agency for International Development; and the U.S. Peace Corps generally agreed with our recommendations. State stressed the importance of eliminating wasteful duplication. In addition, State defended the cost structure of ICASS and criticized other agencies for resisting actions such as investments in technology, which State believes could reduce costs. In contrast, comments from the other agencies focused on the high costs of ICASS support services, saying that ICASS had failed to contain costs. These agencies generally believed that our draft report was too focused on duplication and did not place sufficient emphasis on the need to contain costs. They argued that the voluntary nature of ICASS needed to be retained so that each agency can determine what support services it requires and how to obtain them in the most cost-effective way. In addition, the agencies provided their perspectives on a variety of ICASS issues, including training, system fairness, and transparency. Based on these comments, we modified our report to clarify that elimination of duplication and the containment of costs were equally important.

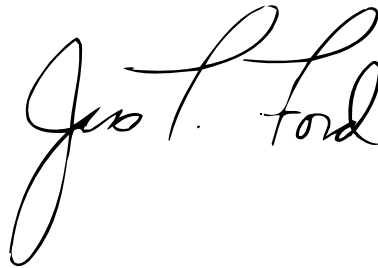
We believe that implementation of our recommendations will help the executive branch achieve economies of scale by reducing duplication and contain costs by focusing on streamlining business practices. We generally support the voluntary nature of ICASS participation because agency needs differ. We also understand that some agencies choose not to use some ICASS services because they believe they can obtain these services

elsewhere at less cost. However, we believe such decisions should be supported with strong business cases.

We are sending copies of this report to interested congressional committees. We are also sending copies of this report to all current members of the ICASS Executive Board, including the Secretaries of Agriculture, Commerce, Defense, Homeland Security, State, the Treasury, and Veterans Affairs; the Attorney General; the Administrator for the U.S. Agency for International Development; the Commissioner of the Social Security Administration; the Director of the U.S. Peace Corps; the Director of the Office of Management and Budget; and the Librarian of Congress. Copies will be made available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me on (202) 512-4128. Another GAO contact and staff acknowledgments are listed in appendix XIV.

Sincerely yours,

A handwritten signature in black ink that reads "Jess T. Ford". The signature is written in a cursive style with a large, looping initial "J".

Jess T. Ford
Director, International Affairs and Trade

Scope and Methodology

To respond to both objectives of our review—whether the International Cooperative Administrative Support Services (ICASS) system has led to efficient delivery of administrative services and whether ICASS is an effective mechanism for providing quality services—we conducted fieldwork and reviewed documentation in Washington, D.C., and at eight posts worldwide. In Washington, we reviewed ICASS policies and procedures outlined in the *Foreign Affairs Handbook*; reviewed documents and interviewed Department of State (State) officials from the Bureaus of Administration, Medical Services, and Overseas Buildings Operations, six geographic bureaus, the Offices of Management Policy and Rightsizing, and the ICASS Service Center; attended meetings of the ICASS Executive Board and the ICASS Working Group; participated in ICASS training at the Foreign Affairs Training Center in Arlington, Virginia; and reviewed documents and interviewed headquarters officials from the U.S. Departments of Agriculture, Commerce, Defense, Homeland Security, Justice, and the Treasury, as well as from the Office of Management and Budget, the U.S. Peace Corps, and the U.S. Agency for International Development (USAID). In addition, we conducted data analyses using data from the ICASS Global Database, which was developed and maintained by the ICASS Service Center and contains information for each ICASS cost center at each overseas post on service subscription, workloads, billing, service withdrawal, and other information necessary for operating the system. To assess the reliability of the ICASS data, we (1) performed electronic testing for errors in accuracy and completeness, (2) discussed data reliability issues with agency officials knowledgeable about the data, and (3) reviewed relevant reports from the State Office of Inspector General and GAO and financial audits of the ICASS system. Although we found some areas of concern dealing with information security, we determined that the data were sufficiently reliable for the purposes of this report. Data showing estimates for future costs under the Capital Security Cost-Sharing Program were provided in a briefing by staff from the Bureau of Overseas Buildings Operations. The estimate for the average annual cost of maintaining American personnel overseas was developed by State's Office of Rightsizing.

To assess how well ICASS operates at posts, we visited seven posts and held telephone interviews with an eighth post. Selection of case study posts was based on a variety of factors, including geographic spread; a range in the size of posts; potential for reform; levels of service duplication; input from the ICASS Service Center, State's geographic bureaus, and customer agencies; and posts' availability. Based on the criteria, we collected information from the U.S. embassies in Bern, Switzerland; Cairo, Egypt;

Conakry, Guinea; Dakar, Senegal; Dar es Salaam, Tanzania; Lima, Peru; San Jose, Costa Rica; and Vienna, Austria. In Vienna, we also conducted interviews with the U.S. Mission to the Organization for Security and Cooperation in Europe and with the U.S. Mission to the United Nations Agencies in Vienna. Due to national elections that corresponded with our scheduled work in Guinea, at the request of the Ambassador, we conducted telephone interviews with Embassy Conakry staff, rather than travel to the post.

For our case study posts, we collected data and documentation from and conducted interviews with embassy personnel involved in ICASS, including Ambassadors and Charges d’Affaires, Deputy Chiefs of Mission, State management officers, ICASS staff, and customer agency managers and staff who work with ICASS, on

- the role of the ICASS Council and its decision-making process;
- mechanisms for ensuring quality services, including evaluating service provider performance and customer satisfaction;
- the degree to which customers understand ICASS goals and structures, and whether they agree that service quality matches ICASS costs;
- the level of ICASS training among council members and service providers, including foreign nationals;
- the management burden associated with ICASS, and the pros and cons of alternative approaches;
- the effect of the changing nature of agencies’ staffing (including State’s) on ICASS costs and quality of service;
- the effect of temporary duty personnel and regional staffing on ICASS costs;
- whether agencies pay the full costs associated with their presence at posts;
- the cost centers to which each customer agency subscribes;
- the cost centers to which each agency does not subscribe, the basis for not subscribing to those services, and how agencies provide for

administrative support services to which they do not subscribe under ICASS;

- the effect that opting out of services has on other agencies; and
- the degree to which the ICASS Council has considered new approaches to providing ICASS services, including streamlining processes and adopting best practices developed by agencies at posts or by other posts in the region.

Also at these overseas posts, we collected and analyzed information on the costs associated with agencies owning and operating motor vehicle fleets independent of ICASS and self-providing residential furniture for American direct-hire staff. In addition, we inspected warehouses and other support operation facilities and attended ICASS Council meetings when those meetings coincided with our visit.

We conducted our work between April 2003 and August 2004 in accordance with generally accepted government auditing standards.

ICASS Cost Centers

Customers receive ICASS services by subscribing to “cost centers,” which are groups of similar services bundled into larger categories. “Workload factors” for each cost center are the primary bases by which customers are charged for services. These methodologies, developed in Washington, D.C., are applied to unit cost factors specific to posts to determine the actual fee an agency owes for services it uses. The unit costs are based on

- the salaries and benefits of service providers’ employees, who include both the staff actually delivering or providing the services as well as the direct-hire American managers overseeing the services;
- the furniture, equipment, and operating expenses necessary for delivering the services; and
- the total number of people serviced or the amount of service provided by the employees associated with specific cost centers.

Overall, ICASS is implemented in one of two manners. An ICASS Standard post breaks the services into 32 cost centers, while an ICASS Lite post consolidates the number of cost centers into 16 groups (see table 2). Generally speaking, ICASS Lite tends to be used at small posts because the management burden is lower than at Standard posts. ICASS Standard, however, allows for greater flexibility to customers in choosing which services they will take and avoiding paying for services they do not receive. Agencies are required to subscribe to two cost centers—the Basic Package and the Community Liaison Office (CLO). The Basic Package cost center provides services by State that agencies would benefit from, whether or not they choose to use the services. Included in the Basic Package are

- diplomatic accreditation to the host government;
- licenses and special permits;
- maintenance of the Emergency Evacuation Plan;
- reciprocity issues with the host government on items such as car imports, spousal employment, and reimbursement for value-added taxes;
- identification cards, accounts receivable and payable, and other check-in/check-out procedures;

- welcoming kits for newly posted or temporary duty employees;
- maintenance of post reports;
- determination of exchange rates;
- local banking services;
- International School accreditation surveys, grant management, and Suspense Deposit Abroad accounting and voucher processing;
- cost-of-living surveys;
- negotiated hotel rates;
- support for employee recreation centers and commissary boards; and
- support structures for visits by Very Important Persons.

These items should be considered standard services at all posts, but individual posts may add to the list. The CLO provides services to help integrate employees and their dependents into the surrounding community. For example, the CLO provides welcoming materials, assists family members with employment and educational opportunities, and organizes cultural activities, among many other services.

**Appendix II
ICASS Cost Centers**

Table 2: Cost Centers and Workload Factors for ICASS Standard and ICASS Lite Posts

Function code		Cost center	Workload factor
Standard post	Lite post		
6150	6150	Basic Package	Number of direct-hire U.S. citizen employees
6443	6443	Community Liaison	Number of serviced U.S. citizen employees (including dependents), third-country nationals, and U.S. contractors
5458	5458	Information Management Technical Support	Number of devices serviced ^a
5624	5624	Health Services	Number of authorized users ^b
5826	5826	Non-Residential Local Guard Program	Net square meters occupied
5880		Security Services	Number of direct-hire U.S. citizen employees and locally employed staff
6144	6144	Residential Furniture, Appliances and Equipment Pool	Number of housing units
	6145	General Services	Number of U.S. citizen employees serviced plus the number of locally employed staff serviced times 0.2 ^c
6132		Vehicle Maintenance	Number of vehicles maintained
6133		Administrative Supplies Services	Dollar value of supplies issued
6134		Procurement Services	Number of executed procurement documents ^d
6135		Reproduction Services	Number of copies printed and/or reproduced
6136		Shipment & Customs Services	Number of shipments sent and/or received
6139		Direct Vehicle Operations	Number of miles driven
6143		Non-expendable Property Management	Number of items inventoried
6148		Leasing Services	Number of leases maintained
6462		Travel Services	Number of travelers serviced
	6196	Information Management	Number of direct-hire U.S. citizen employees (and locally employed staff, if no direct-hire U.S. citizen employees)
6192		Pouching Services	Weight of pouches sent
6194		Mail and Messenger Services	Number of direct-hire U.S. citizen employees (and locally employed staff, if no direct-hire U.S. citizen employees)
6195		Reception & Switchboard Services	Number of instruments serviced (switchboard and direct lines)
5449	5449	Diplomatic Telecommunications Service - Program Office - (DTSPO)	Number of instruments serviced by International Voice Gateway lines (office and residences)
	6225	Financial Management Services	Number of strip codes processed (12-month fiscal year count)
6211		Prepare Financial Plans & Budgets	Percentage of time spent budgeting

**Appendix II
ICASS Cost Centers**

(Continued From Previous Page)

Function code			
Standard post	Lite post	Cost center	Workload factor
6221		Accounts and Records	Number of obligations (12-month fiscal year count)
6222		Payrolling	Number of direct-hire U.S. citizen employees and locally employed staff payrollled
6223		Vouchering	Number of strip codes processed (12-month fiscal year count)
6224		Cashiering	Number of strip codes processed (12-month fiscal year count)
	6445	Personnel Services	Number of direct-hire U.S. citizen employees and locally employed staff serviced
6441		U.S. Citizen Employee Personnel Services	Number of direct-hire U.S. citizen employees serviced
6451		Locally Employed Staff Services	Number of locally employed staff serviced
		Building Operations	
7810	7810	Government-owned/Long-Term-Lease Residential Bldg. Operations	Net square meters occupied
7820	7820	Government-owned/Long-Term-Lease Non-Residential Bldg. Operations	Net square meters occupied
7850	7850	Short-Term-Lease Residential Building Operations	Net square meters occupied
7860	7860	Short-Term-Lease Non-Residential Building Operations	Net square meters occupied
8790	8790	Overhead	Indirect motor pool and items difficult to distribute to specific cost centers

Source: ICASS Service Center.

^a“Devices” include computer processing units, monitors, keyboards, mice, printers, scanners, and other internal or external devices specific to the computer processing unit servers.

^b“Authorized users” are all direct-hire U.S. citizen employees and family members included on the sponsors’ assignment orders, whether physically residing full-time at post or not. Also included are third-country nationals, contract personnel, and any other person approved by the Chief of Mission to receive services. “Authorized users” do not include emergency/first-aid services provided to Foreign Service nationals or other locally employed staff.

^cForeign Service nationals are included if services are received.

^dExecuted procurement documents include purchase orders, contracts, petty cash purchases, personal service contracts, requisitions, and other standard means of procuring goods and/or services.

The overhead cost center is designed to reflect costs that are not easily confined to another cost center but are essential administrative activities. Examples of overhead costs include ICASS awards, post office box rentals, and postage. Overhead costs are distributed on the basis of each agency’s percentage of net cost of all services it receives in the remaining cost centers.

There are also other costs that agencies must pay for that are not considered cost centers, per se. For example, ICASS personnel are both service providers and service customers. As such, the ICASS “office” is treated as any other customer or entity at post in terms of generating costs for the services it consumes. However, this “office” is not billed because the services it consumes are done so in the course of providing services to the other customers. For example, when a vehicle mechanic drives an ICASS motor pool vehicle to a parts supplier, he generates costs in the direct vehicle operations cost center. These costs, which include overhead, are distributed among customers on the basis of the proportion of total costs of services and overhead that each agency generates in a given cost center. In addition, costs associated with operations of the ICASS Service Center are distributed to agencies’ headquarters for general support given to posts worldwide, or to specific posts for services that are uniquely provided to them (e.g., post-dedicated ICASS training).

Agency Participation in ICASS

Table 3 shows the number of posts and ICASS participation rates for agencies with direct-hire staff assigned to 10 or more posts in any year from 1998 through 2003. The participation rate equals the average rate of cost center subscription for each agency at all posts. The analysis excluded State. Participation rates for USAID reflect changes in agency coding, such that the rates for 1998 represent all of USAID (code 7200.0), while the rates for 1999-2003 represent only USAID Operating Expenses funds (code 7203.1).

We acknowledge that there are services for which an agency has no need and, thus, they do not subscribe to them. For example, agencies that do not employ local staff have no need to subscribe to Locally Employed Staff Personnel Services. Because we could not determine agencies' need for services, we were required to consider all cost centers as available for subscription. As a result, our analysis simply states the average rate at which agencies subscribe to available cost centers.

However, we were able to control for cases in which agencies are located in facilities outside of State-owned or State-leased facilities. Examples could include instances when agencies own office facilities, as with some USAID and Peace Corps offices, and when agency personnel are located at host country ministries, among others. Agency personnel reported that in such cases, they neither have the need for some ICASS services, nor would the embassy provide these services. Specifically, these services would include (1) nonresidential local guard programs, (2) government owned/long-term leased residential building operations, (3) government owned/long-term leased nonresidential building operations, (4) short-term leased residential building operations, and (5) short-term leased nonresidential building operations. Therefore, in cases where agencies were not charged for these five services at a post, we removed them from the list of "available" cost centers and recalculated their rate of participation for those agencies.

