

GAO

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

November 2004

EMBASSY CONSTRUCTION

Proposed Cost-
Sharing Program
Could Speed
Construction and
Reduce Staff Levels,
but Some Agencies
Have Concerns



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Highlights

Highlights of [GAO-05-32](#), a report to the Chairman, Subcommittee on National Security, Emerging Threats, and International Relations; House Committee on Government Reform

Why GAO Did This Study

The Department of State is in the early stages of a proposed multibillion dollar program to build secure new embassies and consulates around the world. Under the proposed Capital Security Cost-Sharing Program, all agencies with staff assigned to overseas diplomatic missions would share in construction costs. This report describes (1) the rationale for and development of the program, (2) agency concerns about the program, and (3) the influence of the program on agencies' overseas staff levels.

What GAO Recommends

GAO is not making recommendations in this report. The proposed cost-sharing formula could result in funds to accelerate embassy construction, encourage agency rightsizing of overseas staff levels, and provide a disciplined approach to staffing projections for new embassies.

We received comments on a draft of this report from nine government organizations. The Department of State agreed with the report. The other eight departments and agencies expressed concerns about some aspects of the program, including potential implementation issues.

www.gao.gov/cgi-bin/getrpt?GAO-05-32.

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

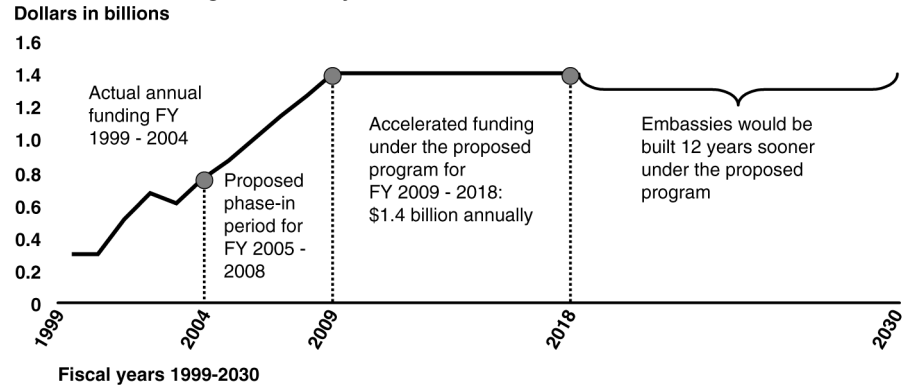
EMBASSY CONSTRUCTION

Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels, but Some Agencies Have Concerns

What GAO Found

The administration's proposed Capital Security Cost-Sharing Program has been developed to accelerate the building of 150 new secure embassies and consulates around the world and to ensure that all agencies with overseas staff assign only the number of staff needed to accomplish their overseas missions. The Department of State's Bureau of Overseas Buildings Operations (OBO), which would manage the program, examined several formulas before deciding that all agencies with an overseas presence would share costs, based on a per capita or "head-count" formula. If enacted, nearly 30 U.S. agencies would be assessed a total of \$17.5 billion for constructing 150 new embassies by 2018, or 12 years sooner than the projected completion date of 2030. After a gradual phase-in period beginning in fiscal year 2005, the program would generate \$1.4 billion annually from fiscal years 2009 through 2018, with State paying \$920 million and non-State agencies paying \$480 million.

Accelerated Funding for Embassy Construction



Many non-State Department agencies have concerns about the proposed program. They would prefer a formula other than one based on head counts to assess fees, and they are concerned that cost-sharing fees could affect their ability to accomplish their overseas missions. In addition, they stated that it would be useful to establish new interagency mechanisms to discuss and resolve potential implementation issues. We did not assess the mechanisms to be used to implement the program and have taken no position on whether they would be needed. State is concerned that, without accelerated funding, U.S. government employees will remain at risk beyond the 2018 completion date. State is also concerned that, without cost sharing, OBO could overbuild office space due to agencies' imprecise staffing projections. In our prior work, we have noted the importance of achieving interagency consensus and striving to achieve equity while minimizing management burden. Decision-makers need to continually focus on these factors to give the program every opportunity to succeed. If enacted, it is important that Congress and State monitor its implementation and make changes as needed.

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Abbreviations

GSA	General Services Administration
IAP	Industry Advisory Panel
ICASS	International Cooperative Administrative Support Services
OBO	Bureau of Overseas Buildings Operations
OMB	Office of Management and Budget
OPAP	Overseas Presence Advisory Panel
USAID	U.S. Agency for International Development

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

November 15, 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 Department of State is in the early stages of a proposed multibillion-dollar program to accelerate the building of secure embassies and consulates around the world. To help finance construction, the administration has proposed the Capital Security Cost-Sharing Program, under which agencies with staff assigned to overseas diplomatic missions would pay a portion of the construction costs. A provision authorizing the program is included in legislation currently under consideration by the Congress.¹ If enacted, the program is scheduled to go into effect in fiscal year 2005 and would represent a major shift in how the U.S. government allocates funding for embassy construction, as State historically has paid for nearly the entire program.² The cost-sharing concept, under development since 1999, gained momentum in 2001 when the President, as part of his management agenda, directed that all agencies reduce overseas staff to the minimum levels necessary to meet U.S. foreign policy objectives.³ Since then, the administration has stated that cost sharing would be an important part of the overall embassy “rightsizing” initiative as it would force each agency to consider the full costs of its overseas presence, including the costs of building safe facilities, in determining overseas staffing levels.

¹See H.R. 4754, Sec. 625, Departments of Commerce, Justice, and State, the Judiciary and Related Agencies Appropriations Act, 2005.

²The U.S. Agency for International Development (USAID) has also funded the construction of some overseas facilities. For additional information, see GAO, *Embassy Construction: Achieving Concurrent Construction Would Help Reduce Costs and Meet Security Goals*, [GAO-04-952](#) (Washington, D.C.: Sept. 28, 2004).

³Office of Management and Budget, *The President’s Management Agenda, Fiscal Year 2002* (Washington, D.C.: Aug. 2001).

This report describes (1) the administration's rationale for and development of the Capital Security Cost-Sharing Program, (2) agency concerns about the program, and (3) the influence of the proposed program on agencies' decisions on overseas staff levels. To complete our work, we obtained documents and discussed the program in Washington, D.C., with State's Bureau of Overseas Buildings Operations (OBO), which is responsible for the embassy construction program; the Office of Management and Budget (OMB); eight other executive branch departments and agencies; and the Library of Congress. We selected the executive branch departments and agencies because they have staff overseas and, under the current proposal, would have the largest annual cost-sharing charges. We selected the Library of Congress because it is the only nonexecutive branch agency that would pay cost-sharing fees. We conducted our work in accordance with generally accepted government auditing standards. Appendix I provides more information on our objectives, scope, and methodology.

Results in Brief

The administration has proposed the Capital Security Cost-Sharing Program to fund the accelerated construction of 150 secure new embassies and consulates worldwide 12 years sooner than currently planned and to ensure that agencies "rightsize," or assign only the number of staff needed to accomplish their overseas missions.⁴ Under the proposed program, agencies would begin paying partial cost-sharing fees in fiscal year 2005. These fees would gradually increase until fiscal year 2009, when agencies would feel the full impact of the program on their budgets. In 2000, OBO began developing the cost-sharing program in consultation with a working group of interagency officials. In 2002, OBO announced that it proposed to charge each agency a portion of the overall construction costs based on a

⁴For our purposes, we define rightsizing as aligning the number and location of staff assigned overseas with foreign policy priorities, security, and other constraints. State agrees with this definition. Rightsizing may result in the addition or reduction of staff, a change in the mix of staff at a given embassy or consulate, or a change in embassy construction plans. The goal of rightsizing is consistent with our framework for determining overseas staffing levels, which encourages each agency to consider security, mission, and cost trade-offs in adjusting overseas staffing levels. For further information on overseas staffing issues, see GAO, *Overseas Presence: Framework for Assessing Embassy Staff Levels Can Support Rightsizing Initiatives*, [GAO-02-780](#) (Washington, D.C.: July 26, 2002); *Overseas Presence: Rightsizing Framework Can Be Applied at U.S. Diplomatic Posts in Developing Countries*, [GAO-03-396](#) (Washington, D.C.: Apr. 7, 2003); and *Embassy Construction: Process for Determining Staffing Requirements Needs Improvement*, [GAO-03-411](#) (Washington, D.C.: Apr. 7, 2003).

worldwide per-capita, or “head-count,” formula. OBO officials stated that they preferred the head-count formula, largely because it would best meet the primary goals of accelerating embassy construction and promoting rightsizing of U.S. agencies’ overseas staff, would be simple to implement, and would avoid agencies’ relocating overseas personnel to avoid or reduce cost-sharing charges.

Several agencies have concerns about the proposed program. Some non-State agencies are particularly concerned about the cost-sharing formula selected. These agencies believe that other formulas would more closely link the fees they pay to benefits they receive, such as the amount of office space occupied. Our analysis shows that, depending on the formula used, cost-sharing amounts would vary considerably, with some agencies benefiting at the expense of others. Some non-State officials are also concerned about how potential disputes would be resolved, such as deciding which agencies’ staff would be required to find office space outside the embassy compound if increased staff levels resulted in a shortage of office space within the compound. Several agencies also expressed concern that the cost-sharing fees could affect their ability to accomplish their overseas missions. In addition, State is concerned that, if the program is not implemented, OBO would be unable to accelerate construction and, if some agencies are exempted, overall support for the program would be seriously eroded.

The cost-sharing program has already influenced some agencies’ decisions to reduce their numbers of overseas staff. Some agencies, in consultation with OMB and their appropriations subcommittees, have been considering new ways of meeting their missions with fewer overseas staff. Several agency officials stated that they have closely scrutinized their staff levels to reduce their fees. We found that at least five agencies have reduced overseas positions or placed staff in less costly areas within the embassy compound, thereby reducing the amounts of their cost-sharing fees. Officials from two of these five agencies stated that the staff reductions were made specifically to reduce cost-sharing fees. The amount of pressure could increase on agencies to either further reduce their overseas staff or curtail other budgetary activities to cover the gradual increase in their cost-sharing fees.

We received written comments on a draft of this report from eight executive branch departments and agencies (Departments of Agriculture, Commerce, Health and Human Services, Homeland Security, Justice, State, the Treasury, and the U.S. Agency for International Development) and the

Library of Congress. State said the report is a fair and accurate representation of the issues. Non-State agencies emphasized their concerns regarding several aspects of the program, including the program's accountability and equity, as well as its impact on their ability to accomplish their overseas missions. Further, many non-State agencies said that adequate mechanisms are not in place to ensure smooth implementation. Several agencies recommended that new interagency mechanisms be established to resolve disputes, ensure accountability and equity, and consider improvements to the program.

Our work focused on the rationale for and development of the cost-sharing program, agencies' concerns about the program, and the program's influence on agencies' overseas staffing levels. We did not assess the mechanisms to be used to implement the program if Congress enacts it. Therefore, we have taken no position on whether alternative interagency mechanisms would be needed. In our previous work, we have pointed out the importance of striving for accountability and equity and achieving an interagency consensus on capital cost sharing.⁵ In addition, we have noted the importance of minimizing management burden while carrying out such a program. We believe there is time to address these and other potential implementation issues during the initial phase-in period of the program and that decision-makers would need to continually focus on various implementation issues to give the program every opportunity to succeed. Further, if the proposed program is enacted, it is important that Congress and State monitor the program's implementation and make changes as needed.

Background

Following the terrorist bombings of U.S. embassies in Kenya and Tanzania in 1998, the Secretary of State, with the support of the President and Congress, created an Overseas Presence Advisory Panel (OPAP) to examine the condition, organization, management, and other aspects of U.S. diplomatic representation overseas. In 1999, the panel declared that the U.S. overseas presence was near a state of crisis and that the condition of U.S. posts and missions abroad was unacceptable.⁶ Specifically, the

⁵GAO, *Overseas Presence: Framework For Assessing Embassy Staff Levels Can Support Rightsizing Initiatives*, [GAO-02-780](#) (Washington, D.C.: July 26, 2002).

⁶U.S. Department of State, *America's Overseas Presence in the 21st Century, The Report of the Overseas Presence Advisory Panel* (Washington, D.C.: Nov. 1999).

