

GAO

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

September 2006

OVERSEAS PRESENCE

State and USAID
Should Adopt a
Comprehensive Plan
to Improve the
Consolidation of
Overseas Support
Services



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Highlights

Highlights of [GAO-06-829](#), a report to the Chairman, Subcommittee on National Security, Emerging Threats and International Relations, Committee on Government Reform, House of Representatives

Why GAO Did This Study

The Department of State (State) has embassies in about 180 countries, and the U.S. Agency for International Development (USAID) maintains missions in about 90 of those countries. At many posts, State and USAID are located on separate compounds and maintain multiple support service operations, such as warehouses. However, the United States is in the process of building new embassy compounds that will collocate all agencies, creating opportunities for greater sharing of services. In September 2004, we recommended that State pursue the elimination of duplicative support structures at overseas facilities. We reviewed (1) the status of State and USAID's joint initiative to consolidate overseas services, and plans for advancing the initiative; and (2) the challenges State and USAID face in these efforts.

What GAO Recommends

We are recommending that the Secretary of State, in conjunction with the USAID Administrator, designate overseas service consolidation a priority; and develop a plan that details the desired end state, and defines timelines, performance and accountability measures, and criteria for success. We are also recommending that State and USAID set timelines for accomplishing the standardization of State and USAID policies, procedures, and systems. State and USAID agreed with the report and the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-829.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jess Ford at (202) 512-4268 or fordj@gao.gov.

OVERSEAS PRESENCE

State and USAID Should Adopt a Comprehensive Plan to Improve the Consolidation of Overseas Support Services

What GAO Found

State and USAID have demonstrated the feasibility of consolidating overseas support services and are seeking to expand their efforts. In June 2004, State and USAID initiated pilot projects at four posts to demonstrate the feasibility of consolidating support services. The four posts that participated in the pilot successfully consolidated 12 of the 16 support services, such as residential property maintenance, and reported operational efficiencies and costs avoided. For example, Dar es Salaam eliminated several positions and Phnom Penh improved motor pool and housing procedures. State and USAID learned valuable lessons from the pilot projects. They have directed posts to begin the process of identifying duplicative services and initiating consolidation efforts. As of July 2006, nine posts had responded, but only one had advanced beyond the planning stage.

The two agencies face several challenges in consolidating services at posts. The challenges include the need for State and USAID in Washington and at posts to address concerns that USAID's costs may increase if services are consolidated, develop better cost and performance data, reduce the number of locally employed staff and reduce or replace U.S. direct hires with locally employed staff, communicate better, and resolve technical differences. During our work, State and USAID took steps to address some of these challenges. For instance, in June 2006, the two agencies produced a draft strategy that defines broad goals and sets forth a common vision—to combine at collocating posts all State and USAID services into a single administrative structure and reduce the number of U.S. direct hire personnel. This is a positive step. However, our analysis of the draft strategy shows that it does not include a plan that details milestones, specific goals, timelines, and performance measures or accountability mechanisms to demonstrate results.

State and USAID Collocated Posts, Fiscal Years 2006-2011



Source: Department of State.

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Abbreviations

ICASS	International Cooperative Administrative Support Services
OMB	Office of Management and Budget
USAID	U.S. Agency for International Development

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United States Government Accountability Office
Washington, DC 20548

September 8, 2006

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 (State) has embassies in about 180 countries, and the U.S. Agency for International Development (USAID) maintains missions in about 90 of these countries. At many overseas posts, State and USAID are located on separate compounds and maintain multiple warehouses, motor pools, and other support service operations. However, the United States is in the process of building new embassy compounds that will collocate all agencies, including State and USAID, under the authority of a chief of mission, creating opportunities for greater sharing of services.¹ In September 2004, we recommended that State aggressively pursue the elimination of duplicative support structures at overseas facilities with the goal of limiting each service to the one provider best able to provide a quality service at the lowest possible price.² Further, the President has emphasized the importance of safety, efficiency, and accountability in U.S. government staffing overseas by designating the achievement of a “rightsized” overseas presence as part of the *President’s Management Agenda*.³ One of the elements of rightsizing is to eliminate and consolidate duplicative services. State and USAID have initiated an

¹The Secure Embassy Construction and Counterterrorism Act of 1999, Pub. L. 106-113, Appendix G, Div. A, Title VI, sec. 606(a)(2) generally requires all agencies under the authority of a chief of mission to be collocated on new embassy compounds.

²GAO, *Embassy Management: Actions Are Needed to Increase Efficiency and Improve Delivery of Administrative Support Services*, [GAO-04-511](#) (Washington, D.C.: September 7, 2004).