**Appendix III
Agency Participation in ICASS**

Table 3: Rate of Participation in Available Cost Centers, by Agency, 1998-2003

Agency/Office	Number of posts and participation rates, by fiscal year											
	1998		1999		2000		2001		2002		2003	
	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)
Defense Intelligence Agency	114	86.8	117	88.0	123	87.9	126	88.9	129	88.8	132	84.2
U.S. Agency for International Development	82	66.8	75	66.4	75	66.4	75	65.6	73	64.8	77	62.2
Defense Security Cooperation Agency	80	73.2	83	73.6	84	72.8	86	72.5	91	72.6	93	69.2
U.S. Peace Corps	74	66.5	69	57.4	66	56.3	66	56.8	66	57.3	66	54.5
U.S. and Foreign Commercial Service	70	81.7	69	83.1	68	83.8	70	79.0	71	80.2	73	74.8
Foreign Agricultural Service	64	77.0	64	77.1	65	75.7	63	72.7	65	71.9	63	68.0
Drug Enforcement Administration	53	77.6	55	78.7	57	78.5	56	78.2	56	78.0	58	74.6
Immigration and Naturalization Service	34	77.2	33	80.1	33	81.4	32	82.6	34	80.4	34	76.5
Federal Bureau of Investigation/ Legal Attaché Office	33	71.0	37	71.5	41	71.3	47	72.7	46	71.6	48	68.3
Animal Plant and Health Inspection Service	24	67.3	25	64.9	27	64.1	28	64.2	28	62.7	30	60.8
U.S. Customs Service	20	73.4	19	72.8	20	74.0	19	73.5	22	72.6	23	69.6
Foreign Broadcast Information System	19	67.5	18	66.2	20	58.6	19	59.7	19	56.6	19	53.4
Federal Aviation Administration	18	68.6	18	67.8	19	67.3	18	68.6	16	65.8	13	63.9

**Appendix III
Agency Participation in ICASS**

(Continued From Previous Page)

Agency/Office	Number of posts and participation rates, by fiscal year											
	1998		1999		2000		2001		2002		2003	
	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)
Centers for Disease Control and Prevention	16	50.0	18	45.3	25	43.8	26	56.1	29	61.0	27	56.9
Defense Communications Systems Support Group	16	64.4	16	67.8	16	70.6	14	70.1	14	68.2	14	64.9
Internal Revenue Service	15	62.0	12	59.7	14	60.1	13	62.0	12	63.8	13	59.9
Navy - Personnel Exchange Program	14	41.1	14	36.2	13	37.3	13	33.6	14	37.2	15	37.5
Air Force - Professional Exchange Program	13	39.2	14	33.7	13	38.7	13	34.9	13	31.4	15	33.5
Social Security Administration	13	59.2	13	61.1	15	63.8	17	64.4	16	64.4	17	61.0
Library of Congress	12	54.7	12	56.3	12	56.2	12	53.3	12	53.1	11	51.6
Army - European Command (JCTP)	12	53.5	9	62.7	15	64.7	16	62.7	17	58.1	10	56.1
U.S. Secret Service	11	66.5	13	65.4	14	70.4	14	70.1	13	69.6	14	68.6
National Aeronautics and Space Administration	11	56.0	10	58.0	10	55.6	10	55.6	10	53.8	10	50.6
Treasury - Office of International Affairs	8	69.5	8	61.5	7	62.7	11	55.5	7	63.9	5	65.3
Justice - ICITAP	7	77.5	7	78.2	9	67.3	10	73.5	8	76.0	8	71.1
American Battle Monuments Commission	7	43.1	7	44.2	8	39.9	8	42.3	8	38.1	10	36.7
Agricultural Trade Office	6	70.5	10	75.1	10	69.8	9	67.4	9	65.7	10	65.0
Justice - Criminal Division	4	56.1	7	51.4	9	65.6	12	64.1	15	68.4	15	65.8

**Appendix III
Agency Participation in ICASS**

(Continued From Previous Page)

Agency/Office	Number of posts and participation rates, by fiscal year											
	1998		1999		2000		2001		2002		2003	
	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)	Posts	Rate (%)
U.S. Coast Guard	4	51.1	4	52.9	6	43.1	7	49.2	8	57.1	10	56.6
Treasury - Customs and International Affairs	3	67.1	5	64.9	8	60.7	11	73.2	19	77.2	23	73.4
U.S. Marine Corps	2	32.5	3	48.6	4	58.5	9	39.0	8	48.3	12	43.3
Centers for Disease Control and Prevention - AIDS	2	67.2	3	58.0	4	65.6	7	69.9	11	72.8	13	68.3

Source: GAO analysis of ICASS Service Center data.

Comments from the ICASS Executive Board



United States Department of State

*Assistant Secretary of State
for Administration*

Washington, D.C. 20520

MEMORANDUM

UNCLASSIFIED

TO: GAO – John Brummet

FROM: ICASS Executive Board - William A. Eaton *WAE*

SUBJECT: GAO Draft Report “Embassy Management: Actions Needed to Increase Efficiency and Improve Delivery of Administrative Support Services”

Attached, please find the ICASS Executive Board submission to the GAO Draft Report regarding Embassy Management (GAO-04-511 – GAO Code 320185).

**Interagency Executive Board Comments on GAO Draft Report
“Embassy Management: Actions Needed to Increase Efficiency and
Improve Delivery of Administrative Support Services”**

The ICASS Interagency Executive Board (IEB) appreciates the opportunity to comment on the draft report entitled Actions Needed to Increase Efficiency and Improve Delivery of Administrative Support Services, dated June 2004.

The IEB has met three times in recent months, having resolved to take a more active role in the overall management of the ICASS system. As indicated below, the IEB has set up working committees on key ICASS components, and is committed to actively improving the management of the system in a coordinated approach.

The IEB is pleased at the recognition that **ICASS is generally effective in providing quality administrative support services** overseas. This is consistent with what our training teams have found in numerous visits to posts, as well as with results of State OIG inspections and other sources of feedback. We agree that improved metrics would allow us to focus in better on areas for improvement, and are committing resources to develop those metrics.

The IEB is actively involved in trying to **eliminate duplicative administrative support structures where possible**. As GAO is aware, efforts in that direction have already been started. The State/USAID Shared Services Study, which ICASS partially funded, recognized that costs could be saved and the quality of services improved by consolidating services at all the posts surveyed. We understand pilot projects are to be introduced at all four posts consolidating various services. Clearly the elimination of duplication overseas is an area that will require long-term sustained effort by many agencies.

We endorse the efforts of the State Department, as primary ICASS service provider, to **reengineer processes by seeking innovative managerial approaches**. It has centralized certain operations through regional centers in Bangkok, Paris, Frankfurt, Charleston, and Ft. Lauderdale. As another means of streamlining operations, the State Department is reemphasizing

Regionalization to support operations in the newest Embassy, Baghdad, which if successful can be adapted to other missions are well. That effort consists of locating functions in the United States where possible – including various Security, IT and Travel services. Other services that cannot be provided in the U.S. are to be performed regionally in Amman, Kuwait, Frankfurt or Bangkok. These include a variety of Financial and other services. The IEB has been briefed on these improvements by the State Department, and believes they will benefit all ICASS stakeholders.

The IEB also supports the State Department’s efforts to identify **innovative managerial approaches that may be applied and standardized at all or most missions overseas**. This initiative for standardization of processes represents a significant departure from past practices, which often valued local empowerment over consistency and overall efficiency. The IEB also is committed to attempting to standardize customer expectations of services, in support of the State Department’s efforts at greater standardization of service delivery.

We recognize and appreciate GAO’s observation that **strategies must be developed to improve ICASS accountability**. In the first years of ICASS it was important to establish a system that could provide services equitably and transparently in the field. Now that goal has for the most part been successfully accomplished, the IEB is committed to establishing metrics to measure the quality, effectiveness and customer satisfaction of the ICASS services. The IEB has established a working committee to further identify opportunities to improve metrics and accountability, and is co-funding with the State Department a system to collect data from all posts on Customer Satisfaction.

The IEB continues to search for improved ways to **ensure that all personnel participating in ICASS receive detailed training**. In recognition of that the ICASS training budget has been increased over the past several years, so that more Post-Based Training can be accomplished. So far this fiscal year 21 Post Based Training sessions have been conducted overseas, impacting almost 1100 employees. At the same time, orientation sessions have been provided to some 600 individuals domestically from a variety of agencies, on 29 separate occasions. The pool of trainers has been expanded by aggressively recruiting six experienced recent retirees from a variety of agencies with experience in ICASS. Coordination is also ongoing with FSI on its training program. Moreover, this fiscal year ICASS training

was conducted for ICASS Council Chairs (for the second consecutive year) as well as Service Providers (for the first time). There is a pilot project underway to introduce joint training to Service Providers and Council Chairs together in FY-04/05, and another to push orientation materials out to ICASS Councils. Despite these efforts we are aware that many employees do not receive training before they get to their posts, and will continue to search for ways to address this issue.

The IEB is pleased to note that of the original goals of ICASS, most of those dealing with ICASS as a financial system have been met – particularly transparency and equity. The managerial challenges of ICASS – working as an agent for change, bringing local empowerment, and affecting cost savings – are still in progress, and represent most of ICASS’ biggest current challenges. As discussed above, local empowerment may have to be redefined as a goal in order to meet the challenges of cost savings, service quality and efficiencies.

ICASS does not and probably cannot provide all services needed for all agencies. That is one of the reasons the ICASS system provides for direct charging of identifiable and discreet costs. Agencies that have developed alternatives that deliver administrative support services better and/or cheaper are encouraged to share those solutions with their ICASS Councils so that all agencies may benefit. Alternatively, some agencies have relocated services to their headquarters, and ICASS welcomes such self-provision. While certain generic ICASS services, such as motorpool, vehicle maintenance and warehousing lend themselves well to consolidation, there are other support needs that ICASS cannot provide. Certain specialized types of procurements, for example, exceed the knowledge and training of most ICASS contracting officials overseas. Because ICASS must provide services to a broad range of customers, tailoring services for a particular customer’s requirements may not be practical or cost-effective.

Finally, the IEB notes that **cost effectiveness** is a key issue for all participants in the ICASS process. Financial constraints affect all agencies. The past several years have seen needed investment in infrastructure overseas, with resultant cost increases. While these investments were approved in advance, they have been compounded by negative exchange rates. The IEB has formed a committee to review and report out on budget processes within ICASS, to ensure better coordination at the agency level, and on metrics/accountability, to focus on key priorities.

The IEB also would point out that the first concern for all agencies overseas is program, and so cost, while a primary concern, is not the sole criterion in selecting support services. Due to trade-offs between cost, quality and speed in service delivery, some agencies may look outside of ICASS because the outside service may fit an agency's particular needs better. Regionalization and centralization provide targets of opportunity for ICASS and all agencies to be more cost-effective. The pressure on virtually all agencies' budgets ensures that cost management will continue to be a priority in ICASS for the foreseeable future.

Comments from the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

JUL 6 2004

Ms. Jacqueline Williams-Bridgers
Managing Director
International Affairs and Trade
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548-0001

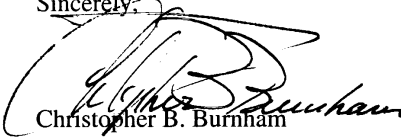
Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "EMBASSY MANAGEMENT: Actions Needed to Increase Efficiency and Improve Delivery of Administrative Support Services," GAO Job Code 320185.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Christina Somma, ICASS Program Analyst, Bureau of Resource Management, at (202) 663-3883.

Sincerely,



Christopher B. Burnham

cc: GAO – John Brummet
RM/ICASS – Larry Mandel
State/OIG – Mark Duda
State/H – Paul Kelly

**RESPONSE OF THE DEPARTMENT OF STATE TO
GAO AUDIT 04-511
EMBASSY ADMINISTRATIVE SUPPORT SYSTEM**

The Department of State welcomes the GAO audit of International Cooperative Administrative Support Services (ICASS) system. Like any large organization, ICASS benefits from regular outside examination of its operations and recommendations on areas for improvement. Because of its inter-agency nature, the General Accounting Office is one of the few entities that can conduct an audit of the ICASS system. No single-agency inspector general, for example, has jurisdiction over all ICASS participants. While the Department of State's inspector general can, and regularly does, offer recommendations regarding areas for improvement, its mandate does not extend to the policies, decisions and implementations of non-State ICASS customer agencies. Thus, the GAO can play a constructive role in the improvement of ICASS as a system.

The Department is not surprised by the GAO's finding that most customers overseas profess satisfaction with the quality of service. Our customer surveys generally reflect the same level of satisfaction with the quality of service. Indeed, in a 2002 briefing at the Office of Management and Budget, customer agencies reported that the pre-existing administrative platform the Department provides through ICASS enabled them to increase rapidly their overseas presence to carry out new high-priority U.S. Government programs overseas.

The Department also was gratified to read that the GAO teams, despite some unsubstantiated assertions, were unable to find examples of biased or preferential treatment. Our service providers take pride in providing equitable treatment to all customers.

The Department deeply appreciates GAO's support for the long-sought opportunity to work with USAID to eliminate wasteful duplication in service provision overseas. The Department raised the elimination of service provision duplication early in the history of ICASS (see 99 State 134581, para 2G) at the June 1999 ICASS Off-Site. At the 1999 Off-Site, two executive directors of our regional bureaus strongly urged other agencies to become the primary service provider to State Department and other-agency employees at certain overseas posts. The Department is pleased that the U.S. Agency for International Development now provides administrative support services at some 9 overseas posts and has joined us in testing elimination of duplicative services at four pilot posts. Our State/USAID Joint Management Council study in conjunction with the ICASS service center, demonstrated the clear opportunity our agencies have to improve service and reduce costs through consolidation of services at many overseas posts. The Department is anxious to get the program pilots underway and is pleased to note that one post already has consolidated leasing. The Department's leadership is firm in their resolve that pilots will start as soon as possible. Secretary Powell has communicated with the field about

the State-USAID shared services initiative, strongly encouraging all Chiefs of Mission to analyze their operations and, whenever possible, to take action to examine combining services now. We have encouraged all COMs to conduct mission reviews at their own posts now to initiate action to eliminate duplication of services to take advantage of gains that could be realized through elimination of duplication of services.