Panel recommended that major capital improvements be undertaken at U.S. facilities to strengthen security. The Panel reported that funds for new overseas facilities should be provided from a variety of sources, including payments by all the agencies that share space in the facilities.⁷ In addition, the Panel concluded that, at U.S. facilities, linking the number of staff with mission priorities could achieve significant budget savings by reducing the size of overstuffed locations. Further, Congress passed legislation in 1999 requiring all U.S. government staff working at posts slated for new construction to be located on the new embassy compounds unless they are granted a special colocation waiver.⁸

In 2002, the President's Management Agenda emphasized the importance of configuring U.S. overseas staff to the minimum necessary to meet foreign policy goals. As part of the Agenda, OMB led an effort to develop a cost-sharing mechanism. OMB also emphasized the need to build embassies more quickly and recognized that, to do so, all agencies with overseas staff should be required to contribute their share to the costs. The administration also emphasized that, by requiring agencies to pay for overseas staff, agencies would be more likely to closely assess the need for each position before deciding to place a person overseas, thereby rightsizing overseas staffing levels at U.S. facilities.

In 2003, we reported on the poor conditions of facilities at embassies and consulates. For example, we found that the primary office building at 232 posts lacked sufficient security, potentially putting thousands of U.S. government employees at risk.⁹ We also reported, however, that OBO had begun to institute a number of organizational and management reforms, beginning in 2001, designed to cut costs, standardize designs and review processes, and reduce the construction period for new embassies and

⁷Recognizing the absence of cost sharing among agencies at overseas facilities, the OPAP recommended establishing a government corporation that would be authorized to collect rental revenue from agencies for current operating and maintenance costs. The recommendation was never implemented.

⁸22 U.S.C. § 4865 requires the Secretary of State, in selecting sites for new U.S. diplomatic facilities abroad, to ensure that all U.S. personnel under chief of mission authority be located onsite. However, the Secretary of State may waive this requirement if the Secretary, together with the heads of those agencies with personnel who would be located off-site, determines that security considerations permit an off-site location and that it is in the U.S. national interest.

⁹GAO, *Overseas Presence: Conditions of Overseas Diplomatic Facilities*, [GAO-03-557T](#) (Washington, D.C.: Mar. 20, 2003).

consulates. These reforms, along with other actions such as increasing staff training and expanding outreach to contractors, provided OBO with the capability to manage its overseas building program more effectively.¹⁰

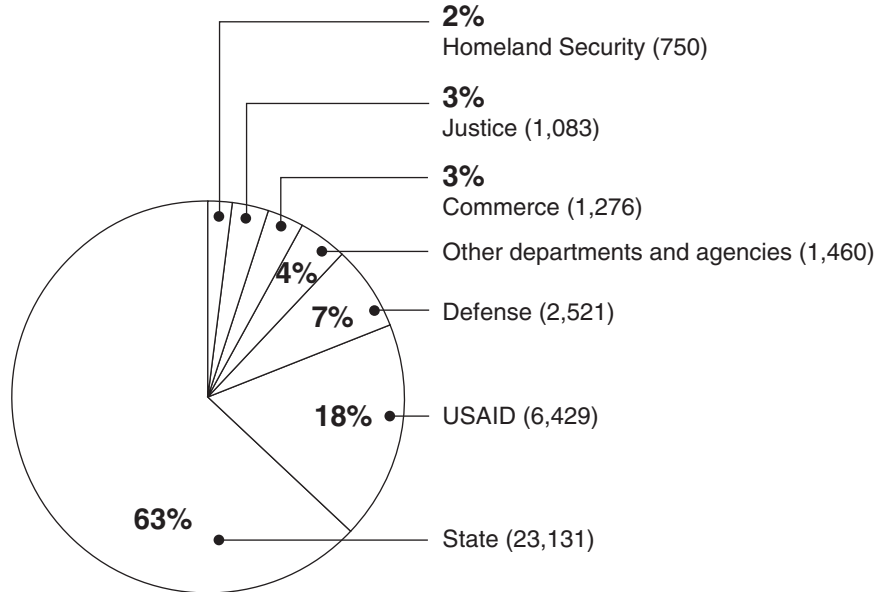
The United States currently has a network of embassies and consulates at 251 locations around the world.¹¹ Nearly 30 agencies have more than 61,000 staff at these locations. Under the proposed program, cost-sharing fees would be charged for every overseas position. Annual charges for approximately 25,000 State support staff that provide security, transportation, and other services to all overseas agencies would be shared proportionately among over 36,000 program staff from all agencies, including State.¹² Figure 1 shows the numbers of U.S. agencies' overseas staff positions that would pay annual cost-sharing fees under the proposed program.

¹⁰GAO, *Embassy Construction: State Department Has Implemented Management Reforms, but Challenges Remain*, GAO-04-100 (Washington, D.C.: Nov. 4, 2003).

¹¹According to State, there are an additional 12 missions, American presence posts, and branch offices worldwide where there is no chief of mission.

¹²State support staff provide services under the International Cooperative Administrative Support Services (ICASS) program.

Figure 1: U.S. Agencies' Overseas Staff Positions Used to Determine Annual Cost-Sharing Fees under Proposed Program, as of March 2004



Source: GAO analysis based on OBO data.

Historically, State has borne the costs for constructing nearly all diplomatic facilities abroad. During the 6-year period from fiscal year 1999 through 2004, OBO received appropriations totaling \$3.1 billion for constructing these facilities. Annual funding amounts generally increased during the period from about \$300 million in fiscal year 1999 to about \$750 million in fiscal year 2004, an amount that is about half of the annual \$1.4 billion that the proposed \$17.5 billion program would provide for new embassy construction when fully implemented.

Rationale for and Development of the Capital Security Cost-Sharing Program

The Capital Security Cost-Sharing Program was developed so that State could obtain funds to accelerate the construction of new embassies and consulates around the world and so that agencies would pay the full costs associated with their overseas presence. The agencies' share of embassy construction costs would be phased in over 5 years. When the proposed program is fully implemented, from fiscal years 2009 through 2018, it could result in funding of \$1.4 billion annually from nearly 30 agencies, including State. OBO worked with OMB to develop the program based on a per-capita allocation of worldwide embassy construction costs for 150 facilities. OBO

devised a fee-assessment plan that would spread the total embassy construction costs among all agencies with an overseas presence. After considering and rejecting several ways to charge agencies, OBO approved a cost-sharing formula based on a per-capita or “head-count” fee because, according to OBO, it was simple to implement, promoted agency rightsizing, and minimized agencies’ incentives to move staff to different locations to avoid cost-sharing charges.

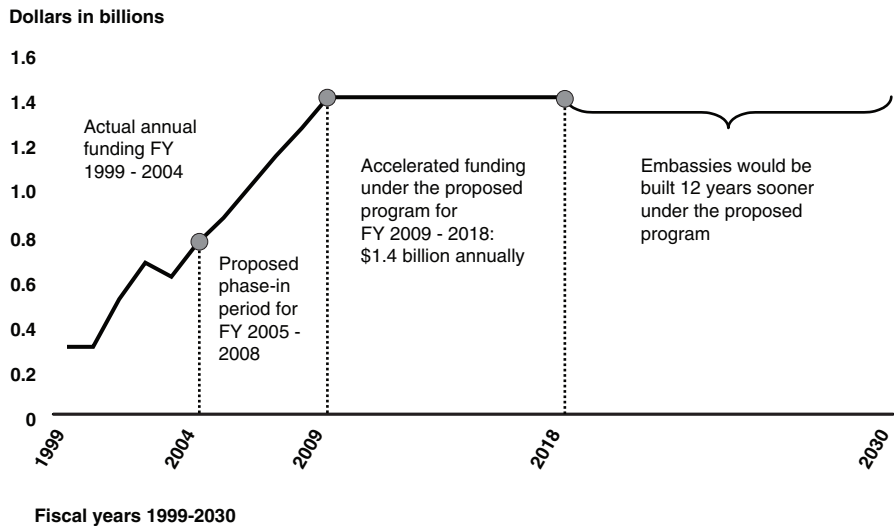
Proposed Cost-Sharing Program Could Accelerate Embassy Construction

Funding through the proposed Capital Security Cost-Sharing Program could allow significant acceleration of the construction of U.S. diplomatic missions.¹³ Under the proposed program, the total funding amount would be \$1.4 billion annually, a substantial increase over OBO’s historical funding levels. For example, during the 6-year period from fiscal years 1999 through 2004, OBO’s actual appropriations for embassy construction totaled \$3.1 billion, an average of roughly \$522 million annually. Annual funding amounts generally increased from about \$300 million in fiscal year 1999 to about \$750 million in fiscal year 2004.

According to OBO, funds from cost sharing would enable the construction of 150 new embassy and consulate compounds to be completed by 2018, 12 years sooner than OBO’s initial plan, which included a planned completion date of 2030. After fees are phased in during fiscal years 2005 through 2008, non-State agencies would pay \$480 million annually for a 10-year period through fiscal year 2018, while State’s annual payment would be \$920 million. Figure 2 shows OBO’s existing embassy construction projections through fiscal year 2030 and how funding generated by the proposed cost-sharing program could accelerate embassy construction through fiscal year 2018.

¹³Acceleration of construction depends on agencies’ either receiving increased appropriations or reallocating funds from other activities.

Figure 2: Accelerated Funding for Embassy Construction with Cost Sharing, Fiscal Years 1999-2030



Source: OBO.

Proposed Cost Sharing Is Based on a Worldwide Head-Count Formula

In developing the proposed cost-sharing program, OBO, with OMB's approval, selected a per-capita or head-count formula based on the number of agency staff at all overseas locations and the type of office space. To determine each agency's cost share, agency officials were encouraged to scrutinize their overseas staff numbers and determine whether each position required office space with controlled access, space with noncontrolled access, or nonoffice space for staff such as custodians, gardeners, drivers, and others who do not require a specific desk or workstation. According to OBO officials, it can easily calculate and periodically revise agencies' fees by performing a few simple calculations, without the need for a large number of staff to administer the program.

Amounts for Cost-Sharing Positions Would Be Adjusted Every 3 Years

OBO adopted a methodology in which agencies' cost-sharing fees for the first 3 years of the program, fiscal years 2005 to 2007, would be based on the total number of overseas positions that OBO identified in a 2002 worldwide survey. The positions were categorized by the four types of space. To determine agencies' fees for the four types of positions, OBO estimated the construction costs for building each type of space at a typical new embassy. For example, the annual charge for a position located in a

controlled access area would be \$59,318.¹⁴ According to OBO, it plans to adjust these amounts every 3 years, beginning in fiscal year 2008, based on changes in the total number of overseas positions. In addition to the basic head-count fees, agencies' annual charges would include amounts for their proportionate share of construction costs for support services' personnel under the International Cooperative Administrative Support Services (ICASS) program. However, agencies' fees would be reduced, or "offset," by the amounts they are currently paying for office space outside embassy compounds.

Based on input from all participating agencies, OBO plans to update the head-count numbers for staff annually and adjust cost-sharing fees to reflect updated headcounts. If the proposed program begins in fiscal year 2005, agencies would be charged for 61,413 positions, including 251 positions in the chief-of-mission areas; 8,432 in controlled access areas; 30,850 in noncontrolled access areas; and 21,880 in nonoffice space. These positions include direct-hire Americans, locally employed staff, contractors, continuing part-time staff, and temporary duty positions. Non-State agency participants and phased-in annual fees are shown in table 1.

¹⁴Under the proposed program, the cost-sharing fee for each type of position is as follows: (1) chief-of-mission area at \$209,034 per position, (2) controlled access area at \$59,318 per position, (3) noncontrolled access area at \$28,144 per position, and (4) nonoffice area at \$4,940 per position.

Table 1: Non-State Agencies' Cost-Sharing Assessments, Fiscal Years 2005-2018 (Excluding 2008)

Dollars in millions

Non-State agencies	Number of staff positions	FY 2005 (20%)	FY 2006 (40%)	FY 2007 (60%)	Annually FY 2009-2018 (100%)
USAID	6,429	\$20.3	\$55.8	\$91.3	\$179.7
Defense	2,521	30.6	61.9	93.1	125.6
Justice	1,083	13.5	27.0	40.5	61.4
Commerce	1,276	4.5	13.6	22.8	40.2
Homeland Security	750	7.6	15.3	22.9	28.5
Agriculture	525	0.6	4.5	8.4	16.3
Library of Congress	202	1.2	2.4	3.6	6.4
Health and Human Services	219	1.0	2.6	4.3	5.1
Other departments and agencies (17)	514	4.4	9.3	14.4	16.9
Total non-state agencies	13,519	\$83.7	\$192.4	\$301.3	\$480.0

Source: GAO analysis based on OBO data, as of March 2004.