³Office of Management and Budget, *President’s Management Agenda, Fiscal Year 2002* (Washington, D.C.: August 2001). *The President’s Management Agenda* is a set of management initiatives designed to make government more effective and efficient. Rightsizing is a concept that refers to having the right number of staff at overseas posts with the necessary resources and expertise to accomplish U.S. policy objectives.

effort to eliminate and consolidate duplicative services at posts with both a State and USAID presence, starting with pilot projects at four posts.

This report examines (1) the status of State and USAID's joint initiative to consolidate overseas services, and plans for advancing the initiative; and (2) the challenges that State and USAID face in consolidating services at posts. This report is one of three recent reports that address your interest in rightsizing the U.S. presence abroad. The other two reports discussed State's initiative to provide support services remotely⁴ and the U.S. government's overall effort to rightsize its presence overseas.⁵

To address our objectives, we reviewed plans and studies describing State's and USAID's efforts to consolidate services. We also met with officials of several State and USAID regional and functional bureaus, as well as private and public sector organizations with knowledge of or firsthand experience consolidating and providing shared services. In January and February 2006, we conducted fieldwork at three posts that participated in the pilot projects—Cairo, Egypt; Dar es Salaam, Tanzania; and Phnom Penh, Cambodia—and held a teleconference with the fourth—Jakarta, Indonesia. We also conducted fieldwork in Nairobi, Kenya, a post that is planning to consolidate State and USAID services. We obtained and analyzed studies documenting the results of the pilot projects and lessons learned, as well as the challenges encountered by State and USAID. We also reviewed numerous studies documenting consolidation and shared services lessons learned and benefits, and we convened a workshop in May 2006 consisting of State and USAID officials, as well as two experts on governance and shared services, to further discuss and analyze these lessons in the context of State's and USAID's initiative. This workshop not only provided participants with an opportunity to discuss and learn from similar private and public sector efforts to consolidate support services, but also provided us with the context for framing our recommendations. Appendix III contains the results of our workshop. We performed our work from November 2005 through July 2006 in accordance with generally accepted government auditing standards. (See app. IV for a more complete discussion of our scope and methodology).

⁴GAO, *Overseas Presence: Cost Analyses and Performance Measures are Needed to Demonstrate Full Potential of Providing Embassy Support Remotely*, [GAO-06-479](#) (Washington, D.C.: May 2, 2006).

⁵GAO, *Overseas Staffing: Rightsizing Approaches Slowly Taking Hold but More Needs to Be Done*, [GAO-06-737](#) (Washington, D.C.: June 28, 2006).

Results in Brief

State and USAID have demonstrated the feasibility of consolidating overseas support services and are seeking to expand their efforts. In June 2004, State and USAID initiated pilot projects at four posts to demonstrate the feasibility of consolidating support services. The four posts that participated in the pilot—Cairo, Egypt; Dar es Salaam, Tanzania; Phnom Penh, Cambodia; and Jakarta, Indonesia—successfully consolidated 12 of the 16 support services targeted, such as residential property maintenance, and reported operational efficiencies and costs avoided. For example, Phnom Penh used the consolidation as an opportunity to improve standard operating procedures for motor vehicle and housing services. Dar es Salaam eliminated several positions and replaced a U.S. direct hire position with an eligible family member position.⁶ State and USAID learned valuable lessons from the pilot projects and are expanding their efforts to consolidate services at other posts. In December 2005, State and USAID directed posts to begin the process of identifying duplicative services and initiating consolidation efforts. As of July 2006, nine posts had responded, but only one had advanced beyond the planning stage.

State and USAID face several challenges in consolidating services at all posts. The challenges include the need for State and USAID in Washington and at posts to address concerns that USAID's costs may increase if services are consolidated, in part because of embassies' reliance on higher-cost U.S. direct hire staff,⁷ even though overall U.S. government costs will decrease; develop better cost and performance data; reduce the number of locally employed staff and reduce or replace U.S. direct hire staff with locally employed staff who are less expensive to employ; communicate better; and resolve technical differences. During the course of our work, State and USAID have taken steps to address some of these challenges. For instance, in April 2006, State took steps to encourage the regional bureaus to replace U.S. direct hires with locally employed staff. In addition, in June 2006, the two agencies produced a draft strategy that defines broad goals and sets forth a common vision—to combine at collocating posts all common State and USAID services into a single administrative structure and reduce the number of U.S. direct hire

⁶An eligible family member lives with a U.S. direct hire staff person at post. State uses eligible family members to fill a variety of positions. According to State officials, hiring an eligible family member often can result in savings because State does not have to pay for many of the costs associated with supporting the U.S. direct hire staff person, such as the cost of schooling for dependent children.