The Department agrees with GAO that better ICASS measurement can significantly improve the quality of decision-making. The Department of State is, as the GAO report noted, using the International Standards Organization series 9000 to map service processes and standardize support-services procedures. In addition, the Department has launched four pilot projects to develop baseline and performance metrics for support services. Furthermore, the Department proposed at the June 23, 2004, ICASS Executive Board meeting that we introduce a new global internet-based system to measure and track customer satisfaction at all overseas posts. The ICASS Executive Board endorsed this proposal, voted to make its use mandatory for all posts and contributed \$65,000 to finance its deployment. This initiative will also support rightsizing goals by moving the management of customer satisfaction surveys to Washington-based staff, thereby reducing the workload of post service providers.

We discuss a number of our conceptual and textual suggestions for the report in the sections below:

Legislation

The Department recommends that GAO cite the provisions of law that underlie ICASS, namely section 23 of the Department of State Basic Authorities Act, 23 U.S.C. 2695; and section 13 of the same act, 22 U.S.C. 2684; and possibly the Economy Act (31 U.S.C. 1535) that some agencies rely on to contribute into the ICASS working capital fund.

Primary Goals of ICASS

Contain Costs: The GAO is correct that the ICASS Handbook [6 FAH-5 H-201] states a goal of ICASS is to “reduce and contain costs.” We do not agree with the GAO more expansive interpretation of this goal, “ICASS was designed, in part, to contain or reduce overall government costs for overseas administrative support services.” There are many original features of ICASS that suggest the system’s designers were focused on containing or reducing the cost of the stakeholder agencies, not the overall government cost to the taxpayer. One clear example is the almost unfettered ability of every agency to opt out of ICASS cost centers, thereby robbing ICASS of the potential benefits of economies of scale. Moreover, ICASS discourages the service provider from initiating investments in labor-saving technology or equipment that cannot be amortized over the course of one or, at most, two years. Longer-term investments are problematic since service providers never know with certainty, from one year to the next, whether its council members/customers will be around to help pay off the investment or whether agencies/customers might withdraw from the service before the investment can be recouped. While the interagency architects of ICASS may not have designed the current

See comment 1.

See comment 2.

See comment 3.

partisan, “cost shifting” approach on purpose, we believe it is overly generous to describe them as attempting to reduce *overall* government costs. In fact, were this put before the ICASS Working Group as an amplification of the definition in the Handbook, we are quite confident that State would find itself, once again, in a very small minority.

Establish a simple, transparent and equitable cost distribution system: While the Department agrees that ICASS is more transparent than FAAS, it is an exaggeration to describe the current system as “simple.” The GAO audit team itself cites the new TDY policy (page 35) as an example where the lack of simplicity detracts from equity because the policy’s complexity dissuades posts from using it. The Department also ranks ICASS low in equity because of the many support-service expenses that ICASS agencies are unwilling to share. GAO should have been much more critical of the lack of success in achieving this goal.

See comment 4.

Failure to Reduce After an Opt Out

The GAO audit team criticized (page 12) Embassy Dakar for failing to reduce vehicle-maintenance staff after USAID withdrew its 13 vehicles from the ICASS fleet. However, Embassy Dakar reports that after USAID withdrew 13 vehicles, other agencies at post added ten more. The GAO’s assertion that “...despite a reduction in the workload associated with 13 USAID vehicles, there was no change in the composition of ICASS staff responsible for vehicle maintenance after USAID withdrew from the service” is misleading. The GAO should note that the ICASS serviced vehicles increased by ten, leaving roughly the same number of vehicles as it had before the USAID withdrawal. While the Dakar example does not fully support GAO’s criticism that service providers haven’t reduced staff when agencies opt out of services, we nevertheless endorse GAO’s assertion that duplication of services ultimately costs the taxpayers money and should be eliminated wherever practical.

Almost half of the agencies on the ICASS Executive Board have less than a one-percent stake in mission ICASS totals. These miniscule customers failed to enroll fully in ICASS in the beginning and therefore have low levels of consumption. When these agencies “opt out” of a service, they often remove only minor amounts of ICASS funding. In addition, while some agencies are reducing presence overseas, other agencies are adding positions, so permanent reductions often prove problematic. The Department had hoped that, as part of the “forward planning” process instituted in 2002, ICASS customers would give the Department advance knowledge about where, and to what degree, they would change their presence overseas. However, ICASS customer agencies primarily use the “forward planning” process as a one-way communications process to glean information from the Department about its level of expected ICASS support in the out-years without divulging their own future plans. Lacking reliable information about future customer plans and recognizing that customers regularly expect immediate service delivery even to unanticipated staffing increases, service providers must be conservative in firing experienced staff who, in most cases, have years of valuable knowledge and experience simply because a small funding contributor opted out of a cost center.

Agencies Assert ICASS Costs Too High

The figures cited on page 15 regarding the cost of labor are interesting. ICASS customer agencies loudly assert their desire to contain and reduce costs, but vote in a very different manner. The report should note this disparity between words and actions. For example, ICASS customer agencies routinely call for cost containment but invest in information technology to improve systems related to billing and cost distribution. The Department of State invested over \$100 million to improving information technology in support of administrative services during a five-year period, while non-State ICASS agencies contributed only \$256,000 over the same period. Experience in the private sector shows clearly that productivity increases and cost reductions require effective investments in technology. The non-State ICASS agencies, however, have not made those investments. One ICASS Council Chair from a non-State agency told the Chair of the ICASS Executive Board that his agency favored, "all the innovation the Department of State can afford." Unfortunately, the GAO did not call ICASS customer agencies to account for their failure to invest in improving the systems. We cannot expect economies of scale from ICASS while other agencies either opt out of services or expect "customized" services tailored to their specific requirements (rather than standardized service delivery). The non-State agencies have overwhelming majorities on the ICASS Executive Committee, the Washington ICASS Working Group and past ICASS councils. ICASS bills itself as a "customer driven" system. The GAO should have highlighted in its report the unwillingness of those "in the driver's seat" to drive in the right direction or pay their share of the fuel and maintenance costs.

ICASS Cost Increases

The GAO cites on page 16 agency accusations that ICASS costs have increased and that these increases have caused them to decrease consumption of services. Two of the increases cited by the GAO strike us as unsupported. GAO blames cost increases on increased State Department hiring. However, the Department of State has paid through its own increased ICASS bills for the additional staff hired to support our nation's diplomatic efforts around the world. GAO does not demonstrate that State's staffing increases led to higher costs for other agencies. Indeed, if there were any truth to this allegation, one could only conclude that ICASS is not as equitable a system as claimed. GAO should expunge this allegation until or unless its investigation produced evidence to support the claim. Otherwise, GAO's silence on the assertion could be misinterpreted as an endorsement or acquiescence.

The GAO report also claims that "new" services added to ICASS are a source of increased costs. This is inaccurate. The vast majority of these services weren't new nor are these cost "increases." The Department of State, for example, proposed in 2001 the addition of the "outward bound" Diplomatic Pouch to ICASS. The Department of State had provided diplomatic pouch services to our overseas posts for decades. The Department of State's Inspector General audited the service in the late 1990s and found that a significant number of agencies were not paying their fair share of shipping diplomatic pouches from the United States to overseas posts. The US Agency for

See comment 5.

International Development representative to the ICASS Working Group was the first to raise this inequity and proposed adding the Diplomatic Pouch to ICASS so that all agencies would be required to pay their fair share of the service. After much discussion, controversy and analysis, ten members of the ICASS Executive Board voted at its June 14, 2001, meeting to incorporate the Diplomatic Pouch service into ICASS. Two members of the Executive Board abstained. Diplomatic Pouch service is not “new.” Customer agencies had been paying, albeit not fully or accurately, for this service for years before it was folded into the ICASS menu of services. This is neither a “new” cost nor an ICASS “cost increase.” On the other hand, it certainly was an increased cost for those agencies whose diplomatic-pouch service had previously been subsidized by other agencies. However, overall diplomatic-pouch costs did not rise one bit because the ICASS Executive Board incorporated the service in ICASS.

There are other examples in which the total cost of ICASS increased when new or increased services were added to the ICASS menu of services. However, this does not mean the overall cost to the USG necessarily increased. For example, the Department of State encourages other agencies to join residential furniture pools, which eliminate separate stocks of furniture, redundant management systems, and damage to furniture due to unnecessary movement between residences. If agencies join the residential furniture pools, their ICASS costs go up, but their program costs and overall costs go down. Increased ICASS costs, such as in this case, actually could represent more cost-effective and rational USG operations overseas.

Business Cases for ICASS Agency Opt Outs

GAO found (page 21) that agencies rarely support their decisions to opt out of a service with a transparent business case based on analyses of the alternatives. We enthusiastically endorse GAO’s recommendation that agencies prepare business cases and opt out of an ICASS service only when there is a demonstrable economic advantage. However, without an enforcement mechanism, we are pessimistic that agencies will prepare compelling business cases. The Department, at the June 1999 inter-agency ICASS Off-Site, strongly argued in favor of requiring a business case to justify all opt outs. The Off-Site agenda called for “procedures to ensure that any agency withdrawing from an ICASS service or choosing to perform this service on its own has documented that this choice is cost and quality beneficial and in the interest of the taxpayer.” (99 State 134581, para 6 U). The Off-Site attendees, however, were unable to agree on an enforcement mechanism. The majority of ICASS customer agencies objected to this level of transparency. They could only reach consensus on the current minimalist reporting mechanism used by the GAO in preparing its audit. Without enforcement mechanisms like an annual review of business case justifications by a customer agency inspector general, the Office of Management and Budget or the GAO, the Department is convinced that a future GAO team auditing ICASS will find that agencies have continued to opt out without strong, economically-clear business cases that document savings to the American taxpayer.

See comment 6.

The Department remains troubled that ICASS customer agencies failed to “opt in” to ICASS when the system was created. We are equally disappointed with GAO’s mild reaction to this lack of interagency support for ICASS at its outset. This lack of support and participation deprived ICASS and the taxpayer of vital economies of scale. The GAO report could have been stronger if it had highlighted the clear conflict of interest in agencies castigating the service provider for failure to contain costs while declining to allow the economies of scale necessary to reduce unit costs; and for failure to support investments in the kinds of information technology systems required to improve productivity. Having failed to commit their agencies to provide the strong support ICASS depends upon to improve performance, agencies sometimes use alleged ICASS failures as the basis for future “opt outs.” The GAO weakens its audit by remaining silent on this clear conflict of interest. ICASS will continue to fall short of its potential until the customers governing the system act to strengthen, not undermine, ICASS.

ICASS Structures Do Not Overcome Disincentives to Streamlining

The Department is puzzled by the GAO’s failure to mention what we suspect is the largest disincentive to streamlining, i.e., satisfied at-post customers. The GAO found (see page 32) that most overseas customers appeared to be satisfied. Not illogically, we have found most overseas customers, when satisfied, are resistant to change. “If it isn’t broke, don’t fix it.” The Department disagrees, as noted below, that councils lack authority to promote positive change when they want it badly enough (or even a little). For example, a customer agency in Bern questioned the costs of maintenance for short-term leased residences. The service provider investigated the costs and found that the post had understated support to an annual conference and inadvertently charged some conference expenses to residential maintenance. The post service provider corrected the charges. The Department also notes that this kind of analysis was possible because Bern used the Post Administrative Software Suite (PASS), an application in which the Department has invested \$8.5 million compared to only \$136,000 over the same time period from our ICASS partner agencies. Had other agencies matched the Department’s investment at the same rate, they would have contributed almost \$2.5 million, providing additional support necessary to add further functionality to the system.

More often, one or two members of a council want a specific change -- often a change that benefits their particular agency. The rest of the council members are satisfied with the status quo and are unwilling to make a change, especially if the benefit to the vocal minority comes at their expense. Rather than suggest a lack of council authority, the GAO would do well to focus on the lack of incentives for the service provider to streamline or otherwise rock the boat of a generally satisfied at-post ICASS council. In a “customer driven” system, the customers have little basis to blame the service provider for failing to streamline if the customer representatives on the post council oppose such streamlining. Often, agencies push for cost containment in Washington while post ICASS council representatives of these same agencies push for expanded services.

Councils Lack Authority

See comment 7.

See comment 8.

While ICASS councils do not hire and fire ICASS employees, ICASS councils do not lack authority. They pass, or reject, the post ICASS budget. Unless the council approves a budget to cover both the hypothetical out-sourced contract and all of the employees formerly doing the work, the service provider will quickly run out of money to pay employee salaries. Unless the GAO has an example where this actually has occurred in practice, the Department requests dropping this hypothetical example.

The GAO's text in page 39 directly relates to the finding that most ICASS agencies do not provide training for their ICASS council representatives and that too many agency representatives know very little about their role as a post ICASS council member. The Department questions whether having untrained, inexperienced amateurs set the number of service provider employees, as GAO appears to support, would really improve the quality of service or reduce cost. While the Department understands the strong support among non-State ICASS agencies for a "customer driven" system, the Department cannot understand GAO's apparent support for putting customers behind the wheel before they have completed drivers' education. The result on the road is often tragic. It could be equally unfortunate at our overseas posts if untrained ICASS council members are given this kind of hands-on authority.

The Department again notes that customer agencies that desire personnel reductions have not voted the way they talk. The Department has studied the shared services industry extensively and remains unaware of any shared services board that hires and fires service provider employees. Private sector shared services boards agree with the service provider on rates that will cover not only direct costs but also investments in technology upgrades and depreciation. The service provider has the authority to manage operations to meet the agreed cost and investment goals. ICASS customer agencies want the benefits of greater productivity without being willing to pay for the investments needed to produce that outcome. GAO should identify this faulty logic or critique it.

The GAO cites on page 26 that some council representatives from ICASS customer agencies report their own agency program requirements demand too much of their time to allow conducting analyses regarding more cost-effective methods for delivering services. This contradiction between one part of the audit report and another is confusing. If post officials are already unable to find the time to conduct fairly unsophisticated analyses, they do not have the time to set appropriate staffing levels for service providers. Post councils now assert that the service provider is responsible for outcomes and want to hold the service provider accountable for those outcomes. If a council starts deciding how many employees the service provider can have and who those employees are the council would obviously acquire responsibility and accountability for the outcomes. Who on the council could invest the time required to ensure the outcomes are positive since council members already lack time for training and find existing responsibilities overwhelming? The Department cannot understand the GAO's positive tone on the text when the solution they propose so significantly contradicts multiple findings elsewhere in the report.

ICASS Tools Not Working As Envisioned

See comment 9.

It is not clear that the ICASS working capital fund ever envisioned posts stockpiling significant amounts of money. The GAO makes several questionable assumptions. First, that long-term planning and greater autonomy in allocating resources are inhibited by alleged restraints on rolling over funds. The audit has not demonstrated that any such inhibition exists or that it is clearly correlated with any decreased ability to plan or achieve efficiencies. Posts have accumulated and successfully rolled over funds to plan for future capital investments. Second, the text appears to imply that funds rolled over come from increased efficiencies. In some cases this is true, and the ability to rollover funds is an important incentive on decisions to improve efficiencies. However, while some of the money rolled over stems from increased efficiency, multiple cases were one-time windfalls beyond the posts' control or funds simply not expended. The Department has always voted to allow posts to roll over funding when: amounts were appropriate; post could explain the source of the roll-overs and articulated a plan for how it would invest the roll-over. The Department voted to adjust post targets to take roll-overs into consideration when: the amounts were unduly large; the post couldn't/wouldn't explain the source and had no plan for how to invest the money. This is prudent use of taxpayer money, which we would expect GAO to support.