Note: Assessment data were not available for fiscal year 2008. Annual funding for fiscal year 2009-2018 includes proportionate amounts for support services. Figures may not add to total due to rounding.

OBO Considered and Rejected Alternative Cost-Sharing Formulas

OBO considered two other formulas before deciding on the head-count method of determining agencies' shares of embassy construction costs. One formula considered by OBO and an interagency working group would have assessed agencies' charges based on the amount of space (square feet or meters) occupied in overseas facilities. There was agreement that the "space occupied" formula would more directly link costs paid to benefits received. However, OBO rejected the proposed formula because, according to OBO officials, administering and managing the fee assessments would require frequent collection and updates of data, which could be burdensome and labor intensive.

OBO proposed a second formula based on comparable rental costs apportioned on a per-capita basis. The formula included factors such as commercial cost of rent by location, the net amount of space occupied, and other variables. According to OBO officials, this option was eventually rejected because it would not result in sufficient up-front funding needed for the construction and would also be labor intensive to compile and manage the data. The space occupied and rent formulas also lacked the

support of OBO's Industry Advisory Panel (IAP),¹⁵ whose members stated that agency officials could dispute the amount of office space for which they were charged, complain about the quality of their space, assert that other agencies' staff were using a disproportionate share of space, and raise other issues that could be difficult to manage.¹⁶

OBO and OMB worked to develop fee assessments based on a per-capita or head-count fee for the full costs of construction in early 2002. OBO officials stated that the formula would be the simplest to manage because fees are based on a flat rate for four different types of office space, regardless of where the position is located worldwide. Charges assessed to each agency would be generated on the basis of a consistent, standardized formula. Each agency can easily compute the cost of adding or removing an employee from overseas duty. In addition, OBO officials stated that a per-capita or head-count formula would not require intensive labor to administer and could readily provide a steady flow of up-front funding to expedite embassy construction. OBO also claimed that, because all agencies' staff positions are included in the worldwide cost-sharing methodology, each agency would pay its share for occupied workspace. OBO's initial proposal included charging for office space in controlled and noncontrolled access areas only. In response to other agencies' requests, OBO established per-capita fee assessments for all four types of positions in its current proposed program.

Several Agencies Have Concerns about the Program

Officials from several agencies have concerns about the development and implementation of the proposed program. Some non-State agencies would prefer a formula other than the head-count formula to more closely link the fees paid to the services received. Non-State officials are also concerned about potential implementation issues, including concerns about the resolution of interagency differences and uncertainty about consistent congressional support for increasing budget requests that include cost shares, which could impact their international missions. State officials are concerned that, if the program is not funded, OBO will be unable to

¹⁵According to OBO, the IAP is a chartered federal advisory committee consisting of a panel of experts who provide strategic industry insights to OBO on a variety of issues, including the latest innovations in the commercial world combining best practices, streamlined processes, and proven cost-effective methods.

¹⁶According to OBO officials, neither method resulted in the full \$1.4 billion needed to achieve annual program goals through fiscal year 2018.

accelerate construction and that if some agencies are exempted, overall support for the program would be seriously eroded.

Some Non-State Agencies Prefer Formulas Other Than the Head-Count Formula

Officials from some non-State agencies are concerned that the program's head-count formula may result in disproportionate costs to some agencies. They indicated that they would prefer a formula based on one of three options: (1) the amount of office space occupied worldwide, (2) the amount of office space occupied at a specific location, (3) a head count of staff at locations where new embassies would be built. They added that these formulas would more closely link the fees paid to the benefits received. We examined these alternative formulas and describe them, along with OBO's current proposed head-count formula, in table 2.

Table 2: Four Formulas for Allocating Costs among Agencies with an Overseas Presence

	(1) Worldwide office space occupied	(2) Site-specific rent comparable to local commercial space	(3) Site-specific head count at locations where new embassies are built	OBO's current proposed worldwide head-count formula
Basis of charge	Space occupied as a percentage of construction cost	Comparable cost of renting office space locally	Cost per position for constructing one embassy	Cost per position for constructing 150 embassies
Management and administrative requirements	According to OBO, a full-time staff is needed to manage this formula. ^a Staff would need to periodically update data on the amount of space occupied by agency staff.	According to OBO, a full-time staff is needed to manage this formula. Staff would need to periodically update data on the costs of local commercial space overseas and security upgrades.	According to OBO, few staff are needed to manage this formula. Staff would need data on construction costs and number and types of positions where embassies would be built.	According to OBO, few staff are needed to manage this formula. Staff would need data on the number of staff positions overseas and the types of space they occupy.
Cost allocation methodology	Similar to standard U.S. government approach for capital construction.	Similar to standard U.S. government approach for rent.	Link between building costs at a specific site and staff who benefit.	OBO and agencies differ on the link between costs and benefits. ^b
Who pays more/less?	Agencies occupying a larger percentage of space worldwide pay more; agencies occupying a smaller percentage of space pay less.	Agencies with large numbers of staff in high-cost locations pay more; small numbers of staff in high-cost locations pay less.	Staff in new embassies pay relatively large fees; staff not located in new embassies pay no fees.	Agencies with larger numbers of staff worldwide pay more; agencies with smaller numbers of staff worldwide pay less.

Source: GAO.

^aAgriculture disagreed with OBO's assertion that full-time staff would be required to administer this formula.

^bOBO's head-count formula assesses agencies for positions at all 251 overseas embassies and consulates, including positions at 101 locations where no major construction is planned through fiscal year 2018. OBO's rationale is that staff at the 101 locations are already in secure facilities and thus benefit from prior construction. Some non-State agencies disagree with OBO, stating that they should not be required to pay for secure facilities already built by OBO.

Formulas Based on Space Occupied and Rent at Overseas Facilities

We found that the cost-sharing fees of seven selected agencies would vary under different scenarios. Specifically, we examined two formulas that OBO had developed during its initial planning phase of the program: one based on the amount of office space occupied worldwide and the other based on comparable cost for renting office space locally. We compared these two formulas with OBO's current head-count formula. Using OBO data that we determined to be reliable, we computed the amount of space occupied by agencies worldwide and at each overseas location. We found that, because agencies use different amounts of office space, the Departments of Agriculture, Defense, Health and Human Services, and State would pay higher cost-sharing fees under the space-occupied formula; the Department of Commerce and USAID would pay less; and the Library of Congress' fee would be similar to its fee under the head-count formula.

Several agency officials stated that they would be in favor of a formula similar to the standard U.S. government approach for rent as used domestically by the General Services Administration (GSA), which manages many government buildings by renting space to other U.S. government agencies. GSA's fees are based on numerous factors, including comparable costs for commercial space, number of square feet, and the location and condition of the building. We found that, under the formula based on comparable local rental costs, State, USAID, and Health and Human Services would pay less than under OBO's current head-count charge because they have staff based in numerous locations where rental costs are inexpensive. In contrast, many Defense, Commerce, and Department of Agriculture staffs are based in cities with higher rents for commercial space. Thus, their rental fee would be higher than a fee based on head counts. Finally, fees for the Library of Congress using both the amount of office space occupied and comparable rental costs would be relatively similar to fees under the head-count formula, as shown in table 3.

Table 3: Selected Agencies' Annual Cost-Sharing Fees Using Different Cost-Sharing Formulas

Dollars in millions

Department or agency	Worldwide space occupied	Site-specific rent comparable with commercial space	OBO's proposed current worldwide head count
Agriculture	\$ 23.2	\$21.6	\$16.3
Commerce	31.8	49.1	40.2
Defense	135.3	205.3	125.6
Health and Human Services ^a	11.1	3.9	5.1
Library of Congress	5.2	5.5	6.4
State	1,002.7	790.6	920.0
USAID	79.0	100.3	179.7

Source: GAO analysis based on OBO data.

^aIncludes the Centers for Disease Control and Prevention (CDC).

Formula Based on Head Count of Staff Benefiting from New Embassy Construction

Several agency officials noted that the proposed head-count formula assesses blanket fees worldwide, not specifically where agencies' staff are located or where new embassies would be built. As a result, some agencies would be assessed fees, although some of their staff may not benefit directly from new construction. For example, the Library of Congress (the Library) is one of several agencies opposed to the head-count formula. According to Library and OBO data, only 45 (22 percent) Library staff—located in three cities—are likely to benefit from new embassy construction scheduled from fiscal years 2004 through 2009. In addition, many of the Library's positions are currently located in rented space outside embassy compounds, where the Library's annual office-space costs are substantially less than it would pay under the cost-sharing program. For example, Library officials stated that they currently pay roughly \$1,200 each for several positions in Islamabad, an amount that is considerably less than the \$28,144 per position that would be assessed under the cost-sharing program. According to OBO officials, the Library has numerous staff in several cities, including Islamabad and five other locations, where construction is planned during fiscal years 2010 through 2018. The officials added that the Library would receive rent credit offsets for the costs of renting office space outside embassy compounds and noted that current law requires the Secretary of State, in selecting sites for new U.S. diplomatic facilities abroad, to ensure that all U.S. personnel under chief of mission authority be located on-site.

We examined what agencies' head-count fees could be under the formula requiring only agencies with a presence at the new location to pay. We selected a typical location where a new embassy, with 247 staff representing four agencies, is projected to be built in fiscal year 2006 at a cost of \$92.2 million. Agencies with no positions at this location would not be required to pay any cost-sharing fees. Our analysis, based on comparing the costs for types of space occupied at this typical embassy, shows that one-time fees for all four agencies would be higher at this one location than the current proposed head-count fees for all positions under this formula. For example, the one-time fee for a position in the noncontrolled access area would be about \$357,000 for each person, substantially higher than the \$28,144 annual fee used to calculate the current head-count formula. However, the same agency's overall fees would be higher due to its paying \$28,144 annually, over a 14-year period. According to OBO officials, allowing agencies to pay cost-sharing fees only where their staffs are based would not support the goal of rightsizing because it would encourage agencies to avoid cost-sharing fees. Specifically, agencies could "game the system" by moving staff, even to potentially less secure locations, where no construction was planned. OBO acknowledged, however, that some non-State agencies' would be unlikely to move staff due to country-specific missions and the costs involved with moving.

Agencies Have Other Concerns about the Program

Some non-State agencies have other concerns about the proposed program, including how potential disputes would be resolved and how cost-sharing fees would affect their ability to accomplish their overseas missions. In addition, State is concerned that, if the program were not implemented, OBO would be unable to accelerate construction; and, if some agencies are exempted, overall support for the program could be seriously eroded.

Non-State agency officials indicated that the existing interagency working group may not be an effective mechanism for resolving disputes. Some non-State agencies are concerned that, when the program is implemented, the Interagency Facilities Committee, an interagency advisory group established by OBO to facilitate communication among agency officials, would not provide a credible forum for discussing program issues and resolving disputes. For example, some non-State agency officials said that they have no assurance that OBO would provide them with space in the embassy compound if conditions become crowded. According to one agency, all agencies should have participated in the formative stage discussions of the proposed program, such as the participatory and

transparent discussions that were held during the development of the ICASS Program. In contrast, according to OBO officials, the Interagency Facilities Committee is a credible forum for discussing office space issues. OBO officials added that, in planning embassy size, a certain amount of contingency, or “spill-over” space, in anticipation of staff increases is incorporated into the plan.

Some non-State officials said that OBO has shown little flexibility in adopting agencies’ suggestions in Interagency Facilities Committee meetings. For example, OBO currently requires that the employing agency pay cost-sharing fees for staff temporarily assigned to another agency. In contrast, some agency officials would prefer that cost-sharing fees be paid by the agency to which the staff member is detailed, not by the permanent employer. According to one non-State official, OBO should not be concerned about which agency pays the fees and should allow the agencies to resolve this issue. OBO officials stated, however, that it would be complicated and burdensome to keep track of detailees to maintain an accurate account of overseas staff positions. OBO officials added that agencies could coordinate with other agencies to reimburse funding for detailees.