⁷See [GAO-04-511](#) for a fuller explanation of how costs for overseas posts' administrative services have increased.

personnel. These are positive steps. However, our analysis of the draft strategy shows that it does not include a plan that details milestones, specific goals, timelines, and performance measures or accountability mechanisms to demonstrate results.

We are recommending that the Secretary of State, in conjunction with the USAID Administrator, designate overseas services consolidation a priority and develop a comprehensive plan that provides a detailed picture of the desired end state and defines timelines, performance and accountability measures, and results-oriented criteria for success. We are also recommending that State and USAID set timelines for accomplishing the standardization of State's and USAID's policies, procedures, and systems.

State and USAID agreed with the report and our recommendations and said that they are actively working to consolidate overseas support services.

Background

The operation of U.S. embassies requires basic support services for overseas personnel, such as motor pool, residential property leasing, warehousing, and others. Many non-State government agencies, including USAID, operate overseas under the authority of a chief of mission and require such services. Under a State Department-administered system known as the International Cooperative Administrative Support Services (ICASS) system, the costs of support services are divided among agencies that have personnel at post and representatives of participating agencies are part of a council that tracks and evaluates service provider performance. While many agencies participate in ICASS, it is for the most part a voluntary system; agencies can opt out of all but two services.⁸ Reasons for doing so can include a desire to retain control over service providers, an agency's belief that costs can be minimized by providing the services itself, or because the agency is not located on the main embassy complex. For these and other reasons, at many overseas locations, agencies maintain multiple warehouses, motor pools, procurement operations, and other services. USAID, for example, provides its own services in many of the approximately 90 countries where it has a

⁸These include services that can only be obtained by the embassy, such as securing diplomatic credentials from the host country and services provided by the post's Community Liaison Office, such as providing welcoming and orientation materials, and helping to enroll dependent children in education programs.

presence. At some posts, USAID is the largest agency that maintains its own separate, sometimes duplicative, support services.

State plans to construct 65 new embassies and consulates over the next 6 fiscal years and State and USAID will be collocated at 37 of these locations, providing considerable opportunities for consolidating the agencies' services.⁹ For instance, the new embassy office compound in Addis Ababa, Ethiopia, slated for construction in fiscal year 2007, will provide space for both State and USAID. Figure 1 shows the posts where State and USAID are collocated and will be collocated over the next 6 years, based on current embassy construction plans and USAID deployment plans. Figure 2 shows the new embassy compound in Dar es Salaam, where State and USAID are now collocated. Appendix I provides a listing of the 44 posts where State and USAID are currently collocated, and Appendix II provides a listing of the 37 posts planned for construction during fiscal years 2006-2011 where State and USAID will be collocated, based on current construction and USAID deployment plans.

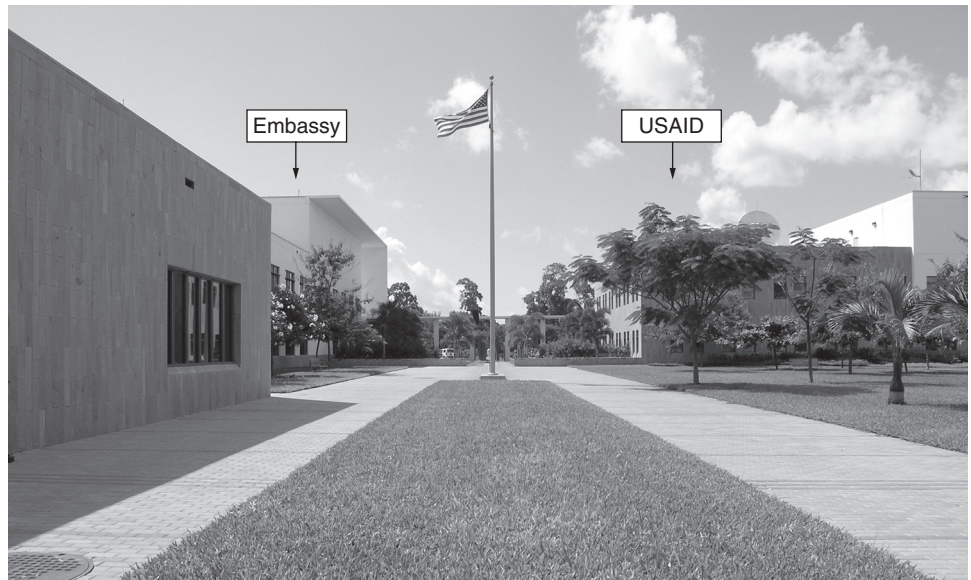
⁹Total cost over the life of the program is estimated to be about \$21 billion. Under the program, State intends to replace approximately 200 embassies and consulates. According to State officials, the program envisions spending approximately \$1.4 billion per fiscal year for construction over the next 6 fiscal years.