See comment 10.

Efforts Underway to Consolidate and Streamline Services

On page 28, the GAO describes "...State and USAID initiated four efforts that could greatly affect ICASS service delivery and costs. This is incorrect. USAID is a full partner in only one of the four initiatives, i.e, our joint efforts to consolidate and streamline at four posts. ISO 9000, for example, was initiated and run entirely and solely by the Department's Center for Administrative Innovation. On page 29, the GAO audit team asserts that ISO 9000 effort began in 2003 and is run by a program called, "Blue Skies." Both assertions are factually inaccurate. Embassy London launched the first ISO 9000 program in FY-2001. Although "Blue Skies," an ICASS Working Group "think piece," brazenly took credit for this State Department initiative, ICASS in Washington provided absolutely no funding or material support for ISO 9000. All of the Washington funds for ISO 9000 came from the Department's Center for Administrative Innovation. The Center has led the program since Washington began providing support for ISO 9000 in FY-2002. We are pleased the ICASS "Blue Skies" effort recognized the value of ISO 9000, but Blue Skies deserves no credit for any of the Department's work on ISO 9000.

See comment 10.

Capital Security Cost-Sharing

The Congress has not yet passed the Capital Security Cost Sharing Program. The Department suggests that the GAO say, "The Administration has included in the President's FY-05 Budget Proposal a plan that would require all agencies..." Later, the text should state, "If enacted, the Capital Security Cost Sharing Program, which would be implemented ... 2005, would require agencies...."

In addition:

1. The Capital Security Cost Sharing Program (CSCS) is an Administration proposal, not the Department of State's. Also, the term "Embassy construction program" should be "capital security program." Therefore, the first sentence of the CSCS discussion on page 30 which states, "State has recently developed a new requirement that agencies with overseas staff help finance the cost of the embassy construction program," should be changed to read: "The Administration has recently developed and is seeking legislation for a new requirement that agencies with overseas staff help finance the cost of the security capital construction program."
2. "Table 1: Actual and Estimated Fees under the Capital Security Cost Sharing Program, Fiscal Years 2005-2007" on pages 30 and 31 is based on an out of date chart and as a result is subject to misinterpretation. This needs to be corrected.
 - The GAO informed OBO that in preparing the draft report, they used an old Department of State chart that did not make clear that ICASS shares were already included. As a result certain amounts in the draft report were double counted.
 - The GAO subsequently informed OBO that data from pages 14 and 16 of the CSCS slide presentation from the March 2004 OBO web site will be used in preparing the final report. This action should eliminate the double counting.
3. The third sentence in the text on page 30 currently reflects only the percentage increase of 20%, 40% and 60%. Two other factors affecting the totals are rent credits and NEC adjustments. The sentence should be rewritten to reflect this reality.
4. The last sentence at the bottom of page 30 of the narrative ("Another possibility is that agencies could withdraw from ICASS services at increasing rates, as they have done since 2001, to compensate for their increased costs") should be removed. Support services will undoubtedly be more expensive across the board no matter who provides it.
5. Because ICASS numbers are already included in the reported numbers, the fourth sentence on page 30 should begin with "as a result" instead of "moreover."

Quantifying Levels of Satisfaction Difficult

The Department agrees that ICASS can do a better job in quantifying customer satisfaction. The Department proposed in April of 2003 that ICASS adopt an electronic subscription system and a customer-satisfaction survey system. The ICASS Working Group and ICASS Information Technology Committee debated inconclusively for over a year whether to adopt the Department's proposal. After completion of the GAO team's audit, the Department made a separate proposal at the June 23, 2004 ICASS Executive Board meeting as noted earlier. The Board has now established a sub-committee on Accountability and Performance Measurement. We look forward to working with the Board's sub-committee to invest in and improve ICASS' performance measurement capabilities.

Systemic Equity Problems Remain

GAO cites an example on page 35 of a regional medical staff in Vienna, Austria that provided regional service for agencies not present at Embassy Vienna. The Department agrees that those agencies were unfairly subsidizing agencies in the Balkans and elsewhere that were receiving medical support. Embassies London, Vienna, Singapore and Pretoria applied to the ICASS Working Group for status as regional medical centers and it was approved on February 5, 2003. Therefore, the example cited by the GAO is no longer valid.

ICASS Governance Structure Undermines Local Decision-Making (pg. 37)

The Department disagrees that the ICASS approved decision-making structure undermines local decision-making. We found the GAO's explanation baffling to understand, particularly because the example offered was actually a situation where a Washington headquarters agency sought to impose its preference on all overseas posts. In this instance, agency representatives in Bangkok were in concert with post management that their headquarters instructions were not practical in the local situation. We believe GAO may have gotten only a portion of the facts in this case. The Ambassador in Bangkok confirmed longstanding practice of a combined furniture and housing pool, because in the local housing market that decision was demonstrated to be both efficient and economical. He only took that action after other attempts to ensure equity and fair cost recovery had failed. In the Bangkok case, only one agency's headquarters objected to continuing the practice of a combined housing and furniture pool. Small wonder. Bangkok found in 1995, i.e. before the start of ICASS, that the agency in question had only paid for furniture for a small percentage of its employees. This agency was, in effect, being subsidized by other agencies at post. The embassy Management Counselor approached the head of agency who then agreed to start paying for the furniture its employees were using. The agency then paid for a few more sets of furniture, but did not continue to meet its obligations under the requirements of the housing/furniture program; as a result, 20 additional families were provided furniture paid for by other agencies at post. When the Management Counselor attempted to get the agency to fulfill its agreement and pay for the furniture it had been using for a number of years, only then did the agency headquarters assert a "right" to pull out of the pool and renege on its financial commitment.

The Ambassador then instructed post management to prepare a business case analysis of the costs to the taxpayer of operations when the housing pool and furniture pool were separate. The cost of a combined housing and furniture pool was significantly lower than two separate pools. The Ambassador therefore declined to impose an inefficient bifurcated system at the post, but confirmed for the agency in question their right to opt out of the combined pool if that was their desire. If remaining in the pool, he required the agency pay up its arrears. Citing his yearly responsibility to "certify to the Secretary of State that management operations under my control are carried on in an efficient and effective fashion, and that we are working to optimize use of U.S. Government

See comment 11.

resources,” the Ambassador wrote, “I believe that separating our combined housing and furniture pool here in Bangkok would not further those management goals. Should conditions in the future develop in ways that would favor separating furniture from the housing pool, I would certainly be ready to consider such a change. I am always looking for ways to increase the morale of our staff, consistent with optimum resource allocation.” We are certain that GAO, now knowing the full story, would not oppose a Chief of Mission fulfilling his responsibilities to ensure that management operations are carried on in an efficient and effective fashion and that the Embassy is optimizing the use of all U.S. Government resources.

It would be ironic if GAO singled out for criticism one of that select group of ambassadors who have insisted upon a disciplined business case, preventing wasteful duplication, and prohibiting an agency from continuing to use at no charge furniture purchased by all other agencies at post. By singling out this ambassador, GAO would affect the attitude of other chiefs of mission and management officers who work to achieve the kind of streamlining and elimination of duplication that GAO favors in other parts of the report. GAO failure to challenge criticism of ambassadors and management officers who take seriously their annual certification of management operations would send a chilling message. The GAO should instead applaud an Ambassador and post which made a difficult decision that resulted in greater economy and fairness for all agencies.

The GAO must take a clear stand on what it recommends ICASS should do when local empowerment and agency “opt outs” conflict with preventing waste, fraud and mismanagement. The Department does believe that ambassadors and agency headquarters should respect the local empowerment prerogatives of a post ICASS council that do no harm to the interests of the American taxpayer. When ICASS councils increase duplication, the total cost of service or hurt the taxpayers’ interests, chiefs of mission must step in and exercise the authority given them by the President.

The GAO, by repeating without comment or explanatory characterization criticisms of the chief of mission’s delegation of authority from the President, confuses accountability. The GAO must support Chief of Mission authority to carry out this mandate as a champion of accountability and opposition to the waste and misuse of government funds. GAO asserts that post management is unwilling to allow councils to explore alternatives for service delivery. While the Department does not dispute the one example that GAO provided in the report, an accurate and balanced presentation must also note that ICASS councils also have been unwilling to allow post management to explore alternatives. For example, at least one ICASS council refused to allow the service provider to replace labor-intensive on-site accommodation exchange with a commercial ATM near the chancery. Dissatisfaction by ICASS customers has also thwarted service provider efforts in some cases. At one post, the management officer proposed direct-charging for generator fuel so that costs were allocated to agencies according to consumption as required by ICASS rules. The post ICASS council vigorously opposed this measure and insisted that generator fuel costs be distributed within ICASS.

At this same post, the management officer engaged the ICASS council in discussion and planning for a new embassy compound, encouraging them to reduce their space requirements and, consequently, their costs. The council declined. A post management officer proposed to the ICASS council that they hire some additional maintenance employees to reduce approximately \$100,000 in overtime required to respond to requests filed by ICASS customers. The post ICASS council, ignoring the clear business case and cost savings, refused to approve any additional positions.

Another management officer approached his post ICASS council with a request to hire additional positions to meet customer demands that had risen because of a 30% increase in customer agency positions in recent years. The ICASS council, led by the representative of an agency with only a 4% stake in ICASS, fought post management's request. They ultimately agreed to approve only the top three requests.

GAO suggests in its final paragraph on this topic that Washington headquarters provide some limits on post local empowerment. They cited, as one example, that the methodologies for determining how ICASS services will be charged are decided at the Washington level. We are aware of few instances where a headquarters organization in the private sector, not-for-profit or public sector gives its field operations a blank check. Undoubtedly, there are agencies in the executive branch of the federal government that would be delighted if Congress would simply appropriate money without any guidance, earmarks or restrictions. That, however, is unlikely to happen in practice. Should one interpret the GAO's text as support for unfettered field operations? How would customer-agencies be able to predict, understand or pay their bills if each post were free to develop and change its own methodology for billing customers? It is not clear that this sort of chaos would be conducive to improving ICASS. On the contrary, it would certainly complicate the ability of ICASS to develop the kinds of performance measurements that the GAO called for in other parts of the report.

Recommendations

While the Department poses no objections to the GAO's recommendations, we hope GAO could strengthen and supplement the recommendations it made.

See comment 12.

The following are GAO's comments on the Department of State's letter dated July 6, 2004.

GAO Comments

1. We have modified our report to cite these legislative authorities.
2. We disagree with State's assertion that ICASS goals do not include the containment or reduction of overall governmental costs. The *Foreign Affairs Handbook* clearly states that posts form interagency ICASS councils "to eliminate waste, inefficiency and redundancy" (6 FAH-5 H-102.1), and that "ICASS provides the tools and incentives to achieve significant reductions in support costs under the concept of a U.S. Government that 'works better and costs less'" (6 FAH-5 H-103.2). The handbook also states that "all mission agencies participate in the management and delivery of services, as well as achievement of economies of scale and elimination of costly duplication" (6 FAH-5 H-103.1 (a)), and that "Councils should not be reluctant to challenge regulations which inhibit streamlining and cost reduction" (6 FAH-5 H-103.1 (b)). The handbook further states that "the Council and providers together share the responsibility and accountability for achieving the most cost efficient and streamlined quality administrative services at post" (6 FAH-5, H-307.1).

The principle of voluntary service subscription serves multiple purposes, including ensuring that agencies receive and pay for only the services they need and providing flexibility for agencies when they need services they cannot conveniently receive through ICASS, among others. In addition, the principle was designed as the mechanism whereby agencies could use market forces to reduce ICASS costs and improve services. Customers' ability to opt out of services would provide the incentive for customers and providers alike to cooperate in discovering the most cost-effective means for service delivery. Moreover, competitive alternatives that are advantageous to all agencies at a post were to be shared by the agency that discovered the alternatives and reviewed by the ICASS Council and service providers for their potential adoption postwide. The handbook states, "Rather than simply withdrawing from an ICASS service to take advantage of better or cheaper services, agencies should bring the alternative to the attention of the full Council for consideration by all agencies. Factors such as the effect on career staffs or economies of scale can then be considered mission-wide" (6 FAH-5 H-307.6 (a)).

3. We said the system is simple enough that most customers understood the basic structures and tenants of ICASS. We believe that if overseas staff receive training appropriate to their role in ICASS, the current system is simple enough for them to operate. We feel the complexity of the system is appropriate for balancing the somewhat contradicting principles of cost, equity, and simplicity. A less complex system may be less costly to operate, but may also be less equitable because customers may pay for services they don't actually use. A system more closely resembling cost accounting would be more equitable in the sense that customers pay only for the services they actually use, but it would also be more costly because it would require higher workload burdens and more specialized skills for the employees that operate the system.

Our discussion of the new temporary duty personnel policy makes no assertion why so few posts have chosen to adopt it. As of August 2004, three of our eight case study posts have adopted the new policy, including Embassies Cairo, Dar es Salaam, and Lima. Those that have not adopted the policy stated that the number of long-term temporary duty personnel they receive are so few that they do not create a burden.

4. On March 28, 2003, USAID notified the Dakar ICASS Council that effective October 1, 2003, USAID would no longer receive vehicle maintenance services. During our fieldwork in Dakar in December 2003, post officials stated they were unaware whether a reassessment of staffing needs related to changing workload requirements had been conducted. In July 2004, a post official confirmed the other post officials' earlier statements that no reassessment of staffing needs was made at the time USAID notified the council of its intention to withdraw, although one vehicle mechanic was temporarily reassigned to service generators to fill an immediate need in facilities maintenance. The official also confirmed that USAID has not yet disclosed to the council the savings it expected to achieve or has actually realized under its outsourcing arrangement. The official did confirm that 10 vehicles have been added to the vehicle maintenance service, but he did not know when those vehicles were added in relation to USAID's withdrawal. We believe that the addition of these 10 vehicles, whenever they were added, does not detract from our argument that overall government costs rose as a result of (1) the failure to reassess how changing workload requirements affected staffing needs *at the time* USAID announced it would withdraw from the service and (2) the failure by all at post to assess whether USAID's

competitive alternative could result in reduced costs for all agencies at post.

5. We do not blame State for ICASS cost increases from 2001-2003. According to data and officials from the ICASS Service Center, there are three primary reasons why costs increased between 2001 and 2003: State's hiring under the Diplomatic Readiness Initiative, infrastructural improvements, and wage and price increases. Under ICASS, salaries and benefits for State officers who administer ICASS at overseas posts, such as those in the General Services Offices, are shared among multiple agencies.