OBO officials stated that they have made adjustments to the program based on agency suggestions, including charging more for the chief-of-mission position based on larger office space, and providing rent offsets to agencies for staff working outside embassy compounds. OBO also created certain procedures that agencies can use to challenge decisions. According to OBO officials, these procedures establish OMB as the final arbiter for resolving interagency disputes. OBO officials stated that these procedures and standard OMB processes had already been used to resolve some disputes. One non-State agency stated, however, that when disputes arise, OMB is likely to favor OBO’s position because OBO has overall responsibility for implementing the proposed program.

If the proposed program is implemented, some agencies are also concerned that annual cost-sharing fees could affect their ability to accomplish their international missions. USAID officials expressed concern that, without adequate funding, they may have to downsize and with fewer staff would not be able to accomplish some of their overseas missions. Commerce and Agriculture had similar concerns. Officials from both agencies stated that, without additional funding, their agencies would have to cut their overseas staff and some ongoing activities at numerous locations. For example, Commerce has projected that it may have to close offices at as many as 51

posts by fiscal year 2009, reducing staff levels by 498 persons, to reduce annual costs by roughly \$27.4 million. A Commerce official stated that post closings and reductions in staff could affect overseas sales for some U.S. firms because Commerce would have fewer staff to represent U.S. businesses in foreign markets. Finally, the Library of Congress' \$6.4 million annual cost-sharing fee, set to take effect in fiscal year 2009, would represent over 70 percent of its total fiscal year 2004 international budget. Library officials indicated that, if the Library were required to pay such a large amount without receiving additional funding, the mission of their international program would be seriously affected.

State is concerned that, if the program is not fully funded, OBO would be unable to accelerate construction and, if some agencies are exempted, overall support for the program could be seriously eroded. Congress is currently considering the proposed program but, until it is enacted, State will not be able to implement the accelerated building schedule. In addition, State is concerned about the potential impact of granting agencies exemptions from the program. Specifically, State noted that if one or more agencies were exempted, other agencies' funding levels would have to be increased to generate the \$1.4 billion needed annually for the construction program.

Program Has Influenced Some Agencies' Decisions to Reduce the Number of Overseas Staff

Although it is too early to tell how the cost-sharing program, if implemented, could influence all agencies' overseas staff levels, some agencies have already begun to rightsize staff in an effort to reduce their potential cost-share bill. Faced with expenditures they have not paid in the past, agencies have had additional incentives to closely review staffing levels and, in consultation with OMB and their appropriations committees, consider new ways of meeting their missions with fewer overseas staff. We found that, as of July 2004, at least five agencies had reduced their employee rosters by as many as 473 overseas positions. Two of these five agencies stated that the staff reductions were made specifically to reduce cost-sharing fees. OBO plans to use agencies' adjusted staffing numbers to revise its embassy construction plans. However, the full effect of the cost-sharing program would not be felt until 2009, after the 5-year phase-in period ends, which would likely bring increased pressure for agencies to further reduce their overseas staff.

Cost Sharing Has Promoted Greater Consideration of Costs in Staffing Decisions

In the 2001 President's Management Agenda, the administration took the position that, if agencies are required to pay a greater share of the costs associated with their overseas presence, they would weigh cost considerations more carefully before posting personnel overseas. The administration's position is that by minimizing the growth of overseas staff, the U.S. government will benefit by reducing the numbers of people exposed to security risks, terrorist attacks, kidnapping, and other risks that are inherent in the overseas presence, and by reducing the costs of constructing embassy compounds. With the added incentive to scrutinize staff numbers, agencies would be required to consider whether they could afford each staff member. This rightsizing effort is important to ensure that, governmentwide, the correct numbers of people are working at each embassy. OBO officials stated that growth in overseas positions has been generated by both State and non-State agencies and that, for the first time, the Capital Security Cost-Sharing Program would provide a mechanism for controlling growth. By reexamining staffing numbers and types of office space, some agencies have already reduced their future cost-sharing fees.

In preparing for the program, many agencies have already scrutinized the numbers of staff positions overseas and the types of office space they require. As a result, one agency eliminated numerous unfilled overseas positions, some of which had been unfilled for several years.¹⁷ One agency official stated that, prior to the cost-sharing program, many overseas positions had not been formally removed because retaining the positions allowed the agency the ability to quickly reassign staff as their missions and priorities changed.¹⁸ For example, beginning in fiscal year 2005, State, Commerce, the Treasury, and Homeland Security had already reduced overseas positions. State cut 263 positions and Commerce reduced its overseas staff by 191 positions, eliminating 168 unfilled positions and cutting 23 other positions. Finally, Treasury removed 17 positions, and Homeland Security removed 2 positions.

Some agencies have reassessed the types of office space required for their employees stationed overseas. These agencies decided that some positions

¹⁷In addition to reducing staff positions, one agency has also announced plans to completely withdraw all staff at some overseas locations.

¹⁸We previously reported that unfilled positions should be eliminated to improve the process of planning and constructing new embassies. See GAO, *Embassy Construction: Process for Determining Staffing Requirements Needs Improvement*, [GAO-03-411](#) (Washington, D.C.: Apr. 7, 2003).

located in controlled access areas could be relocated to noncontrolled access areas, thereby reducing their cost-sharing fees. For example, the Foreign Broadcast Information Service reclassified six positions previously located in noncontrolled access areas to less costly nonoffice areas.

By scrutinizing their numbers of overseas positions and determining the types of space they require, State, Commerce, the Treasury, and Homeland Security, and the Foreign Broadcast Information Service significantly reduced their cost-sharing assessments for fiscal year 2006 and, at the same time, reduced the number of staff that would be exposed to terrorist attacks and other overseas security risks. For example, State reduced its projected fees by more than \$15 million, and Commerce reduced its fees by nearly \$6 million. Other agencies' staff numbers have either increased, did not change, or were being finalized as of September 2004. Table 4 shows selected agencies' estimated savings in annual cost-sharing fees (fiscal year 2005 to 2006) after reducing their overseas positions and/or reassessing the types of space needed.

Table 4: Selected Agencies' Staff Positions and Estimated Savings in Annual Cost-Sharing Fees for Fiscal Years 2005 and 2006, as of July 1, 2004

Dollars in millions

Agency or department	FY 2005		FY 2006		Estimated savings ^a
	Staff positions	Cost-sharing fee	Staff positions	Cost-sharing fee	
Department of Commerce	1,276	\$34.7	1,085	\$28.9 ^b	\$5.8
Foreign Broadcast Information Service	109	3.1	109	2.9	0.2
Department of Homeland Security	750	24.6	748	24.4	0.2
Department of State	23,131	663.1	22,868	647.7	15.4
Department of the Treasury	89	3.2	72	2.5	0.7
Total	25,355	\$728.7	24,882	\$706.4	\$22.3

Source: GAO analysis of OBO data.

Note: Amounts shown for fiscal year 2005 and 2006 cost-sharing fees and estimated savings are full cost shares that do not reflect the phase-in period of the program. They do not include construction charges for ICASS positions and rent offsets, if applicable.

^aIf agencies would "save" funds by reducing cost-sharing fees, OBO would receive less than \$1.4 billion annually. As a result, OBO would have to either construct fewer or less costly buildings annually or extend the proposed completion date beyond 2018.

^bAccording to Commerce, the fiscal year 2006 fee was still under negotiation with OBO, as of October 12, 2004.

OBO officials stated that the fundamental building block for planning a new embassy compound is the projected numbers and types of positions that must be accommodated in the new facilities. Without these details, the U.S. government risks building new facilities that are designed for the wrong number of staff. To prepare for the initial implementation of the cost-sharing program, OBO asked agencies to submit updated information on overseas staff numbers. OBO has since revised the agencies' data so that it can begin the program with the most current staffing levels. Because the size and cost of new embassy facilities are directly related to anticipated staffing requirements, OBO stated that it would continue to obtain periodically revised staff numbers and, when appropriate, change its embassy construction plans or adjust cost-sharing fees that agencies would be required to pay.

Gradual Phase-in of Program Would Likely Bring Increasing Pressure to Reduce Overseas Staff

For selected agencies, international program budgets would have to increase substantially to cover the gradual phase-in of annual cost-sharing fees. Therefore, agencies are likely to face increased pressure to scrutinize their overseas staff levels and ensure that only essential personnel are staffed at overseas posts. As agencies are required to pay more each year until the proposed program is fully implemented in fiscal year 2009, agency officials may decide to further reduce their overseas staff numbers to reduce their fees.

We selected four agencies and estimated how much their international program budgets would need to increase to meet cost-sharing fees. We found, for example, that Commerce's Foreign and Commercial Service budget would have to increase by 11 percent from fiscal year 2005 to fiscal year 2007 and by as much as 18 percent from fiscal year 2005 to fiscal year 2009 to cover cost-sharing fees. The estimated amount and percentage of budget increases needed to pay cost-sharing fees for fiscal years 2007 and 2009 for sampled agencies—Agriculture, Commerce, USAID, and the Library of Congress—are shown in table 5.

Table 5: Estimated Percentage Increase Needed in International Program Budgets for Cost-Sharing Fees for Selected Agencies, Fiscal Years 2005, 2007, and 2009

Dollars in millions

Department or agency (component/program)	FY 2005 International budget (requested)	FY 2007		FY 2009	
		International budget (estimated)	Percent increase from FY 2005	International budget (estimated)	Percent increase from FY 2005
Agriculture (Foreign Agriculture Service)	\$147.6	\$156.0	6%	\$163.9	11%
Commerce (U.S. Foreign and Commercial Service)	211.9	234.7	11	252.1	19
Library of Congress (International)	8.9	12.5	40	15.3	72
USAID (Operating Expenses)	623.4	714.7	15	803.1	29

Source: President's Budget submission and GAO estimation.

Note: Estimates for fiscal years 2007 and 2009 assume no other budget increases and are GAO estimations based on fiscal year 2005 data.

Conclusion

The principle of cost sharing is consistent with the Overseas Presence Advisory Panel's findings and recommendations that agencies share in the cost of constructing new secure embassies and that agencies' staffing levels be linked with their overseas missions. If the proposed cost-sharing program is enacted and funded, it could result in expedited construction of new embassies and, at the same time, increased incentives for agencies to ensure that only essential staff are based overseas. Providing secure facilities for U.S. employees overseas is a high priority for the U.S. government, and the proposed Capital Security Cost-Sharing Program is one way to accelerate the construction of these facilities. Requiring agencies to pay a share of embassy construction costs would also encourage them to consider the full cost of their overseas presence and to determine the number of people they need to meet critical overseas missions.

Several non-State agencies have raised concerns about the proposed cost-sharing formula and implementation issues that could adversely affect their overseas missions. According to our analysis, agencies' cost-sharing fees under other formulas would vary widely, with some agencies benefiting at the expense of others. While we take no position on which formula should be used, some type of cost-sharing mechanism could

provide a disciplined approach to the staffing projection and rightsizing processes and accelerate the capital construction program.

Several agencies suggested that it would be useful to establish new interagency mechanisms to discuss and resolve potential disputes. We did not assess the mechanisms to be used to implement the program, if Congress enacts it. Therefore, we have taken no position on whether new interagency mechanisms would be needed. Nevertheless, in our prior work, we have noted the importance of achieving interagency consensus and striving to achieve equity, while minimizing management burden. Decision-makers need to continually focus on these factors in order to give the program every opportunity to succeed. There is time to address these and other potential implementation issues during the 5-year phase-in period of the program. If the proposed program is enacted, it is important that Congress and State monitor the program's implementation and make changes as needed.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from eight executive departments and agencies (Departments of Agriculture, Commerce, Health and Human Services, Homeland Security, Justice, State, the Treasury, and the U.S. Agency for International Development) and the Library of Congress. The Department of State said that the report is a fair and accurate representation of the issue. The other departments and agencies raised a number of concerns regarding accountability and equity issues if the program is implemented. Their comments, along with our responses to specific points, are reprinted in appendixes II-X. Several agencies also provided technical comments, which we have incorporated into the report where appropriate.

Several agencies stated that using a cost-sharing formula based on the number of personnel overseas was not equitable. We have taken no position on the formula to be used. Our report points out the advantages and disadvantages of potential formulas and that some agencies may benefit at the expense of others, depending on the formula used.