Figure 1: Posts Where State and USAID are Collocated or Will be Collocated Based on Current Construction and USAID Deployment Plans, Fiscal Years 2006-2011



Source: Department of State.

Figure 2: The Location of State and USAID on the New Embassy Compound in Dar es Salaam



Source: GAO.

In accordance with the President's National Security Strategy¹⁰ and the *President's Management Agenda*, State and USAID have begun to integrate their operations and management structures, producing for the first time a joint strategic plan in August 2003.¹¹ While mindful that the agencies remain two separate organizations with distinct legislative mandates and budgets, the goal of the plan is to reduce redundancies and costs where possible. As such, the plan states that, among other things, State and USAID will work with the Office of Management and Budget (OMB) and other U.S. government agencies to align the number and location of staff assigned overseas with foreign policy priorities, security, and other constraints. It also calls for State and USAID to jointly review

¹⁰*The National Security Strategy of the United States of America* (Washington, D.C.: March 16, 2006). The strategy's goal of enhancing and transforming key institutions has three priorities, one of which is to promote State's reorientation toward transformational diplomacy by more fully aligning the foreign assistance provided by State and USAID.

¹¹*Strategic Plan, Fiscal Years 2004-2009: U.S. Department of State and U.S. Agency for International Development* (Washington, D.C.: August 2003). State and USAID are currently revising this strategic plan.

their operations at overseas locations and implement pilot projects in which selected support operations would be combined to reduce costs, enhance the quality of services provided, or both. As part of a separate but related effort, State and USAID have begun to consolidate administrative services at headquarters, including information technology and financial systems services. In conjunction with rightsizing efforts, posts receiving a new embassy compound are required to prepare an analysis of duplicative services and identify opportunities for consolidation.

To develop priorities and implement strategies for the two agencies, and monitor progress toward the goals articulated in the strategic plan, State and USAID established a Joint Management Council, cochaired by State's Undersecretary for Management and USAID's Deputy Administrator. The council created eight joint State-USAID working groups, one of which was formed to identify parallel services performed by both State and USAID and examine the feasibility of consolidating services at selected posts, among other things. Within State, the congressionally mandated Office of Rightsizing¹² and the Office of Global Support Services and Innovation within the Bureau of Administration lead State's efforts to encourage posts to consolidate services by providing technical services and direction, including documenting and posting lessons learned on State's intranet Web site; at USAID, the Office of Overseas Management Support within the Bureau for Management plays the same role.

State and USAID Have Consolidated Some Services and Plan Additional Consolidations

In June 2004 State and USAID launched pilot projects at four posts to demonstrate the feasibility of consolidating services. Consolidation results varied from post to post but overall 12 of 16 targeted services achieved some level of consolidation. For example, Phnom Penh and Dar es Salaam merged four services—warehousing, motor pool, residential maintenance, and leasing. Cairo was the least successful, consolidating one service, warehouse operations. Jakarta consolidated motor pool, residential maintenance, and leasing operations, but did not initially consolidate warehousing. Posts reported some operational efficiencies and costs avoided, but because of differences in how each post calculated its

¹²In fiscal year 2004, Congress mandated the establishment of an Office of Rightsizing the United States Government Overseas Presence to be established within the Department of State. The office was directed to lead the State Department's effort to develop internal and interagency mechanisms to better coordinate, rationalize, and manage the deployment of U.S. government personnel overseas, under Chief of Mission authority (Public Law 108-199, Div. B, Title IV).

benefits, the overall level of cost avoidance and savings was not fully developed.

State and USAID learned important lessons from the pilot projects, including the need for posts to determine the scope and pace of consolidation efforts. State and USAID are expanding their efforts to consolidate services at other posts. As of July 2006, nine posts had begun consolidation projects. However, only one had advanced beyond the planning stage.

Pilot Projects Demonstrate Feasibility of Consolidating Overseas Support Services

With assistance from a private contractor, a joint State and USAID working group from Washington completed a study in May 2004 examining the feasibility of consolidating duplicative motor pool, warehouse, residential maintenance, and leasing services at four posts—Cairo, Egypt; Dar es Salaam, Tanzania; Phnom Penh, Cambodia; and Jakarta, Indonesia.¹³ The goal was to combine the best employees, equipment, and processes from existing operations to ensure that both agencies and all ICASS customers benefited from improved services at lower cost to the taxpayer. The study identified significant advantages to consolidating services, finding in every case that service levels could be improved and cost could be reduced. The study also recommended a set of pilot projects for each location and suggested which of the two service providers—State/ICASS or USAID—should be the lead service provider but left the final decision up to the individual posts. According to agency and post officials, the pilot projects began in June 2004.