When services are added to ICASS, the participants in these services share the associated costs. State is correct that there have been some services added to ICASS for which State had previously paid, including \$20 million annually for mail pouching services and \$15 million for computer system and cabling upgrades. Adding these services to ICASS resulted in increased cost to non-State agencies, although not necessarily to the government as a whole. However, we did not intend to imply these services were added without the consent of agencies on the ICASS Executive Board.

6. We believe that there may be other legitimate reasons for not enrolling in ICASS services, including logistical considerations (i.e., an agency's proximity to the service provider); whether an agency's headquarters provides the service; or whether the agency even needs the service, among others. We generally support the voluntary nature of ICASS but believe that detailed, objective analyses are needed to assess whether an agency should obtain services from ICASS.
7. Although customers at posts we visited indicated they were generally satisfied with the overall quality of ICASS services, they were not satisfied with the cost. Comments on a draft of this report from many non-State agencies demonstrate that they are not satisfied with the costs of ICASS services. (See apps. VI-XIII.)
8. We believe that the *Foreign Affairs Handbook* grants ICASS Councils more authority over ICASS resources than simply approving annual ICASS budgets. The handbook states the following:

"Customer agencies, as stakeholders with a greater voice in the management of shared administrative services, are empowered to

collectively seek innovative ways to reduce costs and improve services. To these ends, the Council may streamline administrative processes or reshape the administrative workforce. Decisions might include downsizing, layering and flattening of the staff organization; use of qualified local hire specialists in lieu of higher cost U.S. based staff; and alternative agency or contract service providers. The Councils may also consider use of the services of U.S. Embassies and Agencies in other countries where costs are lower” (6 FAH-5 H-307.2 (a)).

The handbook further states these decisions should be made in close consultation with service providers “in light of management or cost studies developed by or at the request of the Council” and “to facilitate this process, the service provider will be expected to provide the Council financial breakdowns, staffing patterns, and operational studies as requested” (6 FAH-5 H-307.2 (b)). We believe these clauses provide customer agencies with the authority to review how ICASS services are delivered, including whether services are provided in-house or from an external source, and the number and type of embassy staff needed. However, the handbook also states councils “should avoid micromanagement of the service provider activities” because the councils are not intended to serve as supervisors of “the administrative service provider in the day-to-day details of operations” (6 FAH-5 H-307.3 (b)). A State official with the ICASS Service Center said micromanagement of service provider personnel is strongly discouraged, and that councils generally can affect instances only when new positions are being added. That is, examinations of how and by whom services are provided are considered micromanagement on the part of the council, and are discouraged, as we demonstrated with the USAID Dakar proposal to pilot test a new method for providing residential maintenance. Thus, based on the handbook, State administrative officers’ management practices, and illustrations such as the one previously mentioned, we concluded that ICASS councils have little ability to fully manage ICASS resources.

9. We agree with the principles behind the working capital fund and would encourage posts to make greater use of it. Our purpose was only to report the perceptions among post personnel that they would lose funding in the long run if they made frequent use of the fund. We did not conduct analyses to determine whether that belief was based on verifiable evidence.

10. We modified the report text, where appropriate, to incorporate this additional information and suggested wording.
11. We made no comments on the merits of moving to a unified housing and furniture pool. We did not intend to criticize or challenge the ambassador's authority as the Chief of Mission or as the President's representative. We have revised the section to clarify that we are not expressing an opinion on Chief of Mission authority; rather, we are saying that differing authorities can overrule ICASS decisions and that both customers and providers at posts reported that these instances can negatively affect the morale of some ICASS participants.
12. We agree that centralization of certain functions is necessary to instill order on the system. Our intended point is that some providers and customers perceive centralization as limiting post flexibility, and, as such, some post officials question the degree by which they are truly empowered to operate the system in the best manner for the post.

Comments from the U.S. Agency for International Development

Note: GAO comment supplementing those in the report text appears at the end of this appendix.



United States Agency For International Development

Assistant Administrator for Management

JUN 28 2004

Mr. Jess T. Ford
Director
International Affairs and Trade
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Ford:

I am pleased to provide the U.S. Agency for International Development's (USAID) response to GAO's draft report entitled "Embassy Management: Actions Needed to Increase Efficiency and Improve Delivery of Administrative Support Structures" (June 2004).

USAID does not take issue with GAO's findings of duplication in service provision or its conclusion that taxpayer costs could be reduced in most cases by consolidating service delivery under a single provider. However, we assert that the report over-emphasizes the issues of duplication and consolidation at the expense of more fundamental management deficiencies in ICASS that demand more immediate attention. The report and briefings by the GAO project team to USAID and the ICASS Executive Board (IEB) have pointed out that ICASS is a nearly \$1 billion business activity that is not being managed in a business-like way. Since ICASS' establishment in 1998, costs have increased faster than inflation. The primary objectives behind ICASS' creation, reducing costs and improving services to participating agencies, have not been realized. According to the State Department's expert consulting team, ICASS lags well behind leading shared services organizations in its use of recognized best management practices. Specifically, ICASS lacks the following key features of a mature, well-managed shared services organization:

- **Business-like Service Level Agreements** that define prices, service levels, customer commitments, and agreements for continuous improvement;
- **Management Information** and regular reports of quantities, service levels, costs of services provided and consumed;
- **Two-way Accountability** by both the shared services provider for meeting its service level commitments and by customer organizations to define their demand and costs of the products and services they consume, with rewards and penalties defined for each party;
- **Metrics** for benchmarking the shared services provider against outside vendors, with key product indicators identified, tracked and communicated, external and internal benchmarks and best practices routinely monitored, and for assessing outsourcing opportunities;
- **Technology** to streamline and push administrative activities to the most cost-effective channels, and enable the shared services provider to track and report relative to identified metrics and manage the business activities; and

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See comment 1.

Appendix VI
Comments from the U.S. Agency for
International Development

- 2 -

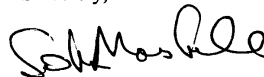
- **Customer Relationship Management** practices, e.g., assignment of key account executives, routine face-to-face discussions, customer satisfaction surveys and CRM software for tracking customer feedback.

USAID fully supports the draft report's recommendations to reengineer processes, establish accountability, improve training, and implement related actions to improve the quality and control the costs of ICASS services. The reform of ICASS into the most efficient delivery system possible should be a priority initiative of the Administration's overseas rightsizing agenda in light of plans to increasingly centralize delivery of administrative services overseas, package them as mandatory "line of business" solutions and operate them through ICASS. We are encouraged by recent efforts of Assistant Secretary of State for Administration, Bill Eaton, in his role as Chairman of the IEB to reenergize the IEB into the strong governance board that is needed to provide high level interagency oversight of ICASS and ensure effective implementation of ICASS reforms. We urge GAO, State, and the IEB to endorse the suggestion of State's consulting team that Activity Based Costing be implemented to provide meaningful visibility into the costs and identify streamlining opportunities in the delivery of ICASS services.

We also fully support elimination of unnecessary duplication through consolidation where management systems are in place to ensure cost reduction, service improvement and "win-win" outcomes for both service providers and customer agencies. However, we do not share GAO's apparent view that duplication is always a bad thing. Voluntary participation has been a central tenet of ICASS since its creation, and serves as a surrogate for the check provided by a free market against a monopoly service provider. Moreover, duplication is often a symptom of ICASS performance problems and customer agencies "voting with their feet" for a better or cheaper self-managed or outsourced solution. The report noted some 467 examples of agencies opting out of ICASS services between 2000 and 2002. It is inconceivable that an exodus of that scale would have happened had ICASS consistently provided high quality services at reasonable costs, or shown improvement trends sufficient to generate customer confidence that things were getting better.

More detailed comments to the draft report are contained in the enclosed attachment to this letter. Thank you for the opportunity to comment and for the courtesies extended by your staff in the conduct of this review.

Sincerely,



John Marshall
Assistant Administrator
Bureau for Management

Enclosure: a/s

See comment 1.

The following is GAO's comment on the U.S. Agency for International Development's letter dated June 28, 2004. The agency also provided technical comments that were incorporated into the text, as appropriate.

GAO Comment

1. We did not intend to suggest that duplication was the primary contributor to inefficient operations. We have made several modifications to the report to emphasize that improved business practices and reduction in duplication are equally important. Our recommendations address both the elimination of unnecessary duplication and the reengineering of administrative processes to contain costs. We acknowledge in the report that agencies have many reasons for self-providing services and that some are justifiable.

Comments from the Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



JUL - 9 2004

United States
Department of
Agriculture

Farm and
Foreign
Agricultural
Services

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Agricultural
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Mr. Jess T. Ford
Director, International Affairs and Trade
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Ford:

Thank you for providing the U.S. Department of Agriculture (USDA) with your draft report entitled "Embassy Management: Actions Needed to Increase Efficiency and Improve Delivery of Administrative Support Services." We would like to offer the following comments for your consideration.

We concur with the U.S. General Accounting Office's (GAO) conclusion that ICASS has not resulted in more efficient delivery of administrative support services. While failure to systematically streamline operations is certainly a factor, we believe that "unnecessary duplication" of administrative services is a result rather than a cause of ICASS' inefficiency.

See comment 1.

As you point out in your report, ICASS is a performance-based cost distribution system designed to provide quality administrative support services at the lowest cost while attempting to ensure that each agency pays the true cost of its overseas presence. ICASS was designed to encourage agencies to make the most cost-effective service choices in response to direct economic pressure. While your report discusses ICASS costs—and accurately identifies these costs as the most often cited reason for customer agencies opting out of specific ICASS cost centers—it does not directly address ICASS' cost effectiveness or competitiveness. The report concludes, without adequate basis, that customer agencies opting out of ICASS cost centers is the primary contributor to inefficiency and rising costs rather than ICASS' failure to contain costs.

See comment 2.

We disagree with the report's implication that opting out of ICASS always results in higher overall costs for the U.S. government. The motorpool scenario presented in the report attributes the adverse economic impact of not reducing resources as demand for service declines entirely to the customer agency's decision to obtain services from the most cost-effective source, rather than the service provider's decision not to reduce resources.

See comment 3.

The report equates opting out of ICASS services with duplication of services and/or duplication of administrative support structures. However, not all agencies require the full range of ICASS services. We do not believe that there was any expectation that agencies that were efficiently providing services to themselves at headquarters would subscribe to all post-provided services through ICASS. For example, USDA maximizes use of the Government Purchase Card overseas and administers this program through headquarters personnel who also oversee headquarters use. USDA also centrally

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**Appendix VII
Comments from the Department of
Agriculture**

Mr. Jess T. Ford

2

processes American payroll and travel through the National Finance Center. These self-provided services reduce or eliminate the need for ICASS services, cost significantly less than ICASS services, and do not duplicate administrative structures.

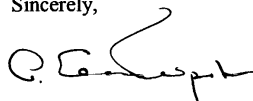
We agree that business case analyses would be useful both in making effective and efficient management decisions and in communicating information on service alternatives. We believe that USDA has done sufficient business cases for its service withdrawals. The usefulness of customer agency business case analyses would be enhanced by the availability of a comparable business case analysis of the existing or proposed ICASS service platform.

Cost efficiency is USDA's top priority in choosing among administrative support alternatives. We have determined that our optimal overseas model includes minimizing administrative personnel overseas, use of foreign national staff in lieu of direct-hire American support staff, and retaining and relocating the majority of administrative support services at headquarters. This model also supports rightsizing and provides a standardized, predictable quality of service.

We have a number of additional comments of a more technical nature. They are enclosed as an attachment for your consideration.

In closing, I again want to thank you for allowing us to comment on this draft report. Please let us know if you would like to discuss our comments further.

Sincerely,



A. Ellen Terpstra
Administrator

Attachment

See comment 4.

The following are GAO's comments on the Department of Agriculture's letter dated July 9, 2004. The agency also provided technical comments that were incorporated into the text, as appropriate.

GAO Comments

1. We agree that there is a relationship between the efficiency and costs of ICASS services and the existence of duplicative administrative services at some posts. This is why our recommendations address the elimination of unnecessary duplication *and* the reengineering of administrative processes. We believe that these actions together can improve the efficiency of ICASS services and help contain costs.

We did not intend to suggest that duplication was the primary contributor to inefficient operations. We have made several modifications to the report to emphasize that improved business practices and reduction in duplication are equally important.

2. We agree that opting out of a service does not always result in higher overall costs to the government. However, when an agency opts out and obtains a service outside of ICASS, there is potential for unnecessary duplication, and opportunities to achieve economies of scale may be lost. Moreover, when an agency opts out and ICASS does not take action to adjust costs, such as reducing support staff to reflect the reduced workload, the operation becomes less efficient and more costly to the remaining users.
3. We generally support the voluntary nature of the ICASS program because agencies' needs differ. Therefore, we did not intend to suggest that agencies should be forced to use ICASS services. However, we believe that there are opportunities to achieve more economies of scale, and that there are instances of unnecessary and wasteful duplication. Our recommendations are designed to reduce duplication where this would be in the best interests of the government and to encourage agencies to prepare business cases to support decisions to obtain services from outside of ICASS. Such business cases could demonstrate that there are financial and other benefits of obtaining services outside of ICASS.
4. Individual agency decisions regarding participation in ICASS and how to obtain support services may have a substantial impact on other agencies at a post. Therefore, we believe that business cases should address the overall impact on the U.S. government. Having each agency

pend for itself is contrary to the ICASS concept and will not lead to cohesive and efficient operations within the executive branch. However, we recognize that there may be trade-offs between what is best for an individual agency and what is best for the government as a whole. We believe that business cases that analyze all facets of financial and other implications of decisions to opt out of ICASS services will encourage better decision making.

Comments from the Department of Commerce

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

Mr. John Brummet
Assistant Director for International Affairs and Trade
General Accounting Office
4th and G, NW
Washington, DC

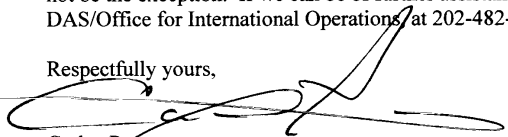
Dear Mr. Brummet,

Enclosed is the U.S. & Foreign Commercial Service, Department of Commerce's response to the June, 2004 GAO draft ICASS report, entitled Embassy Management: Actions Needed to Increase Efficiencies and Improve Delivery of Administrative Support Structures (GAO-04-511).

As noted in our response, we believe the GAO study amply documents that ICASS has failed to deliver on one of its core goals: to contain or reduce costs. This is a critical failure in today's budget environment. We are very concerned that while the draft report describes the problems in the ICASS system, its summary and conclusions do not seriously address this failure. In fact, they likely will exacerbate the problem by solidifying the role of the State Department as the near monopoly service provider - making it even more difficult for agencies to utilize less costly solutions.

The US&FCS is committed to cost containment at every budget level, and ICASS should not be the exception. If we can be of further assistance, please contact Karen Zens, DAS/Office for International Operations, at 202-482-3128.