We are sending copies of this report to interested congressional committees. We are also providing copies of this report to the Secretaries of Agriculture, Commerce, Defense, Health and Human Services, Homeland Security, Justice, State, and the Treasury; the Administrator, U.S.

Agency for International Development; the Director, Office of Management and Budget; and the Librarian of Congress. We will also make copies 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 staffs have any questions about this report, please contact me on (202) 512-4128. John Brummet, Lynn Cothorn, Martin De Alteriis, Mary Moutsos, Julia A. Roberts, and George Taylor made key contributions to this report.

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" and a distinct "T" and "F".

Jess T. Ford
Director, International Affairs and Trade

Objectives, Scope, and Methodology

Our objectives were to examine (1) the Department of State's rationale for and development of the proposed Capital Security Cost-Sharing Program, (2) agency concerns about the program, and (3) the influence of the proposed program on agencies' decisions on overseas staff levels. To complete our work, we analyzed data, reviewed documents, and discussed the program in Washington, D.C., with officials of State's Bureau of Overseas Buildings Operations (OBO), which is responsible for the embassy construction program; the Office of Management and Budget (OMB); and eight other executive branch departments and agencies, including the Departments of Agriculture, Commerce, Defense, Health and Human Services, Homeland Security, Justice, and the Treasury, and the U.S. Agency for International Development (USAID). We also reviewed documents and held discussions in Washington, D.C., with officials of the Library of Congress, a legislative branch agency. We selected the executive branch departments and agencies because they have staff overseas and, under the current proposal, would have the largest annual cost-sharing charges. We selected the Library of Congress because it is the only nonexecutive branch agency that would pay cost-sharing fees.

To describe the overall rationale for and development of the proposed program, we examined numerous reports and other documents, including those issued by OBO, the Overseas Presence Advisory Panel, and other working groups and committees. We reviewed historical information dating back to 1999, including the alternative formulas OBO considered before selecting the head-count formula to assess agencies' fees for embassy construction. We reviewed documents and held discussions in Washington, D.C., with officials of nine executive branch agencies or departments with the largest cost-sharing fee assessments and with the Library of Congress. In addition, we met with OMB officials to discuss agencies' concerns about some aspects of the proposed program and General Services Administration to discuss its management of U.S. government facilities domestically.

We conducted data analyses using data from the International Cooperative Administrative Support Services (ICASS) system Global Database, which was developed and maintained by the ICASS Service Center and contains information for each overseas post. We assessed the reliability of the ICASS data during a recent review of State's Embassy Administrative Support

System.¹ The assessment included (1) performing electronic testing for errors in accuracy and completeness, (2) discussing data reliability issues with agency officials knowledgeable about the data, and (3) reviewing relevant reports from State's Office of the Inspector General and GAO and financial audits of the ICASS system. We found that the data were also sufficiently reliable for the purpose of determining agencies' space occupied worldwide that was compared with alternative formulas. Data showing estimates for future costs under the Capital Security Cost-Sharing Program were provided in a briefing by staff from OBO. We interviewed knowledgeable officials about the estimating methodology and reviewed some supporting documents, but we did not conduct a full review of the procedures OBO used for these estimations.

To examine and compare alternative cost-sharing formulas, we selected seven agencies, four that have a larger number of staff worldwide (State, Defense, Commerce, and USAID) and three agencies with a smaller number of staff working overseas (Agriculture, Health and Human Services, and the Library of Congress). To determine alternative cost-sharing percentages for agencies with overseas staff, we allocated costs for ICASS personnel proportionately. We used OBO staffing data that excluded Peace Corps staff, Marine Security Guards, and various other positions permanently stationed in host government facilities or specialized research or technical facilities. We determined that the data were sufficiently reliable for determining cost-sharing percentages.

To determine the amount each agency would have to pay under two rent formulas, we used OBO data that we had determined to be sufficiently reliable for the purpose of this report and computed the percentage of space each agency occupies. OBO's data were included in a database that listed the total worldwide space at each post and the total space occupied per agency at each post. To find out how much each agency would pay annually to raise \$1.4 billion under this formula, we multiplied each agency's percentage of space occupied worldwide by \$1.4 billion. To determine how OBO would generate \$1.4 billion annually using a rental formula, we used OBO's 2002 data for fees that would have generated \$575 million annually, which took into consideration the cost of commercial space per location, security and classified space for each post,

¹GAO, *Embassy Management: Actions Are Needed to Increase Efficiency and Improve Delivery of Administrative Support Services*, GAO-04-511 (Washington, D.C.: Sept. 7, 2004).

and multiplied the fees by 2.4 to compare them with formulas that raise \$1.4 billion annually. To determine the proportionate percentages and cost-sharing fees for each type of office space at one embassy, we selected a post scheduled for construction in 2006 and used the data that OBO provided, listing the number of agencies, staff and types of space occupied for each staff member. OBO's estimated cost to build the facility would be \$92.2 million as listed in OBO's long-range overseas building plan. We used OBO's estimate of the total square footage for the post and determined the amount and percentage of space needed for the chief of mission, controlled access, noncontrolled access, and nonoffice areas. We then divided the amounts for each area by the total area to determine the total costs to build the embassy for each type of space. We determined the data were sufficiently reliable to illustrate the effects of the number of staff on agencies' costs.

To describe the actions agencies have taken to reassess their overseas staffing levels, we collected documentation on each agency's staffing numbers and types of space for chief of mission, controlled access area, noncontrolled access area, and nonoffice space that were used to calculate cost-sharing fees for fiscal year 2005 budget requests. To assess the reliability of these data, we verified the amount each agency requested by reviewing budget submission documents provided by several agencies and through discussions with knowledgeable agency officials. We determined that the data were sufficiently reliable for the purpose of this report. We then compared the fees to each agency's revised staffing numbers and the space requirements used to calculate cost-sharing fees for fiscal year 2006 budget requests. Revisions to the numbers of staff or the types of space resulted in savings for five agencies. We also discussed with OBO officials how agencies' revised staff numbers and space requirements would affect future embassy construction plans. To determine the amount in international program budgets that selected agencies would need to cover cost-sharing fees in fiscal years 2005, 2007, and 2009, we obtained the figures on budget requests for fiscal year 2005. We then used OBO data showing projected cost-sharing fees for each agency in fiscal years 2007 and 2009. To determine the amount and percentage that the international budget for each agency would have to grow to cover their cost-sharing fees, we added the amount they would need in fiscal years 2007 and 2009 to their international budget request for fiscal year 2005 and determined the difference. We determined that these data were sufficiently reliable for the purpose of providing a broad indication of the amounts the agencies would

Appendix I
Objectives, Scope, and Methodology

need to increase their budgets for the chosen years. We assumed that each agency's program budget would not increase for any other reason than Capital Security Cost-Sharing Program fees.

Comments from the Department of Agriculture

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



OCT 12 2004

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Department of
Agriculture

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Mr. Jess T. Ford
Director, International Affairs and Trade
U.S. Government Accountability 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 the Government Accountability Office's (GAO) draft report entitled "Embassy Construction: Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns." We would like to offer the following comments for your consideration.

Your report agrees with the Department of State's (State) position that the proposed program will support rightsizing. However, the report does not comment on the propriety of using the size of buildings to drive the size of the U.S. overseas missions, as opposed to using mission goals to determine resource levels. There is no discussion of how using the size of buildings as the primary tool to accomplish rightsizing will impact the existing authority of the chiefs of mission to set mission size. In light of the existing rightsizing authority, State's recently undertaken measures to improve the coordination of that authority, and GAO and the Office of Management and Budget's (OMB) ongoing rightsizing reviews, USDA believes that a program such as the one proposed by State's Bureau of Overseas Building Operations (OBO) is not needed for the purpose of implementing rightsizing. In fact, because this program forces agencies to pay for positions in new embassy compounds even after positions have been eliminated, USDA believes that this program does not further the intent of rightsizing.

The draft report does not mention the fact that OBO designed its proposed program without substantive input from other agencies. USDA believes that, for a program of this magnitude and involving this degree of change, all stakeholders should have participated in the formative stage discussions, as they did for the development of the International Cooperative Administrative Support Services (ICASS) System. In contrast to the formulation of the Capital Security Cost Sharing Program (CSCSP), ICASS development was transparent and participatory, detailed policies and procedures were completed prior to implementation, and all stakeholders had an opportunity to provide input to the design of the program. We are concerned that the low involvement of stakeholders in the proposal and planning stages of CSCSP will lead to significant difficulties in implementing the program, if approved.

Your report refers to the fact that several agencies have concerns about OBO's proposed program. There is no indication, however, of the relative degree of concern. If, for example, the State Department supports this program and all other affected agencies have serious or grave concerns about it or simply oppose it, we believe this is an important fact that should be weighed in determining whether to approve implementation of the program.

USDA is an Equal Opportunity Employer

See comment 1.

See comment 2.

Appendix II
Comments from the Department of
Agriculture

2

Many agencies expressed serious concerns to GAO about the lack of accountability mechanisms included in the proposed program. The program contains no credible means for agencies to either maintain oversight or hold OBO accountable for the substantial financial contributions requested. GAO's report mentions but does not elaborate on this significant shortcoming. Similarly, the report does not discuss performance measures for the program. OBO has not provided any detailed information regarding annual targets and goals for construction that would allow measurement of its annual performance against overall program goals. Lack of accountability mechanisms and performance measures are additional significant factors that should be included in an analysis of the business case for this program.

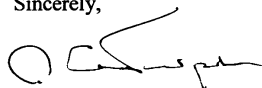
Your report also does not address the fact that the proposed program, which is planned for implementation this fiscal year, still lacks detailed implementation policies and procedures. USDA has requested repeatedly that OBO draft detailed implementation guidance to be included in the *Foreign Affairs Manual* for this program. Such guidance would help address the many details and questions surrounding implementation and how various contingencies will be handled. USDA believes that the chances for success for this program, if implemented, are greatly reduced without detailed guidance in place prior to implementation. Other State-led programs involving comparable levels of cost and interagency coordination have had such guidance in place prior to implementation. Unfortunately, no program of the proposed size and scope of this proposal would be as simple to administer as State has claimed.

USDA agrees with GAO's characterization of the results of this proposed program as possible as opposed to certain. For a program of this size and scope, we would have liked to see your report more fully address the risks posed by such a large and radically different program to agencies' overseas mission goals. Given the profound nature of the changes proposed by State, USDA regrets that the draft report does not offer recommendations to assist Congress in weighing the risks of this major change in embassy construction against the benefits.

We have a number of additional comments of a more technical nature. They are enclosed 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

See comment 3.

See comment 4.

The following are GAO's comments on the Department of Agriculture's letter dated October 12, 2004.

GAO Comments

1. We agree that mission goals are a critical factor in determining resource levels. However, we believe that security and cost factors also need to be fully considered along with mission goals in determining overseas staffing levels. In our prior reports, we presented a rightsizing framework to help decision-makers focus on security, mission, and cost trade-offs associated with staffing levels and rightsizing options.¹ We believe that the proposed Capital Security Cost-Sharing Program will encourage agencies to more closely scrutinize overseas staffing levels by requiring agencies to pay a share of the embassy construction costs associated with their overseas presence.
2. OBO officials stated that it solicited and received substantive input from other agencies during the design of the proposed program. We acknowledge that Agriculture and some other agencies have concerns about issues concerning accountability, transparency, and other implementation mechanisms.
3. We agree that the proposed program would be large and could have a major impact on agencies, but we believe the program is consistent with the criteria for rightsizing we previously reported. These criteria include (1) security of facilities and employees, (2) mission priorities and requirements, and (3) cost of operations, all of which should be systematically evaluated. Agencies must provide a strong rationale to Congress for overseas programs, including all associated costs.
4. We acknowledge that agencies have concerns about potential risks they may encounter if the program is enacted. However, we concluded that some type of cost-sharing program would achieve important goals, such as accelerating the construction of new secure facilities. In addition, requiring agencies to pay a share of embassy construction costs would also encourage them to consider the full cost of their

¹GAO, *Overseas Presence: Framework for Assessing Embassy Staff Levels Can Support Rightsizing Initiatives*, [GAO-02-780](#) (Washington, D.C.: July 26, 2002) and *Overseas Presence: Rightsizing Framework Can Be Applied at U.S. Diplomatic Posts in Developing Countries*, [GAO-03-396](#) (Washington, D.C.: Apr. 7, 2003).