Respectfully yours,


Carlos Poza
Deputy Director General
U.S. and Foreign Commercial Service



See comment 1.

US&FCS response to the June, 2004 GAO Report on ICASS

The Commerce Department welcomes the opportunity to comment on the GAO draft report as we welcomed the GAO study itself. As the report notes this is the first review of the program and we applaud the GAO's investigation of the ICASS system. It is critically important given the constantly rising costs of ICASS and the budget constraints facing federal agencies.

The Commerce Department, through its Foreign Commercial Service, has operations at 150 offices in 78 countries outside of the United States and has been an active participant in the ICASS system since its inception. ICASS represents nearly 20% of our overseas budget. This amount has grown in both absolute dollar terms and as per cent of our budget since 1998 despite our best efforts to find less costly service providers and curb demand for costly services. In recent years ICASS charges have continued to grow even as we have reduced the number of people that we have overseas.

We believe the GAO study documents that ICASS has failed to deliver on one of its core goals: to contain or reduce costs. This is a critical failure in today's budget environment. We are very concerned that while the draft report describes the problems in the ICASS system, the summary and conclusions do not seriously address the problems. In fact solidifying the role of the State Department as the near monopoly service provider and making it even more difficult for agencies to utilize less costly solutions will likely exacerbate the problem.

We are already seeing evidence of this in State and ICASS Working Group communications which have characterized the GAO Draft Report as concluding that "ICASS delivers quality services but there is too much duplication." ICASS will heed the call to aggressively "eliminate duplication" by not allowing agencies to use their own personnel to provide or procure services if State/ICASS already provides them. This new approach is being piloted in Iraq. While it may make sense in the dangerous conditions currently prevailing in that country, it is clear that this approach could spread to other posts regardless of local conditions by citing the GAO report's call for "elimination of duplication".

The Draft Report states that duplication has grown under ICASS, resulting in greater expense to the US Government as a whole. This is true but it is a symptom of the problem - not the problem itself. The basic problem is the failure of ICASS to systematically seek ways to contain, or reduce costs. By stating that agencies have not presented "business cases" for withdrawing from ICASS services the draft report appears to lay the blame for the duplication on those agencies that have withdrawn from ICASS services and found cheaper ways to procure the services. In fact, as indicated by some excellent examples in the report (e.g. page 12 USAID in Dakar), the duplication has arisen because as agencies have found less costly alternatives and therefore withdrawn from an ICASS service (or in other cases reduced their use of a service). **ICASS has not adjusted its cost structure.** Rather it has shifted its same level of costs to the remaining

See comment 1.

See comment 2.

Appendix VIII
Comments from the Department of
Commerce

agencies in that or other cost centers. No private sector service provider could pursue this business strategy and stay in business – unless they were a monopoly provider. The report appears to lay the groundwork for giving State ICASS that monopoly status by stressing reduction of duplication rather than cost containment.

The report implies that agencies do not have defensible “business cases” for withdrawing from ICASS services. Yet it presents a typical example of the business case for withdrawing from a service, in the Dakar motor pool example (pg 12-13) and uses this one example to make further generalizations which do not fit the example. The higher cost to the taxpayer did not come from the agency finding a lower cost provider but because ICASS did not adjust its costs to the loss of a customer, let alone examine opportunities to reduce its costs. Commerce can present similar examples where we have withdrawn from services. For example, at an embassy in Central America the yearly charge to FCS for computer services under ICASS was \$18,000 for only partial service (as State/IM could not service our Lotus Notes server). We withdrew and contracted for a local provider who services all our equipment for \$2,600, for an annual savings of over \$15,000. At the same Embassy the warehouse charge was \$10,000 per year. We had a storage unit built at our rental property for \$25 monthly - an annual savings of \$9,000. We do not withdraw from an ICASS services unless we can find a less costly solution of equal or greater quality. The failure to present a “business case” would seem to lie with the ICASS service provider that continues to maintain the same level of staffing and, in many cases, has increased ICASS staffing despite the withdrawal of customers from its services. If a business case should be made for use of a specific service provider the onus should fall on the higher cost provider rather than on the agency that has found a cheaper solution.

See comment 1.

The report implies that “duplication” is bad per se. But duplication also is another word for competition. Without the discipline of competition there is no incentive to provide quality services at low costs. Any user of a monopoly service can attest to this. It is not surprising that the highest costs and poorest quality are frequently found in those services such as disbursement where there are no alternatives to State for certain functions. As the draft report notes the current ICASS system lacks the metrics and real benchmarks necessary to identify quality services and cost efficiencies. Without such metrics one cannot reach true conclusions about the quality and effectiveness of ICASS services nor can ICASS go about intelligently eliminating wasteful duplication and streamlining services. Otherwise “elimination of duplication” becomes confirmation of a high cost monopoly service provider.

See comment 3.

Some supposed duplication simply reflects different needs and missions of different agencies. This is particularly true in areas such as IT and accounting, where agencies’ needs vary. FCS provides cost-recovery based services to non-classified business customers. We have developed systems which enable our posts to respond rapidly to customer requests and account accurately for fee-based services. These were not possible with State Department systems. Commerce provides these services itself or through commercial providers. Without this option it could not carry out its mission. Requiring

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Commerce

See comment 4.

use of the State systems could prevent the provision of Commerce services or raise the cost unacceptably to Commerce's target client, the small and medium-size U.S. exporter.

The Report summary says "ICASS is a generally effective mechanism for delivering quality administrative services." Yet at the same time the report notes that there have been no systematic surveys or tracking of customer satisfaction at posts and that ICASS "lacks indicators to gauge progress". Consequently we do not see how the report can reach that conclusion. Moreover the surveys which have taken place at post do not measure satisfaction in terms of **value for money**.

The report also notes that the basic ICASS structure lacks authority to manage resources. When cheaper alternatives are found there is neither the authority nor incentive in the basic system to implement them and reduce ICASS staffing and costs. In fact there are numerous examples when cheaper alternatives have been ruled out or overruled by the DCM or COM. This was evidenced at a European post when an ICASS council denied the request to hire a nurse practitioner since there was an excellent, cheaper medical facility across the street from the Embassy. The COM overturned the ICASS board's decision and mandated the hiring. There is a culture in ICASS which resists any reduction in ICASS employment at post although customer agencies like Commerce routinely reduce their staff to reflect programmatic and budget changes. Without any control over ICASS staffing the ICASS Council cannot achieve significant savings.

The problems with ICASS include:

- The failure of ICASS through its dominant service provider to embrace cost containment and efficiency as a basic goal of ICASS;
- Lack of specific goals and performance indicators to achieve and measure cost efficiencies;
- An ICASS governance structure:
 - which precludes ICASS Councils at post or the IEB in Washington from affecting the staffing levels of the main Service Provider,
 - which relies on information and expertise of ICASS staff who are dependent for evaluation and promotion on one Service Provider and who reject "micromanagement" by the Council, and
 - which lacks real incentives to explore innovative alternatives.

See comment 5.

While the draft report documents these basic problems its solutions do not overcome these structural problems. Without real performance data, a truly independent assessment team and the ability to affect ICASS staffing levels it is hard to see how any local Council can or will effectively determine and implement the lowest cost solution. Possibly, the option for ICASS being a separate agency should be explored. The unique position of the dominant service provider as major provider and user of services and the

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ultimate manager at post (through the DCM and/or Ambassador) ensures that the State Department solution will be selected and ICASS costs will continue to rise.

Lacking a clear ICASS commitment to cost containment, agencies will have no alternative but to use increasing portions of their program funds on administrative fees, curtail their missions and ultimately pull out of posts to the detriment of their missions and U.S. foreign policy interests. We have already seen evidence of this during the mid year ICASS budget review this year. When agencies such as Commerce objected to higher than forecast budget increases late in the budget year, some State Regional Bureaus instructed Embassy managements to tell those agencies to withdraw from services or withdraw from posts if they weren't willing to "pay their full share". While this directive was later changed to directing posts to "begin a dialogue with all agencies" on service reductions, it was made clear at posts which agencies "were responsible" for painful reductions. This is not an environment conducive to finding the best solutions.

The GAO draft report addresses its conclusions to the IEB. However, the IEB itself is basically a customer board not a management board. At a recent IEB offsite meeting many agencies expressed a willingness to empower the IEB to more aggressively direct ICASS management decisions but it still lacks any real authority over service provider decisions. It is imperative that the GAO Report clearly address these fundamental issues and direct ICASS to commit to achieving its original stated goal of reducing or containing costs.

The following are GAO's comments on the Department of Commerce's letter received June 29, 2004.

GAO Comments

1. We believe both reduction in duplication and reengineering of current ICASS services are needed to contain ICASS costs, and we believe customer agencies and State need to work together to achieve this. Since ICASS is a market-based approach to delivering services, we also believe agencies should exercise their rights to consider innovative alternatives for service delivery and to make the benefits of cost-effective alternatives available to other agencies at post.
2. We did not intend to blame duplication on agencies that have withdrawn from ICASS services. We presented the Dakar vehicle maintenance example to illustrate how decisions by one agency can affect all agencies at post. We faulted USAID neither for the reason nor for the action of opting out of the service. We did note, however, that USAID did not share detailed information (i.e., its business plan) on the new means by which they would receive the service. We also noted that neither the council nor the service provider requested that USAID share this information. As a result, the Dakar ICASS Council missed an opportunity to review whether the post could adopt the USAID approach to the betterment of all agencies. We recommended that business cases be made not only to help agencies determine whether an alternative arrangement is better for themselves, but also to help local ICASS Councils determine whether more cost-effective service arrangements could be applied postwide.
3. We agree that there may be legitimate reasons for agencies to opt out of ICASS services. It is for this reason we conclude and recommend that agencies should work to reduce *unnecessary* duplication of administrative structures.
4. Our determination that ICASS customers are generally satisfied with the quality of services they receive was based on a global survey, local customer satisfaction surveys at our case study posts, and more than 100 interviews with ICASS customer and service provider personnel at those posts. We do cite service cost as the main complaint with the system.
5. We believe implementing our recommendations could result in a more streamlined, cost-effective means for delivering necessary

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Commerce

administrative support services. We did not conduct an assessment of the benefits and costs of creating an independent agency responsible for delivering overseas administrative support services.

Comments from the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



COMPTROLLER

UNDER SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-1100

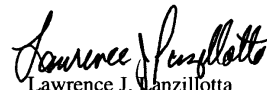
JUL 2 2004

Mr. Jess T. Ford
Director, International Affairs and Trade
U. S. General Accounting Office
Washington, DC 20548

Dear Mr. Ford:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report (04-511), "EMBASSY MANAGEMENT: Actions Needed to Increase Efficiency and Improve Delivery of Administrative Support Services," dated June 1, 2004 (GAO Code 320185).

We concur with the four recommendations presented in the subject draft GAO audit report. Our primary concern with the draft report as written is that it does not sufficiently address the cost control concerns of the primary DoD customers, the Defense Security Cooperation Agency, and the Defense Intelligence Agency. Enclosed are additional comments on the draft report.


Lawrence J. Lanzillotta
Acting

Enclosure:
As stated

GAO DRAFT REPORT (04-511), dated JUNE 1, 2004
(GAO CODE 320185)

EMBASSY MANAGEMENT: Actions Needed to Increase Efficiency and Improve Delivery
of Administrative Support Services

DEPARTMENT OF DEFENSE COMMENTS

We concur with the four recommendations presented in the subject draft GAO audit report. Our primary concern with the draft report as written is that it does not sufficiently address the cost control concerns of the primary DoD customers, the Defense Security Cooperation Agency (DSCA) and the Defense Intelligence Agency (DIA). Additional comments are as follows.

The International Cooperative Administrative Support Services (ICASS) strategic goals lack indicators to gauge progress toward achieving them.

- One of the recommendations includes developing measurable indicators to track performance. Cost data can be used as a measurable indicator, but the report does not address cost control.
- The report notes that the first of the four strategic goals is to “contain or reduce costs.” The report also notes that US direct-hire personnel constitute 5% of ICASS employees and account for 30% of ICASS labor costs at an annual cost of \$346K. Elsewhere, the report notes that State has been adding American personnel. In yet another portion of the report, an example is given of how service requirements were reduced at one post when an agency withdrew from a particular service, but no reduction in service provider staffing resulted.
- The report fails to connect these dots. The biggest single controllable cost factor is the number of American direct-hire ICASS personnel. While “right-sizing” staffing is mentioned in the discussion on the proposed Capital Security Cost-Sharing Program, nowhere does the report address the issue of cost control or “right-sizing” ICASS service provider staffing.
- In information provided to the GAO team, DSCA reported that the unit costs of supporting a single overseas position had increased by almost 50% from fiscal year (FY) 1999 to FY 2003. No analysis of agency costs appears in the report.
- ICASS regulations state that the Council should prepare an annual evaluation of the service provider. The report notes that many Councils do not do so. The principle of local empowerment leaves the choice of doing an evaluation up to the local Council. If the Council does not choose to do an evaluation, it does not mean that the system “lacks an indicator.”

See comment 1.

See comment 2.

Appendix IX
Comments from the Department of Defense

See comment 3.

Many agencies decided not to use ICASS.

- The statement is inaccurate. It should state that many agencies decided not to subscribe to some ICASS services. All agencies with personnel assigned to US Diplomatic Missions overseas subscribe to some ICASS services.

See comment 4.

There are limits to overseas staffs' decision-making. Methodologies for charging for ICASS services are defined in Washington.

- The examples cited included Chief of Mission decisions, which are outside the mandate of ICASS governance.
- ICASS methodologies are defined in Washington to maintain equity, which the report indicates was missing from the earlier Foreign Affairs Administrative Support (FAAS) system. The report is contradictory on this point, as elsewhere examples are cited of authorities for change and evaluation that Councils are not currently using. Rather than cite Washington for exerting too much control, the report should emphasize the many degrees of latitude that Councils have chosen not to exercise.

See comment 5.

Distributing the costs generated by TDY personnel and regional ICASS staff presents equity issues.

See comment 6.

- The Interagency Working Group established policy that allows each regional ICASS staff to decide how it will handle costs for services provided to TDY personnel. The report notes that fewer than twenty posts worldwide have adopted post TDY policies, implying that this demonstrates that there is a problem in the system. However, the worldwide policy was developed to enable posts to track all costs and assign the charges to the appropriate agencies if the post chose to do so. In many cases, posts decided that the fairest and simplest method was to distribute costs to all agencies at post. The report should not imply criticism of choices made in accordance with the ICASS principle of local empowerment.
- The Interagency Working Group has examined the issue of distributing the costs for regional ICASS staff several times in the past seven years. Developing a methodology that appropriately distributes the costs to regional posts and users has proved to be difficult without adding an excessive degree of complexity to the software and posts' record-keeping. The issue has not been forgotten, but it has been tabled until someone comes up with a new proposal.