Appendix II
Comments from the Department of
Agriculture

overseas presence and to determine the number of people they need to meet critical overseas missions.

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
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

OCT 14 2004

Mr. Jess T. Ford
Director
International Affairs and Trade
Government Accountability Office

Dear Mr. Ford:

Enclosed are the Department of Commerce's comments to the report entitled *EMBASSY CONSTRUCTION: Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns* (GAO-05-32).

Please contact me at (202) 482-4951 if you have any questions.

Sincerely yours,

A handwritten signature in black ink, appearing to read "OJW", written over the words "Sincerely yours,".

Otto J. Wolff
Chief Financial Officer and
Assistant Secretary for Administration

Enclosures

Commerce Department Comments on GAO Draft Report Number GAO-05-32, "Embassy Construction: Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns" (October 2004)

This responds to the Government Accountability Office (GAO) request for the Commerce Department to provide comments on the GAO draft report (GAO-05-32) entitled "Embassy Construction: Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns," dated October 2004. The Department wants to express its appreciation to GAO for assessing the Capital Security Cost-Sharing Program (CSCSP) and affording us the opportunity to comment on the report.

We recognize that the program has passed the design phase and will enter the implementation phase later this year when FY 2005 funds are appropriated for participating agencies and Departments. If the additional funds required for CSCSP are not provided in subsequent years, however, CSCSP risks disrupting valuable mission-critical program activities.

We believe it will be a missed opportunity if GAO chooses not to make recommendations in this report. Objective reviewers can and should assess the CSCSP's needed improvements before it seriously affects participating agencies and their programs.

Our comments are grounded in our experience with the CSCSP program planning process to date and are organized to address the critical implementation issues we will face going forward with the program. A number of issues stood out that concern the Department about the future of CSCSP.

Implementation Issues

- The Department suggests that the report should provide recommendations for the implementation phase of the CSCSP. These recommendations should establish sound business processes and management controls to address transparency, ensure effective management oversight, accurately present implementation costs and address perceived discrepancies, and ensure the establishment of a Board to address and resolve CSCSP implementation problems. We suggest that GAO recommend:
 - the formation of an oversight team comprised of members of customer, stakeholder, and oversight authority agencies;
 - the creation of a dispute resolution mechanism that defers to a specific agency or body to resolve disagreements between the Bureau of Overseas Building Operations (OBO) and customer agencies;
 - the establishment of a mechanism that incorporates customer agency feedback into strategic planning for CSCSP and embassy construction projects; and
 - a methodology to determine per capita costs on an annual rather than three-year basis.
- Regarding the GAO rationale for the OBO overseas staff counting system (pages 7-9): OBO claims that alternative formulas are complicated and require "fulltime staff" to administer and that its chosen approach is simpler. In fact, OBO created an entire new office to account for charges under its system and it has taken more than a year to sort these numbers out. The OBO approach is not simple and it takes a new bureaucracy to administer. Moreover, OBO in the past has ignored the comments or concerns of the agencies for which they are building space.

See comment 1.

Appendix III
Comments from the Department of
Commerce

The agencies are required to contribute significant sums for a building program in which they have minimal input regarding:

- which embassies/consulates will be built;
- in which order they will be built;
- what space they will occupy; and
- if they will be able to occupy space in the building since the new facilities will likely be too small because CSCSP charges encourage agencies to "lowball" their estimates of future staff size.

The GAO report should recommend the establishment of a Board to address and resolve CSCSP implementation problems and a clear Board charter to explain how agencies would participate in this decision-making process. These steps would help address the Department's key concerns, as stated earlier, regarding transparency, effective oversight, and accurate portrayal and determination of CSCSP implementation costs.

Cost and Accountability Issues

- The administration has requested appropriations to cover the expected CSCSP assessments. The report, however, should explain that if inadequate appropriations are available to ITA and other agencies to fund the new CSCSP requirements, then agencies such as ITA will be forced to use operating funds to make up the difference. For ITA, drawing on operating funds would immediately require dramatic overseas staff reductions that will have a deleterious impact on ITA's overseas mission and performance. Unpredictable and dramatic variation in resource levels overseas is complex in many ways. For example, ITA's U.S. and Foreign Commercial Service (US&FCS) has made extensive use of foreign nationals to do its work overseas (including Foreign Service Nationals (FSNs), Personal Service Contractors (PSCs) and Personal Service Assistants, etc.) and these nationals make up 83 percent of US&FCS's overseas presence. Terminating a foreign national can have a substantial price tag because it may require significant severance payments (possibly on the order of \$200,000 for retirement alone, depending on the laws of the country in question). Forced reductions in overseas staffing may force the US&FCS to make cuts beyond those simply necessary to achieve target staff level related reductions.
- The GAO report presents an inaccurate portrayal of the ability of agencies to "game the system" and move to less costly embassies in order to avoid CSCSP charges (page 11 of the report). In truth, agencies cannot move positions into an embassy or consulate without the Chief of Mission's (COM) approval and COMs are usually unwilling to approve positions that are not entirely dedicated to their mission. Agencies such as ITA's US&FCS need staff in certain locations to meet demand and deliver their international services. US&FCS would not move staff to another country just to save money. The only time the US&FCS relocates staff is to meet client demand. For this reason, OBO should incorporate a planning mechanism to address both program and cost considerations that includes input from customers, stakeholders and oversight authorities.
- The report refers to the interagency advisory group established by OBO to resolve disputes and facilitate communication. GAO should evaluate the level of accountability and the separation of duties for this group. Because this advisory group does not include representation of customer agencies, this group is not the proper forum for discussing program issues and resolving disputes. As stated earlier, the Department believes that OBO should work with non-State

See comment 2.

See comment 3.

See comment 4.

**Appendix III
Comments from the Department of
Commerce**

agencies to ensure the establishment of a Board to address and resolve CSCSP implementation problems and that a committee of that Board, comprised of representatives of customer, stakeholder, and oversight authority agencies, should serve as an oversight team to ensure effective and transparent resolution of program issues and disputes. This Board could address, for example, issues associated with both in-country and inter-country program-related staff relocations and consider costs associated with those shifts as well.

Technical and Miscellaneous Comments and Corrections

The report contains a number of inconsistent and inaccurate figures in relation to the Department of Commerce's costs associated with CSCSP. These discrepancies need to be reconciled. Here are our data concerns:

See comment 5.

Page 7 – The report indicates that, "In addition to the basic headcount fees, agencies' annual charges would include amounts for their proportionate share of ICASS support services." GAO should determine from OBO the accuracy of this statement. The Department should be provided an estimate of the amount of ICASS support services covered by an agency's annual CSCSP charges.

See comment 6.

Page 7 - The chart does not include the FY 2008 charge column.

See comment 7.

Page 10 - The chart entitled "OBO Proposed Current Worldwide Headcount" depicts the Commerce Department amount as \$34.7 M. The latest (Spring 2003) full-cost projection from OBO lists the FY 2009 projected cost at \$40.2M, not including offsets.

See comment 8.

Page 12 - If agencies pull out of CSCSP, remaining costs for the Commerce Department will continue to increase. This is not an accepted business practice but is the likely outcome because the basis of billing is a position-based ratio approach.

See comment 9.

Page 14 - It is important to note that of the 191 Commerce positions eliminated as reported by GAO, only 23 were from "rightsizing." These 23 positions were not eliminated as a result of CSCSP, but rather because of adjustments of scarce resources to meet overall needs. All of the other eliminated positions were vacant and simply taken off the books. Also, 14 misclassified Controlled Access Area (CAA) positions were reclassified as Non-CAA positions; no one was physically moved. We did not reassign staff to positions in the U.S. other than the routine HQ rotation.

See comment 9.

Page. 14 - The statement, "Department of Commerce reduced its fees by more than \$5 million" is incorrect. The "fees" to which GAO are referring are actually the CSCSP bills (FY 2005 and FY 2006 combined). The FY 2005 bill was \$4.5M and was reduced to \$3.1M – a savings of \$1.4M. The FY 2006 bill was increased from \$13.6M to \$14.1M. The Department believes that the FY 2006 bill should actually be approximately \$10.9M, based on previously agreed-upon rent offsets. We are presently working out the difference with OBO.

See comment 8.

Page 14 - There are concerns regarding the impact of decreased headcount on total cost for ITA. Will per capita cost go up as headcount goes down? We recommend that GAO address this issue in the report.

The following are GAO's comments on the Department of Commerce's letter dated October 14, 2004.

GAO Comments

1. We did not assess the need for improvements in business processes and management controls. If the program were to be enacted, there would be time during the phase-in period to monitor these issues and address other concerns that may arise.
2. We believe that agencies should request the appropriate funding in their budget submissions and be prepared to make adjustments if funds are not forthcoming. If funding is not provided, agencies may have to reconsider the size of their overseas presence and/or adjust their missions.
3. Our report discusses several cost-sharing formulas and some of their advantages and disadvantages. We discuss agency views on the formulas, and OBO stated that under some formulas agencies could "game the system" to reduce their cost share.
4. We did not assess the mechanisms, including the interagency advisory group, that could be used to implement the program, if Congress enacts it. Therefore, we have taken no position on whether alternative interagency mechanisms would be needed.
5. We did not include agencies' annual charges for embassy construction attributable to ICASS support services in the table. However, under the program, agencies will be expected to pay a share of the embassy construction costs attributable to administrative support service received under ICASS.
6. As noted, fiscal year 2008 data were not available.
7. The OBO data included offsets.
8. We agree that, if some agencies pull out of the proposed program, the remaining agencies' cost-sharing charges may increase. However, depending on the extent to which agencies consider the size of their overseas presence, OBO's costs for constructing fewer and/or smaller facilities may decrease and result in decreased costs to agencies.

Appendix III
Comments from the Department of
Commerce

-
9. We modified the text on page 15 and footnoted table 4 to reflect these comments and attributed the information to the Department of Commerce.

Comments from the Department of Health and Human Services

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



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

OCT 12 2004

Mr. Jess T. Ford
Director, International Affairs and Trade
United States Government Accountability Office
Washington, D.C. 20548

Dear Mr. Ford:

Enclosed are the Department's comments on your draft report entitled, "Embassy Construction—Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns (GAO-05-32)". The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

A handwritten signature in cursive script that reads "Daniel R. Levinson".

Daniel R. Levinson
Acting Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for Government Accountability Office reports. OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

**COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES
ON THE U. S. GOVERNMENT ACCOUNTABILITY OFFICE'S DRAFT
REPORT, "EMBASSY CONSTRUCTION—PROPOSED COST-SHARING
PROGRAM COULD SPEED CONSTRUCTION AND REDUCE STAFF LEVELS
BUT SOME AGENCIES HAVE CONCERNS" (GAO-05-32)**

The Department of Health and Human Services (HHS) appreciates the opportunity to comment on the U.S. Government Accountability Office's draft report. HHS understands and fully supports the requirement to provide secure embassy and consulate space for U.S. Government employees overseas. In addition, HHS fully understands and supports the need to fund an equitable share of the cost of functional space occupied by HHS employees. Nonetheless, HHS has numerous concerns regarding the cost sharing methodology proposed by the Department of State.

HHS remains very concerned that, while the Department of State proposal would require very substantial capital outlay by the funding agencies, the agencies themselves would have little or no voice in the direction of the Department of State's Bureau of Overseas Buildings Operations (OBO) program. Under the current proposal, OBO would be able to adjust charges, reallocate funds, and change the rules under which the program operates without review or coordination with the funding agencies. Charges could be assessed and ground rules implemented without notice and without appropriate public or Congressional scrutiny. Additionally, if allocation of room within buildings funded by the Capital Security Cost-Sharing Program remains fully in the hands of the Department of State, agencies cannot be assured equitable distribution of OBO-owned space. For these reasons, HHS believes that a governing board "comprising representatives from both the public and private sectors" to oversee the daily operations would be in the interest of the funding agencies and in keeping with findings of the Overseas Presence Advisory Panel.

While the Department of State proposes the per capita charge for "positions" overseas as a simple cost distribution method, it is far from simple. The definition of a counted employee is nebulous, subject to change and interpretation, and fails to take into consideration widely varying space requirements of various types of positions. Additionally, the head tax methodology fails to encourage Department of State and other agencies to efficiently and economically use allocated space in OBO facilities.

While disputes are inevitable, the OBO proposal provides no interagency working level mechanism to resolve differences, such as the Washington-based International Cooperative Administrative Support Services (ICASS) Working Group that functions to resolve most ICASS policy issues. HHS believes that such staff level coordination and consensus building should be an integral part of the OBO program regardless of the funding mechanism eventually enacted. Such a panel would also be in line with the Overseas Presence Advisory Panel's proposals.

See comment 1.

See comment 1.

Appendix IV
Comments from the Department of Health
and Human Services

Finally, HHS remains unclear as to exactly what services Department of State will provide to the funding agencies as a result of paying the proposed charge.

With a more user-focused and user-involved approach, HHS believes agencies can work together to support and manage cost sharing in a way that reflects the intent of the President, the interest of participating agencies, and, of course, the interests of the American people.

Appendix IV
Comments from the Department of Health
and Human Services

The following is GAO's comment on the Department of Health and Human Services' letter dated October 12, 2004.

GAO Comment

1. We did not assess the mechanisms to be used to implement the program, if Congress enacts it. Therefore, we have taken no position on whether alternative interagency mechanisms would be needed.

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**

October 13, 2004

Jess T. Ford
Director, International Affairs and Trade
U.S. Government Accountability Office
442 G Street, NW
Washington, DC 20548

RE: GAO 05-32: Embassy Construction- Proposed Cost Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns (GAO Job Code 320257)

Dear Mr. Ford:

The Department of Homeland Security (DHS) appreciates the opportunity to submit agency comments on the above-referenced draft report. The Government Accountability Office (GAO) did not make any recommendations with respect to various cost-sharing options discussed in the report including the per-capita or "headcount" formula proposed by the Department of State's (DOS) Bureau of Overseas Building Operations. Nonetheless, as an agency, we would like to present some of our views on the proposed Capital Security Cost-Sharing Program.

The concept of "rightsizing" does not necessarily mean downsizing. The size of the agency's workforce should be based on its diplomatic mission as mentioned on Page 2 of the draft report. There are no industry metrics available with which to benchmark and compare the cost of the program if the cost charging system proposed is adopted in order to "rightsizing" mission staff. Any DOS system that employs charges devoid of common industry standard benchmarking procedures and practices is not equitable for DHS or any other agency. Furthermore, the seat count method also lends itself to double charges or billings that would be difficult to detect for the member or occupying agencies and Departments. DHS agrees that these charges may need to be revisited to obtain a more equitable method for computing fees. Equally important, the projected rates appear to exceed the industry standards or GSA/Office of Management and Budget approved "return-on-investment" pricing. This is particularly important for DHS because we have 750 staff positions that occupy an average of 225 usable square feet deployed in foreign locations.

The study provided information but did not adequately address how the proposed program would affect DHS as we interface with DOS. This is compounded by the cost related questions. Consequently, the proposed program is difficult to support. DHS

www.dhs.gov

See comment 1.

Appendix V
Comments from the Department of Homeland
Security

See comment 2.

acknowledges that DOS has a critical need to secure \$1.4 billion in upfront construction funding in order to meet building facilities requirements at foreign locations. As a result, even though the Capital Security Cost-Sharing Program has not yet become law, DOS continues to move forward with its planning and projected assessments. However, concerns raised herein should be considered before further action is taken.

DHS also questions the equity of the proposed assessment when we are paying additional costs for the design and construction of off-post, overseas structures that we are using while at the same time we are still being assessed for cost-sharing. Also, the draft report only addresses embassy structures and does not discuss the critical need for increased security associated with foreign housing and schools.

DHS agrees with the report in that further review and negotiations are warranted in order to ensure equitable funding assessments, as well as provide DOS with sufficient funding to proceed with critical construction in the very near future.

We are available to discuss our response if you have any questions.

Sincerely,

Michael M. Poland

for Anna Dixon
Director, Departmental GAO/OIG Liaison Office

The following are GAO's comments on the Department of Homeland Security's letter dated October 13, 2004.

GAO Comments

1. We agree that the proposed program could impact agencies' missions if funding decisions result in reductions of overseas staff positions. However, as we discuss in the report, the concept of cost sharing encourages all agencies to seriously consider their overall program mission and the costs of having staff overseas. We believe that agencies should request the appropriate funding in their budget submissions and be prepared to make adjustments if funds are not forthcoming. If funding is not provided, agencies may have to reconsider the size of their overseas presence and/or adjust their missions.
2. Security issues associated with foreign housing and schools were not in the scope of our work.

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

Washington, D.C. 20530

October 12, 2004

Laurie E. Ekstrand
Director, Homeland Security and Justice
Government Accountability Office
Washington, D.C. 20548

RE: GAO Draft Audit Report No. GAO-05-32 (Review No. 320257)

Dear Ms. Ekstrand:

The Department of Justice (Department) completed its review of the final draft of the above referenced Government Accountability Office's (GAO) draft report entitled EMBASSY CONSTRUCTION: Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns. This letter transmits the Department's formal comments to be published in the final GAO report.

See comment 1.

GAO reports that the proposed cost sharing formula could result in funds to accelerate embassy construction and encourage agency right-sizing of overseas staff levels. The Department has concerns related to both agency funds necessary to support cost sharing and potential rightsizing of its personnel without regard to mission requirements. Additionally, the proposed Capital Security Cost Sharing (CSCS) Program lacks transparency and accountability of costs and spending controls. These concerns are aggravated by the absence of an interagency governing board to resolve issues. As proposed, arbitration for interagency disputes is reserved for the Office of Management and Budget with no mechanism of de-confliction at lower levels.

See comment 2.

The GAO report accurately captures many of the concerns for non-Department of State (DOS) agencies, particularly those related to the CSCS methodology; however, some concerns noted in the report do not fully explain the impact on the operations of the Department or other affected agencies. For example, the Department is requesting funds to cover CSCS Program costs in fiscal year 2006, but the provision of these funds is uncertain. There is no mechanism to ensure that agencies are funded at the proper level to account for unexpected cost increases of the CSCS Program. The Department and other agencies are unable to adequately plan for and manage future CSCS Program costs, and there are no procedures in place to coordinate increased CSCS Program reimbursable costs through the Department's budget process. Most importantly, the report does not address the possibility that agencies will not receive funding increases required to meet CSCS Program costs and the impact of this lack of funding on the entire CSCS Program concept.

Appendix VI
Comments from the Department of Justice

Ms. Laurie Ekstrand

Page 2

See comment 1.

The report mentions in its conclusion that "if enacted and funded" the CSCS Program could accelerate embassy construction, but the report fails to consider challenges such as cost increases to construction contracts. These additional costs will be passed on to non-DOS agencies involved in the CSCS Program, even though these agencies have no opportunity for oversight to minimize the additional costs.

The report concludes that the CSCS Program has led to agency decisions to reduce staff overseas; however, it does not discuss how this trend will impact those agencies that are already "right-sized" and must continue to operate overseas, or law enforcement agencies that are being expanded overseas due to mission requirements. Staffing cutbacks overseas may be contrary to the United States' Mission and the mission of affected agencies. Without continued supplemental funding to support CSCS Program costs, the cost may be too prohibitive to support some international mission stations with a permanent overseas presence, even though mission needs the presence.

The Department appreciates the opportunity to provide comments for inclusion in the GAO's final audit report. Your staff may contact either Richard Theis, Acting Director, or Vicky Caponiti, Audit Liaison Office, on 202-514-0469.

Sincerely,



Paul R. Corts
Assistant Attorney General
for Administration

cc:

DEA - Sheldon Shoemaker
FBI - Cheryl Johnston
JMD - Andrea Nicholson

The following are GAO's comments on the Department of Justice's letter dated October 12, 2004.

GAO Comments

1. We did not assess the need for improvements in business processes and management controls, such as transparency and accountability of costs and spending controls. If the program were to be enacted, there would be time during the phase-in period to monitor these issues and address other concerns that may arise.
2. We agree that the proposed program could impact agencies' missions if funding decisions result in reductions of overseas staff positions. However, as we discuss in the report, the concept of cost sharing encourages all agencies to seriously consider their overall program mission and the costs of having staff overseas. We believe that agencies should request the appropriate funding in their budget submissions and be prepared to make adjustments if funds are not forthcoming. If funding is not provided, agencies may have to reconsider the size of their overseas presence and/or adjust their missions.

Comments from the Library of Congress

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



THE LIBRARY OF CONGRESS
101 INDEPENDENCE AVENUE, S.E.
WASHINGTON, D.C. 20540-9100

OFFICE OF THE CHIEF FINANCIAL OFFICER

October 12, 2004

Dear Mr. Brummet:

Enclosed are the Library's comments on the draft report entitled: Embassy Construction: Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff levels but Some Agencies Have Concerns (GAO-05-32).

If you have any follow-up questions, please call Kathy Murphy on (202) 707-0634.

We appreciate the opportunity to review and comment on this very important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "John Webster".

John Webster
Chief Financial Officer

Enclosure

Mr. John Brummet
Assistant Director
Government Accountability Office
Washington, DC 20548

October 12, 2004

Library of Congress
Comments on GAO's Draft Report
On Embassy Construction (GAO-05-32)

The Library of Congress has reviewed the Government Accountability Office's draft report on Embassy Construction and has the following comments:

See comment 1.

- The Library recommends that GAO discuss and provide an opinion as to whether the fee calculation methodology used by the Department of State (DOS) meets the cost accounting standards of the federal government. The Library does not believe that the State Department fee calculation methodology charges the Library for services received. Instead, the methodology produces a "head tax" that is levied on all overseas personnel without regard to services provided.

See comment 2.

- Further, the DOS methodology is structured to raise capital to build buildings, not to allocate costs. The Library recommends that GAO evaluate this approach. Are there other examples where the construction program of one department is funded by other departments? An analogy of this program is asking someone who wants to rent an apartment, to help pay for the construction of the apartment building and possibly other apartment buildings in other cities - in advance of moving into the apartment - not knowing if they will still want the apartment when the construction is completed.

See comment 3.

- The reason given for using the "head tax" approach in allocating costs is that DOS would have to exert too much staff time and effort to capture and monitor data needed to allocate costs on actual services provided. Many departments do not have adequate staff to perform mission-related work, yet accomplish the work anyway. Because the building of embassies is a mission critical goal of the State Department and because accelerating construction is now a top priority, the Library believes that DOS should provide the additional staff needed to implement this program and in a fair and equitable fashion. GAO's stamp of approval on this process could lead to other such schemes by agencies. For example would GSA be allowed to allocate space by "head tax" so that they can reduce their staff, who keep track of actual space and services provided? Would other departments be allowed to escape accountability requirements just because it is too much effort to do the accounting in accordance with the standards?

See comment 4.

- Second question is what is the purpose of this program - to build safe embassies for Americans or to reduce the number of Americans overseas?
- If the Office of Management and Budget (OMB) and the Administration want to reduce overseas staff, a directive or management initiative to cut staff over a period of time is more appropriate and should precede the building of facilities not follow. Any reduction in staff would change the amount of funds collected to support building facilities. In

See comment 5.

addition, the Department of Defense (DOD) has a provision (Sec. 8067) in its FY 2005 appropriations bill (P.L. 108-287) that greatly reduces or eliminates the amount of funds that DOD will pay for this program. The Library recommends that GAO analyze the impact of fewer overseas employees and reduced DOD payments on the DOS methodology. Should the DOS methodology be changed in light of the DOD provision and potential reduction in overseas staff?

See comment 6.

- A recent exercise conducted by OMB had each agency provide data on its overseas budgets to calculate the cost per American FTE. While all personnel costs were limited to number of American hires, the support costs (per OMB's guidance) included the total cost to run an overseas office. For the Library of Congress, total costs support 222 individuals, of which only 7 are Americans. Therefore, by dividing the total support costs by 7 (vs. the 222), the average direct hire FTE cost is grossly overstated. We assume this would be true for all other offices/departments too.

See comment 7.