Agencies reported that their headquarters had directed them in some cases to withdraw from services. Agencies also reported pressure to reduce costs without explicitly telling them to withdraw from services.

- DSCA and DIA, the largest DoD users of ICASS, have never directed any office to withdraw from any service. Our written policy is that each office should subscribe to the services it needs to accomplish its mission and take care of its people.

See comment 7.

- DoD policy further states that our offices are responsible for ensuring that they are charged only for the services they need, and that workload measures and invoices are accurate. Steps to control ICASS costs are the responsibility of the Headquarters, not the field.

Agency self-provision of support services can lead to duplicative structures and higher costs to government.

- This statement can be misleading without a detailed analysis of why agencies choose to provide services for themselves. In many instances DSCA offices do not subscribe to Information Management Technology services because warranty service is either available on the local Host Nation economy or can be obtained effectively through mail service. Some DSCA offices do not subscribe to Health Services because there is a DoD medical activity located nearby to provide health services at no cost.
- DSCA offices own vehicles and, therefore, do not usually use Direct Vehicle Operations or Motor Pool services. The issue of control is as important, as noted in the report. What the report does not state is that control is often central to efficient and effective mission accomplishment, which may outweigh issues of cost. In addition, control of their own drivers allows our offices to ensure that the drivers' time is effectively utilized in executing more tasks than simply driving.
- DSCA offices do not subscribe to American Personnel services. DoD offices provide personnel services for all our locally engaged US civilian employees at no cost. In addition, a few offices do not employ Foreign Service National (FSN) employees, and there is, therefore, no requirement for FSN Personnel services. In the report, however, these cases would be treated as "non-participation" in Appendix III.
- DSCA offices do not subscribe to Budget & Financial Planning or Accounts & Records services, as DoD elements are required to maintain their own fiscal records, and accounting is accomplished through the Defense Finance & Accounting Service.

Councils seldom examine agencies' self-provided services for potential ways to improve ICASS services. Agencies are not required to provide cost-benefit analyses for withdrawal from services.

- DSCA policy states that an office withdrawing from a service shall assist the Council in evaluating whether the agencies at post may benefit from a switch to the alternate provider.

Training resources are underutilized. Only one agency requires its officers receive ICASS training prior to arrival overseas.

See comment 8.

- DSCA provides ICASS training for its personnel deploying to Embassy assignments. It is included in the curriculum of the three-week course required for all going overseas

taught by the Defense Institute of Security Assistance Management (DISAM), Wright-Patterson Air Force Base, Ohio. Unlike many of the employees of other United States government agencies, DSCA personnel are usually not stationed in or passing through Washington when they receive assignment instructions. It is more cost-efficient to include ICASS training in the required DISAM course, rather than bring personnel through Washington for a separate course at the Foreign Service Institute.

Appendix III lists Agency Participation Rates as “The participation rate equals the percentage of the aggregate number of ICASS cost centers at all posts to an agency subscribed.”

- Without clarifying detail, the agency participation rates are meaningless. For example, one of our offices has space provided in the Host Nation Ministry of Defense. That office would have no charges for Building Operating Expenses for Government-Owned/Long-Term Lease (GO/LTL) Non-Residential, GO/LTL Residential, or Short-Term Lease Non-Residential property. Similarly, there would be no ICASS charge for Non-Residential Local Guard Program. The agency participation rate data will show that this office does not “participate” in those four cost centers.
- There are some cost centers that offices may subscribe to, but use rarely. Reproduction services are an example. If an office has no occasion to use reproduction services during a particular year, this chart would show that the office did not “participate.”

The report oversimplifies the issues of local empowerment, self-provision of services, and training, while almost completely ignoring the issue of cost control. Representatives from DSCA and DIA stated at the in-briefing for the GAO team that cost control is our single greatest concern about ICASS. Almost every other customer agency also stated the need for cost control in separate in-briefing sessions. Instead of being the focus of this review, as most of us had hoped, the team chose not to highlight customer agencies’ concerns about this issue.

The following are GAO's comments on the Department of Defense's letter dated July 2, 2004.

GAO Comments

1. We did not intend to underemphasize cost control, and we modified the report to add more emphasis to the importance of cost containment. We stated that labor is the largest ICASS cost and that agencies cite high labor costs associated with American direct-hire ICASS personnel as a reason for self-providing services. Our recommendation to increase the system's accountability by streamlining operations is designed to encourage cost control and service provider rightsizing.
2. The *Foreign Affairs Handbook* requires ICASS Councils to (1) monitor service performance and costs, concentrating on overall performance against standards and (2) prepare an annual written assessment on the quality and responsiveness of the services furnished by the service provider based upon the agreed-upon performance standards (6 FAH-5 H-301.4 (f) and (g)). We believe that councils that do not evaluate their service providers miss important opportunities to measure service provider performance and to address items that could make service delivery more cost-effective.
3. We modified the text to clarify that many agencies decided not to subscribe to *some* ICASS services.
4. We support Chief of Mission authority at post and did not mean to imply that ICASS is outside of that authority. Our main point was that ICASS authorities sometimes become subordinate to other authorities, and we modified the text of the report to more clearly reflect this observation.
5. We did not mean to imply that all ICASS decisions and policies should be made or be negotiable at the post level. We intended to highlight some ICASS customers' concern that ICASS lacks flexibility to adapt to meet unique local needs, thus limiting the local council's ability to make decisions that optimize service provision at post.
6. We agree with the department that individual posts have the authority to determine whether they wish to implement the new policy for long-term temporary duty personnel. Our discussion of the new temporary duty personnel policy makes no assertion as to why few posts have chosen to adopt it. Three of our eight case study posts have adopted the

new policy (Embassies Cairo, Dar es Salaam, and Lima). Officials at those posts that have not adopted the policy stated that temporary duty personnel do not result in an undue burden on their respective posts.

7. We agree that there may be legitimate reasons for agencies to opt out of ICASS services, and we reflect this throughout the report.
8. Several department field staff stated that they either had not had ICASS training before arriving overseas or that training in their ICASS roles and responsibilities was not sufficient.

Comments from the Department of Homeland Security

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

June 29, 2004

Mr. Jess Ford
Director, International Affairs and Trade
General Accounting Office
Washington, DC 20548

Re: "EMBASSY MANAGEMENT – Effectiveness and Equity of the International Cooperative Administrative Support Services (ICASS) System", GAO-04-511, June 2004, GAO Case 320185

Dear Mr. Ford:

The Department of Homeland Security (DHS) appreciates the opportunity to review and comment on the General Accounting Office (GAO) draft report to the Honorable Christopher Shays, Chairman, Subcommittee on National Security, Emerging Threats and International Relations, Committee on Government Reform, House of Representatives, entitled "EMBASSY MANAGEMENT - Effectiveness and Equity of the International Cooperative Administrative Support Services (ICASS) System," GAO-04-511, May 2004.

The draft report does not include any specific recommendations regarding DHS. However, we submit the following comments for your consideration:

DHS generally agrees with the recommendations that have been identified regarding ICASS, particularly with the ones recommending reengineering process and seeking innovative managerial approaches and developing ICASS accountability. While DOS' Council Affairs staff has process reengineering experience and monitors performance, DHS finds that the rest of DOS, particularly the management/administrative side, has no process reengineering experience and still does things they way they were done years ago. In addition, they have little or no experience in performance based management, i.e. base lining performance, measuring performance to standards and goals, and creating incentives for performance.

DHS has some concerns about the recommendation to eliminate duplicative administrative support structures. For example, in many of our posts, we do our own inventory and do not pay ICASS costs for this service. We also make our own hotel reservations for visitors rather than paying the Embassy Visitor's Unit to make them for

www.dhs.gov

See comment 1.

Appendix X
Comments from the Department of Homeland
Security

us. We might be forced to use these ICASS services and then have to pay for them depending on how this recommendation is interpreted.

See comment 2.

While the report finds that ICASS is transparent, we are not sure that we agree with this conclusion. Also, some posts are more transparent than other posts. Because the DOS Management Counselor at Post manages all the service providers and resources, and DOS is the largest user of ICASS services, services are managed to the benefit of and priorities of the DOS. For example, while the ICASS Council theoretically has a certain amount of authority over discretionary spending and resource allocation, we do not feel that the Council is involved enough in these key decisions.

There are certain expenses that have been driving up ICASS costs substantially over the past few years - the local guard program, other security enhancements and new office space costs. Since 9/11, there have been in many locations over 100% increases in guard and security costs which are billed to ICASS. Posts have not done enough to prepare agencies for these tremendous increases and to look at ways to contain costs. In addition, many posts have procured new office space - again in response to security requirements. The same concerns apply.

See comment 3.

In addition to cost increases, DHS feels ICASS costs are not fully and equitably distributed among non-Department of State (DOS) agencies. DHS believes that non-DOS agencies are in fact subsidizing DOS support Foreign Service National (FSN) positions. By splitting DOS support FSN costs (salaries, benefits, awards, and other allowances) among all agencies, DOS has reduced their operating costs. For example, if DHS hires an FSN, DHS will pay all salaries and benefits. If DOS has a staff increase and feels the need to increase the FSN support staff, all salaries and benefits associated with the additional FSN are divided among all agencies (including DOS).

See comment 4.

If an agency elects not to sign-up for a particular cost center or service, the agency at times is penalized for not participating. For example, at one post DHS has elected not to sign-up for the Information Management Technical Support cost center because we have a direct hire FSN to provide IT support. As a matter of routine, the DOS information management department conducts software application training. This training is open to any agency that has signed up to the cost center and on a space available basis; the training is open to agency dependents. Instances have occurred where training has been requested for full time staff and has been denied, yet someone's spouse who is not employed at post could attend because that agency has signed up to the cost center.

See comment 5.

Nonparticipation by agencies increases the costs for agencies that do participate. Recently, a large agency at post questioned the cost of the Regional Medical Officer (RMO). The agency conducted a cost analysis of using the RMO versus seeking medical treatment on the local economy and elected to discontinue the medical cost center. While the fixed costs of the medical cost center will remain the same, dividing the costs among fewer agencies/direct-hire employees will increase agency participation in this already extremely high cost center.

Appendix X
Comments from the Department of Homeland
Security

Overall, ICASS is a much better system than the situation that existed prior to the introduction of ICASS. Nonetheless, we believe that there are many areas, as noted above, that require improvement.

Thank you again for the opportunity to provide comments on this draft report. If you have questions or need clarification regarding our comments, please contact Mr. Ryan Kociolek, (202) 692-4286, or e-mail: Ryan.Kociolek@dhs.gov.

Sincerely,

Mary Lou Alderman

for Anna F. Dixon
Director, Bankcard Programs
and GAO/OIG Liaison

The following are GAO's comments on the Department of Homeland Security's letter dated June 29, 2004.

GAO Comments

1. We generally support the voluntary nature of the ICASS program because agencies' needs differ. Therefore, we did not intend to suggest that agencies should be forced to use ICASS services. However, we believe that there are opportunities to achieve more economies of scale, and that there are instances of unnecessary and wasteful duplication. Our recommendations are designed to reduce duplication where this would be in the best interests of the government and to encourage agencies to prepare business cases to support decisions to obtain services outside of ICASS.
2. We agree that ICASS operations at some posts are more transparent than at others, but we did not find evidence that services were being managed to the benefit and priorities of State and the detriment of other agencies at the posts we visited. However, we believe that our recommendations regarding system accountability and training should help address this concern.
3. The salary and benefit costs of State employees who provide support services to all agencies are shared by all agencies that receive the services. For example, costs to employ a foreign national driver are charged to the agencies that receive services from the driver, while costs to employ an American Financial Management Officer are divided among the agencies that make use of financial services the manager provides. We support this practice largely because it is consistent with the overall rightsizing concept of agencies paying the full cost associated with their overseas presence.
4. Agencies can choose whether to participate in an ICASS service. If an agency does not participate and, therefore, does not pay for a service, that agency should not receive the service. Otherwise, the agencies that have chosen to participate in the service would effectively be subsidizing the cost of providing the service to the agency that did not participate but still wanted the service. There are ICASS provisions for cases where an agency that wishes may receive partial services for a reduced cost, as well as methods for an agency to make direct payments for use of a service that benefits that particular agency.

Appendix X
Comments from the Department of Homeland
Security

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5. We agree. This is why decisions to not obtain services through ICASS may not always be in the best interests of the government.

Comments from the Department of Justice

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. Department of Justice

JUN 30 2004

Washington, D.C. 20530

Jess T. Ford
Director, International Affairs and Trade
U.S. General Accounting Office
441 G. Street, NW
Washington, DC 20548

Dear Mr. Ford:

Thank you for the opportunity to review the final draft of the General Accounting Office (GAO) report entitled "Embassy Management: Actions Needed to Increase Efficiency and Improve Delivery of Administrative Support Services, GAO-04-511." On June 28, 2004 the Department of Justice (DOJ) provided the GAO technical comments to be incorporated in the report as appropriate. This letter constitutes the formal comments of the DOJ, and I request that it be included in the final report. We note that the difficulties identified by the GAO concerning some of the practices of the International Cooperative Administrative Support Services (ICASS) system affect not only its operations but also those of the individual agencies that use these services. We discuss both of these issues below.

The DOJ generally agrees with the report recommendations but notes that it is lacking in some areas and is not as penetrating in its analysis as it might have been. Given the first statement of the report that "ICASS has not resulted in more efficient delivery of administrative support services because it has neither eliminated duplication nor led to efforts to systematically streamline operations," one would have expected to find more in-depth analysis and more targeted recommendations than the body of the report provides. Efficient and cost effective delivery of support services is the very core of the ICASS structure and failure to succeed on that function overshadows, in many ways, other accomplishments of other goals. We would have preferred for the report to be more forceful in its findings: ICASS simply must demonstrate in very concrete measurements that it is providing high quality services at a price that represents good value for the participating agencies and the American taxpayer.

DOJ believes that on the issues of cost containment and good value, the report should have given stronger attention to the need for metrics that would provide a high level of ICASS accountability to the agencies served. The report does not adequately address the reasons for duplication and the ICASS

See comment 1.

Mr. Jess T. Ford

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inefficiencies that lead to agencies' nonparticipation, including the fact that a potential ICASS service provider may fail to offer competitive rates, equitable services or superior quality. Nor does the GAO distinguish between agencies that choose to self provide services and agencies that do not require the particular service, regardless of cost. The GAO analysis of services should only include agencies that require a service but specifically choose not to use ICASS as a provider of that service.

With respect to budget issues, the DOJ notes that the draft report does not address the position of ICASS in the Federal Budget process. Currently there is no consolidated forward-looking review of the ICASS budget request, on a timely basis, to include impact on each individual agencies' requests. Individual agencies request an adjustment to base for ICASS costs within internal budget process. As a result, when Departments submit budget requests to OMB, various OMB Examiners review the costs individually rather than as a total request. While one agency may receive an increase, another agency may receive a reduction. As a result, there is no review of total ICASS costs, overall cost to government, or streamlining of services. Nor does the draft report address the internal ICASS budget process and its relationship to the development cycle of the President's budget. Because ICASS provides services to individual agencies, each agency is billed for the use of services. The current process sets initial budget targets at the beginning of the fiscal year. Mid-way through the year, the targets are reviewed and adjusted as needed. Often, the costs increase. This process creates difficulty for agencies in developing an internal budget. For example, ICASS recently finalized its FY 2004 budget targets. Agencies, however, began the fiscal year back on October 1, 2003 with a fixed budget. If the targets are increased in the middle of the year, the agency does not have an opportunity to seek additional resources until the following fiscal year. This creates a serious problem for the agency.

See comment 2.

Individual DOJ components also expressed concerns related to their inability to plan for ICASS costs due to the way that ICASS operates. Individual agencies using ICASS noted that there is no mechanism to ensure that agencies are funded at the proper level. Agencies are unable to adequately plan for and manage future ICASS costs and there are no planning policies in place to coordinate increased ICASS reimbursable costs with the agency budget processes. The lack of coordination can place an agency two years behind the actual costs of the program. Nor does the ICASS system provide flexibility for projected or known changes in staffing levels that some agencies are able to reliably predict. This results in inequitable billing distributions to such agencies. Agencies using ICASS also noted that billings containing cost increases and decreases do not explain the changes nor is their any warning of such changes. As an example, it was noted that an important change to be implemented in FY 05 will require agencies with overseas staff to contribute to Embassy construction costs "based on the per capita proportion of total overseas staff and the type of space (controlled access, non-controlled access, or non-office) they need" through the Capital Security and Cost Sharing program. This type of information must be fully conveyed by State and ICASS to participating agencies timely and completely.

See comment 3.

Individual user agencies also found wide disparities in ICASS billings within a single region, including

Mr. Jess T. Ford

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Posts in countries which are similarly situated. Consideration should be given to implementing base line standards and policies in those regions where there are groupings of host countries similarly situated and billings should reflect the standards and rationales used locally so that there is context for ICASS increases and decreases. Agencies also reported difficulties in effectively appealing or otherwise challenging ICASS costs/billings or service issues with which they were dissatisfied; noting that challenges to an ICASS billing or other complaint may be met with a local council citing headquarters policy and headquarters citing local policy.

The draft report discusses the capital security cost sharing program and the possible effect on services provided. The report cites the belief of the Department of State and Office of Management and Budget (OMB) that this program will serve as a financial incentive to consolidate and streamline services. The result, however, may be increased costs. In recent years ICASS costs have increased dramatically due to additional security requirements. In response to the increased costs, many agencies chose to reduce the level of ICASS services. Because the Department of State has no incentive to reduce ICASS costs or staffing levels, the total ICASS costs do not decrease. Rather, the total service cost was spread to a smaller group of agencies; resulting in higher bills. Other agencies responded to increased ICASS costs by choosing to self-provide the services as a cost saving mechanism. This results in duplicative services and an overall increase to total spending. Based on past history, there is little evidence to conclude that services will be consolidated as a cost-saving measure.

It is the DOJ's belief that many of the individual user concerns can be addressed and the ICASS system improved through proactive implementation of the GAO recommendations. The report refers its conclusions and recommendations to the ICASS Executive Board (IEB) as the "highest policy-making body" of the organization. However the IEB must actually function as described if ICASS is to make the improvements envisioned in the reports' recommendations and wished for by all agency participants.

Again, we appreciate the opportunity to comment on this report. If you have any questions regarding our comments, please contact Vickie Sloan, Director, Audit Liaison Office on 202-514-0469.

Sincerely,



Paul R. Corts
Assistant Attorney General
for Administration

The following are GAO's comments on the Department of Justice's letter dated June 30, 2004. The agency also provided technical comments that were incorporated into the text, as appropriate.

GAO Comments

1. We agree that there may be legitimate reasons for agencies to opt out of ICASS services, and we reflect this throughout the report. We also stated that agencies cited affordability of services as a reason for not subscribing.
2. Our report focuses on the delivery and costs of support services, and we do not examine in detail the annual ICASS budget process. Nonetheless, several agencies reported that this process is problematic because it requires that agencies predict costs and request funding well before they know what their actual costs are likely to be, and agencies have little flexibility in paying for cost increases resulting from unforeseen events that occur subsequent to their funding requests. Although we do not address this issue on our report, we believe it is something the ICASS Executive Board could consider when implementing our recommendations.
3. We agree that agencies should be notified in advance of changes in policy and staffing that would affect their contributions. However, implementation of the proposed Capital Security Cost-Sharing Program would be separate from ICASS, and therefore we made no assessment of its merits or governance structures. We included discussion of the program only to show its potential impact on ICASS.

Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JUL 20 2004

Jess T. Ford
Director, International Affairs and Trade
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Ford:

On behalf of the Department of the Treasury, I am pleased to provide the following comments to the General Accounting Office's (GAO) draft report entitled "Embassy Management: Actions Needed to Increase Efficiency and Improve Delivery of Administrative Support Structures" (June 2004):

- Treasury does not take issue with GAO's findings and recommendations for executive action presented on page 42, particularly with respect to aggressive pursuit by the ICASS Executive Board to eliminate duplicate administrative support structures at U.S. overseas facilities and goal of limiting each service to the one provider that local ICASS councils have determined can provide the best quality service at the lowest possible price. This recommendation provides that agencies not subscribing to ICASS services be encouraged to submit detailed explanations (business cases) of how they will fulfill these service needs and at what cost so potential benefits can be shared by all ICASS customers at post.

However, outcomes related to this recommendation are reliant upon access to solid business case data; and the recommendation does not provide an alternative strategy for assuring access for objective and optimal problem resolution (i.e., in behalf of the agency, ICASS, and the American taxpayer). An alternative strategy would be that agencies not subscribing to ICASS services be required to submit the detailed "business cases" with their funding requests to the Office of Management and Budget.

- We share a concern that the report, by emphasizing the issues of duplication and consolidation, may not focus on a need to address some fundamental management inefficiencies in ICASS. We also want to emphasize a need for ICASS to more effectively adopt established best-business management practices to contain and reduce costs, streamline services, and improve accountability.
- That service provider costs do not go down when the number of agencies decrease remains a significant problem with the ICASS program as well.

Appendix XII
Comments from the Department of the
Treasury

Overall, the GAO report well documents wide ranging and complex aspects of ICASS program management and operations for multi-agency focus and a strong basis for improved cooperation and a fuller realization of both individual agency and established ICASS program goals.

Please feel free to call me at (202) 622-0500 if you have questions.



Carolyn Austin-Diggs
Director, Office of Asset Management

Comments from the U.S. Peace Corps

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



June 25, 2004

To: Jess T. Ford, Director, Int'l Affairs and Trade, US General Accounting Office
 From: Gopal Khanna, Chief Financial Officer *Gopal Khanna*
 Re: Comment on GAO draft on ICASS services

Peace Corps appreciates the opportunity to respond to GAO's draft report *Actions Needed to Increase Efficiency and Improve Delivery of Administrative Support Services* (GAO-04-511). The work your team has done in preparing this report is commendable. Please find our comments below:

Agency self-provision of support services can lead to duplicative structures and higher costs to government (p.11)

First, while service duplication is a concern, the report seems to overemphasize this at the expense of a frank discussion of the need for more cost effective, well-executed service delivery. The report misses the opportunity to underscore links between cost containment, service, and subscription rates.

Second, funding for ICASS customers spans many appropriations. True, it may be myopic for customers to aggressively seek lower cost services that result in greater costs to the US Government as a whole, but the report does not address the pressure customers face in running programs with static or declining budgets. The report misses the boat with its example from Dakar, where a customer turned to a lower cost private vendor for vehicle maintenance services. Rather than highlighting the reasons driving this choice and the failure of the provider to adjust to a changing customer base/need, the report instead focused on the outcome -- a greater net cost to the US Government overall.

Agencies cite cost, program needs, and greater control as reasons for self-providing services (p.15)

Peace Corps appreciates the recognition that opting out of a service may be reasonable due to unique programmatic or logistical needs. The ICASS framework provides the opportunity to tailor subscriptions to such needs. Unfortunately Table 3, which tracks service participation, does not differentiate between "supportable" and "unsupportable" reasons for opting out. Some agencies may opt out simply because they do not use a service at all. How is this captured in the table?

Furthermore, this discussion might be fleshed out by noting that the requirements of all customers are not equal. The cost of supporting the minimal "footprint" at overseas missions cannot be overlooked. Paying for greater physical security, sophisticated IT systems, business-class travel, and more American staff, for example, can be burdensome to agencies which neither require the heightened support nor have a say in service provider initiatives. The impact is most apparent at small missions where only two or three customers share the cost.

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See comment 1.

See comment 2.

Lack of business case for self-provided services hinders posts' ability to maximize cost effectiveness (p.20)

Peace Corps agrees that a business case presentation outlining why customers opt out of a service would be useful for both service providers and Councils. Peace Corps has a standard set of ICASS services to which its managers are authorized to subscribe. However, the agency has a straightforward process for its Country Directors to petition HQ when, in their estimation, local conditions warrant use of other services. Thoughtful, reasoned requests are rarely denied.

ICASS structures do not overcome disincentives to streamlining (p.24)

Peace Corps strongly agrees that disincentives in the ICASS framework impede advances in service delivery and cost containment. Providers – both Americans and foreign nationals – walk a fine line between servicing their home agency and other customers. As noted in the report, they have few incentives to change the status quo: Local Councils have no direct input into their appraisals, and excellence in ICASS service delivery does not appear to be a major contributor to their professional advancement.

ICASS customers generally satisfied with service quality, but quantifying levels of satisfaction has proven difficult (p.32)

Peace Corps agrees that quantifying customer satisfaction is difficult. The lack of consistent surveys across missions clearly contributes to this. Peace Corps does not agree, however, with the characterization that “customer complaints about ...substandard employee skill-level, personality conflicts at post, or specific cultural circumstances external to the ICASS design” are a non-ICASS issue. Successfully managing such factors are part and parcel of service delivery, especially for a service organization like ICASS and must be part of the ethos of the organization.

Limitations to ICASS Council decision-making authority impede system's effectiveness (p.37)

First, Peace Corps understands how individuals on the mission-level might think that local empowerment is not adequate. Yet the example used to illustrate this -- methodologies for gathering workload -- is not entirely applicable. Standardization of basic processes within the framework is essential in a system where American staff frequently move between missions. Standardization greatly facilitates development of applicable training materials and helps Council representative better understand their roles and responsibilities.

Standardization can also help smooth inconsistencies in cost and service delivery from mission-to-mission. Peace Corps has noted several instances where its managers have been rebuffed when asking for clarification regarding service provider actions. This seems particularly true at small posts where only two or three customers are present. Decisions are sometimes announced after the fact without Council input. Peace Corps' recourse in such cases is for staff to use the framework outlined in the *Foreign Affairs*

See comment 3.

See comment 4.

Handbook and policy statements on ICASS Service Center website to support their positions.

Second, reluctance of some Council members to take part in decision-making probably relates to time constraints. When Councils are supported by neutral facilitators from the provider staff who, for example, provide a calendar of milestones for the year, regular updates on financial position, and straightforward review of staffing needs, progress can be made. While it sounds paradoxical, it seems that the service provider who proactively acts as a neutral facilitator can greatly assist Council's focus more on their tasks and be less dependent on providers to "run the show." This does not absolve Council members from understanding their roles and responsibilities, but it relieves them of "keeping up" with the provider. Unfortunately, the current framework offers no incentives for providers to take on such a neutral role.

Training and Information Resources not being used to full advantage (p.39)

Peace Corps currently provides an overview of ICASS to new Country Directors and Administrative Officers during its Overseas Staff Training. The agency ICASS Coordinator in Washington regularly communicates with posts on issues of concern and reminds staff of milestones upon which local Councils should be paying attention.

Security

One issue not touched upon in the report centers on Security. It is an anomaly in ICASS. Currently, Security Services are divided into two categories: ICASS provided and non-ICASS provided. Both are usually managed by mission Regional Security Officers. Customers often use at least part of both services. This framework is not well suited to the ICASS tenets of voluntary service selection, transparency, and management efficiency. Service parameters are rarely open for discussion. The duality of services is a source of confusion for customers as well as service providers. The dual billing required is inefficient. Furthermore, Security is clearly a key component of rising ICASS costs. Its inclusion in ICASS is inefficient and can distort many analyses. Perhaps serious consideration needs to be given to removing Security from ICASS.

Summary (p.42)

In summary, Peace Corps agrees with the report's recommendations to:

- develop strategies to improve the system's accountability
- ensure that personnel responsible for implementing ICASS receive detailed training

Peace Corps would prefer to see less of an emphasis on service duplication unless linked with a more candid discussion on the need for cost containment and greater provider accountability. This might be coupled with concrete recommendations for ameliorating the disincentives ICASS staff now face in being efficient, customer-oriented service providers.

The following are GAO's comments on the U.S. Peace Corps' letter dated June 25, 2004.

GAO Comments

1. We did not intend to suggest that duplication was the primary contributor to inefficient operations. This is why our recommendations address the elimination of unnecessary duplication *and* the reengineering of administrative processes. We believe that these actions together can improve the efficiency of ICASS services and help contain costs. We have made several modifications to the report to emphasize that improved business practices and reduction in duplication are equally important.

We presented the Dakar vehicle maintenance example to illustrate how decisions by one agency can affect all agencies at post. We faulted USAID neither for the reason nor for the action of opting out of the service. We did note, however, that USAID did not share detailed information (i.e., its business plan) on the new means by which they would receive the service. We also noted that neither the council nor the service provider requested that USAID share this information. As a result, the Dakar ICASS Council missed an opportunity to review whether the post could adopt the USAID approach to the betterment of all agencies. We recommended that business cases be made not only to help agencies determine whether an alternative arrangement is better for themselves, but also to help local ICASS Councils determine whether more cost-effective service arrangements could be applied postwide.

2. We agree that agencies have different administrative support service requirements. This is why we generally support the voluntary participation principle of ICASS.
3. We said these were non-ICASS issues because they would exist whether or not ICASS was in place.
4. The *Foreign Affairs Handbook* states that ICASS Councils “assume the responsibility and exercise the initiative to install the infrastructure and administer the system the way they think is right for their environment” (6 FAH-5 H-301). We did not intend to imply that all ICASS decisions should be made locally; we agree that centralization and standardization of some functions can eliminate inconsistencies in ICASS implementation.

GAO Contact and Staff Acknowledgments

GAO Contact

John Brummet (202) 512-5260

Staff Acknowledgments

In addition to the individual named above, Jeffrey Baldwin-Bott, David G. Bernet, Janey Cohen, Etana Finkler, Jane S. Kim, and Julia Kennon made key contributions to this report.

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