- Even the term "rightsizing" implies that agencies have assigned wrong or unnecessarily large numbers of employees overseas. With regard to LOC, the number of staff overseas and at each of its offices has remained stable for decades. The LOC did its "rightsizing" in the seventies, when it closed a number of offices, deemed no longer necessary or cost-effective. The LOC only has 7 Americans in six offices covering 75 countries on three continent that are supported by 195 LES direct hires. The number of Library staff (Americans or LES) overseas cannot be reduced without damaging the mission of our offices, and the services we provide to the Congress and 85 American Universities.

The following are GAO's comments on the Library of Congress letter dated October 12, 2004.

GAO Comments

1. We were not asked to express an opinion on whether the cost accounting standards of the federal government apply to the capital cost-sharing program. However, we did note that State and non-State agencies disagree on whether there is a link between the amounts to be paid and the benefits received.
2. The administration proposed the Capital Security Cost-Sharing Program to fund the accelerated construction of secure new embassies and consulates worldwide and to ensure that agencies rightsize the number of staff needed to accomplish their overseas missions. Our analysis shows that, depending on the formula used, cost-sharing amounts would vary considerably, with some agencies benefiting at the expense of others. While we take no position on which formula should be used, some type of cost-sharing mechanism could provide a disciplined approach to the staffing projection and rightsizing processes and accelerate the capital construction program.
3. We have taken no position on which cost-sharing formula, including the "head-tax" approach (which we refer to as the head-count approach), should be used. We also did not assess the need for improvements in business processes and management controls, such as determining the number of staff required. We acknowledge that some agencies have concerns about potential risks if the program is enacted. However, we concluded that some type of cost-sharing program would achieve important goals, such as accelerating the construction of new secure facilities. In addition, requiring agencies to pay a share of embassy construction costs would also encourage them to consider the full cost of their overseas presence and to determine the number of people they need to meet critical overseas missions.
4. The administration proposed the Capital Security Cost-Sharing Program to fund the accelerated construction of secure new embassies and consulates worldwide and to ensure that agencies rightsize the number of staff needed to accomplish their overseas missions.
5. We agree that, if some agencies pull out of the proposed program, the remaining agencies' cost-sharing charges may increase. However, depending on the extent to which agencies consider the size of their

overseas presence, OBO's costs for constructing fewer and/or smaller facilities may decrease and result in decreased costs to agencies. Congress will decide whether or not the Department of Defense will participate in the cost-sharing program.

6. The proposed program is intended to capture the full costs, not only support costs, to agencies for staff in overseas locations, including construction of new embassy compounds. While we recognize that the Library currently has staff located outside embassy compounds, with the 1999 enactment of the Secure Embassy and Counterterrorism Act, all staff are required to be colocated onsite at locations where new embassies are built.
7. We recognize that the Library has only seven Americans in six offices. Our report does not suggest that the Library is not rightsized. However, the Library and other agencies should request the appropriate funding in their budget submissions and be prepared to make adjustments if funds are not forthcoming.

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

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

OCT 7 2004

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "EMBASSY CONSTRUCTION: Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies have Concerns," GAO Job Code 320257.

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 Cy Alba, Branch Chief, Bureau of Overseas Building Operations, at (703) 875-5748.

Sincerely,

Christopher B. Burnham

cc: GAO – John Brummet
OBO – Charles Williams
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report
EMBASSY CONSTRUCTION: Proposed Cost-Sharing Program
Could Speed Construction and Reduce Staff Levels
but Some Agencies Have Concerns
(GAO 05-32, Job Code 320257)

Introduction

The Department of State appreciates the opportunity to review and comment on the GAO Draft Report, “EMBASSY CONSTRUCTION: Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns.” We believe the report overall is a fair and accurate representation of the issue. However, the Department offers the following observations.

Cost Sharing is an Administration Initiative

GAO should make it clearer that the Capital Security Cost-Sharing (CSCS) Program is an Administration initiative and that OMB played a leading role in developing it. Two suggestions to accomplish this:

- Insert the word “Administration’s” in the first sentence of the one page Highlights (i.e., “What GAO Found”), so it reads: “The Administration’s proposed Capital Security Cost-Sharing Program has been developed to accelerate....” (GAO already does this in the “Why GAO Did This Study” box on the left.)
- In the cover letter to Rep. Shays, 2nd paragraph, 1st sentence, replace “State Department’s” with “Administration’s” so it starts: “This report describes (1) the Administration’s rationale for and development of....”

Emphasize that CSCS is Working as a Rightsizing Tool

GAO should emphasize that, as a rightsizing tool, CSCS is already working. Suggestion to accomplish this:

- Reorder the three points of the report so that rightsizing is second rather than third:
 - The Administration’s rationale for/development of CSCS.
 - CSCS’s influence on agencies’ staffing decisions.
 - Other agencies’ concerns about the program.

See comment 1.

See comment 2.

(This also makes more sense in terms of listing the items in a priority order, grouping aspects of the overall program rationale.)

Shifting the Risk of Overbuilding

See comment 3.

GAO should point out that without per capita cost sharing, only the State Department bears the burden of overbuilding as a result of agencies' imprecise or fluctuating staffing projections. Suggestion to accomplish this:

- Add a sentence to the Highlights, "What GAO Found," end of second full paragraph; also p. 2, end of the first full paragraph.

"Without per capita cost sharing, the risk of overbuilding space based on other agencies' imprecise or fluctuating staffing projections remains a burden solely borne by State, instead of the tenant in question."

CSCS Program has a 5-Year Phase-in Period

See comment 4.

The report refers to the phase-in period for cost sharing as a 4-year period (Highlights page, p. 5, and p. 13). The Department and OMB have typically described the phase-in as a 5-year period, with 100 percent of the contribution being assessed in the fifth year. The Department would prefer to use the term "5-year phase-in period" to be consistent with materials that have been widely distributed to other agencies, in order to prevent confusion. If the term "4-year" phase-in is used, agencies might think that the program has been changed, when it has not.

Agencies are Mandated by Law to Collocate

See comment 5.

Paragraph regarding the Library of Congress (LOC) at bottom of p. 10, top of p. 11: While LOC's rent costs for leased space outside the embassy compound may be less expensive than their cost-sharing amount for space within an embassy compound, collocation of overseas agencies within the embassy compound is mandated by law (Secure Embassy Construction and Counterterrorism Act of 1999). Although GAO mentions this earlier in the report, GAO may wish to also note this legislative requirement in the report discussion of LOC.

Other Comments

1. We are pleased to see that GAO again includes its rightsizing definition (footnote #4 on p. 2) – and now also says “The Department of State” agrees with the definition.

2. On pages 4 and 9 GAO states we have embassies and consulates in 251 locations worldwide. The Department has 263 embassies, consulates, missions, American presence posts, and branch offices worldwide.

3. p. 8 – footnote no. 12: GAO may wish to explain the nature and function of the Industry Advisory Panel in this footnote, since it is mentioned in the same report sentence. The description from OBO’s public website is as follows: The Industry Advisory Panel (IAP) is a panel of experts who provide strategic industry insights to OBO, on a variety of issues. The IAP, a chartered Federal advisory committee, provides input on the latest innovations in the commercial world combining best practices, streamlined processes, and proven cost effective methods.

See comment 6.

See comment 7.

The following are GAO's comments on the Department of State's letter dated October 7, 2004.

GAO Comments

1. We modified the text in the Highlights and cover letter to reflect these comments.
2. We organized the report as we did because the influence of the proposed program on agencies' overseas staffing-level decisions is uncertain.
3. We modified the text in the Highlights to reflect this comment and attributed the additional comment to OBO.
4. We modified the text in the Highlights and on pages 5 and 13 to reflect State's phase-in period.
5. We modified the text on pages 10 and 11 to reflect these comments.
6. We added a footnote on page 4 to clarify the number of overseas locations.
7. We added a footnote on page 8 to explain the role of the OPAP.

Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 12, 2004

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

Dear Mr. Ford:

I am pleased to provide the following comments to the Government Accountability Office's (GAO) draft report entitled "EMBASSY CONSTRUCTION: Proposed Cost Sharing Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns (GAO-05-32)" of October 2004:

The GAO report adequately states the need for a feasible cost sharing approach to fund the construction of secure new embassies and consulates worldwide. However, to ensure the most efficient and equitable distribution of costs, it is important to employ the most appropriate cost-sharing formula (currently, per capita) that is beneficial to the majority of agencies having an overseas presence.

Also, it is important that agencies receive the sufficient level of funding (e.g., appropriations) to achieve accelerated embassy construction.

Lastly, other concerns (such as, mission requirements, economic situations and associated factors) warrant consideration in addition to costs in promoting and implementing an overseas program that will be effective in meeting the President's Management Agenda.

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. Agency for International Development

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



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

OCT 8 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:

I am pleased to provide the U.S. Agency for International Development's (USAID) response on the draft GAO report entitled *Embassy Construction: Proposed Program Could Speed Construction and Reduce Staff Levels but Some Agencies Have Concerns* (GAO-05-32).

USAID is generally satisfied with the design of the Capital Security Cost-Sharing Program and the proposed implementation schedule. However, we do have some issues that we would like to comment on. We will reference page number, paragraph heading and paragraph number for each item that we address.

Page two, "Results in Brief", paragraph two states: "Non-State officials are also concerned about how potential disputes would be resolved, such as deciding which agencies' staff would be required to find office space outside the embassy compound if increased staff levels result in a shortage of office space within the compound." USAID's Comment – The Secure Embassy and Counterterrorism Act of 1999 requires that all foreign affairs agencies be located on new embassy compounds. Rising global construction costs are a major consideration and require accurate planning in order to maximize limited resources. However, we are concerned that building designs with limited flexibility for expansion are shortsighted. This concern relates to a statement on page eleven, titled "Agencies Have Other Concerns about the Program", in which paragraph two states: "OBO officials added that, in planning embassy size, a certain amount of contingency, or spillover space in anticipation of staff increases can be incorporated into the plan." OBO incorporates an insufficient growth rate, in most cases a mere five percent, into New Embassy Construction Projects (NEC). This is not sufficient for an

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See comment 1.

2

Agency such as USAID in which program staff levels increase relative to an immediate programmatic need. A number of NEC projects are filled to capacity before they are completed. In one case, USAID program staff levels in Zagreb rose from 27 to 34, or 13%. USAID was limited to the space already allocated, forcing USAID to reduce staff cubicle size. Although USAID is considering regional platforms and other methods to minimize staff levels, current space planning in NECs offers little flexibility in terms of growth. If this inflexibility continues, few options exist other than managing from afar or leasing an off-compound facility that would afford staff with the same protection as the NEC. This would defeat the goal of the NEC concept. An increased growth factor would certainly give the USG more flexibility while affording the same level of protection to all mission staff.

See comment 2.

Page six and seven, "Proposed Cost Sharing Is Based on a World wide Headcount Formula", 2nd paragraph states: "In addition to the basic headcount fees, agencies' annual charges would include amounts for their proportionate share of ICASS support services." USAID's Comment – This issue requires further discussion. ICASS costs will rise considerably at each NEC location unless proper accountability and cost containment controls are introduced.

See comment 3.

Lastly, a formal process should be developed for non-State agencies in which specific security and programmatic concerns are considered regarding the prioritization for the construction of NEC locations. USAID has a number of locations with sizable staff that are in insecure facilities with no immediate solution for improvement available. For example, the USAID office in Addis Ababa remains a major security vulnerability. Our efforts to advance specific locations in the NEC process have been unsuccessful to date.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,



John Marshall
Assistant Administrator
Bureau for Management

The following are GAO's comments on the U.S. Agency for International Development's letter dated October 8, 2004.

GAO Comments

1. Issues involving State's planning for the size of new embassies were not in the scope of our review. Our recent reports on this issue include *Embassy Construction: Process for Determining Staffing Requirements Needs Improvement*, [GAO-03-411](#) (Washington, D.C.: Apr. 7, 2003) and *Embassy Construction: State Department Has Implemented Management Reforms, but Challenges Remain*, [GAO-04-100](#) (Washington, D.C.: Nov. 4, 2003).
2. We did not include agencies' annual charges for embassy construction attributable to ICASS support services in the table. However, under the program, agencies would be expected to pay a share of the embassy construction costs attributable to administrative support service received under ICASS.
3. State's prioritization for building new embassy compounds was not included in the scope of our review. See *Embassy Construction: State Department Has Implemented Management Reforms, but Challenges Remain*, [GAO-04-100](#) (Washington, D.C.: Nov. 4, 2003), for a discussion of these issues.

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