As a result of the pilot projects, State and USAID reported that the four posts had successfully consolidated in full or in part 12 of the 16 services targeted, resulting in operational efficiencies and costs avoided. The final evaluation of the results of the pilot projects, completed in October 2005, was based on surveys submitted by the four pilot posts in June 2005 to the Joint Management Council. However, post-consolidation customer satisfaction surveys were conducted on only 5 of the services, providing insufficient data to draw reasonable conclusions about changes in the quality of services provided. Examples of operational efficiencies identified include

¹³In Cairo, State and USAID are located on separate compounds; in Dar es Salaam, Jakarta, and Phnom Penh, State and USAID are collocated or will soon be collocated on the same compound.

- Re-engineered business processes and updated standard operating procedures. For example, Phnom Penh updated its housing handbook.
- Better use of workspace. For example, combining the warehouses in Phnom Penh resulted in a 40 percent decrease in the amount of space used.
- Improvements in the competitive position of the U.S. government. For example, posts reported that having just one U.S. government provider responsible for residential leasing eliminated the competition for residences in the local market.
- Reduced unit costs of service. For example, the unit cost of providing residential maintenance in Jakarta—a measure of the cost of maintaining a residence or building—decreased from \$1.54 a square foot before the pilot project to \$1.33 per square foot after consolidation occurred.

The pilot posts reported costs avoided of approximately \$386,000 stemming from staff reductions, contract terminations, or other actions. Table 3 summarizes what the pilot posts reported. Dar es Salaam later reported that as a result of consolidating services, it has decided to replace a U.S. direct hire position with a position for an eligible family member. By doing this, post officials in Dar es Salaam estimated that they saved an additional \$300,000.

Table 1: Results of Pilot Services Consolidation Project, June 2004-October 2005

	Motor pool	Warehouse	Leasing	Residential maintenance	Annual cost avoidance
Cairo	Not consolidated ^a	Consolidated	Not consolidated ^a	Not consolidated ^a	\$180,000
Phnom Penh	Consolidated	Consolidated	Consolidated	Consolidated	\$ 49,000
Dar es Salaam	Consolidated	Consolidated	Consolidated	Consolidated	\$ 42,000
Jakarta	Consolidated	Not consolidated	Consolidated	Consolidated	\$114,885
Total annual cost avoidance					\$385,885

Source: October 2005 State and USAID evaluation.

^aAccording to post officials, Cairo decided not to consolidate leasing and residential maintenance services, in part because of a post analysis that indicated consolidating these services would not reduce costs. The motor pools were not merged because the post did not believe this could result in significant savings.

Results Varied by Post

Posts' efforts to consolidate services varied. Phnom Penh and Dar es Salaam were the most successful, consolidating all four services, and Jakarta consolidated three services. By contrast, Cairo, the largest of the four pilot posts and one of the largest posts in the world, was only able to consolidate one service.

Phnom Penh

Phnom Penh successfully merged all four target services and realized efficiency gains. State and USAID officials described Phnom Penh as the model project. The post reported that it had reviewed and consolidated all administrative instructions and standard operating procedures for motor vehicle services and housing services. In particular, the post updated its housing handbook, held customer service briefings, and updated its country clearance cable to ensure that all customers understood the changes in procedures. The post also reported that it had instituted USAID's best practice of providing vehicles to the maintenance staff, allowing its four maintenance teams to operate independently without additional workload for the motor pool or the need for additional drivers. Moreover, before consolidation, USAID and State motor pool drivers occupied two separate offices, but these were consolidated, making better use of existing space and decreasing utility costs. Additionally, the post reported that leasing services were improved by establishing a single point of contact for local landlords with multiple properties under lease to the U.S. government. Still further, the consolidation of maintenance services allowed USAID in Phnom Penh to terminate its maintenance shop lease, which led to savings in utilities and rent expenses. Finally, by consolidating warehouse operations, the post reported that it had realized gains in delivery times and a 40 percent decrease in the amount of space used.

Dar es Salaam

Dar es Salaam reported several operational efficiencies and costs avoided from the pilot project. In leasing, the post reported benefits from the establishment of a single leasing office and by eliminating in the process the competition between State and USAID. The post also reported that while State had lacked an adequate assistant maintenance supervisor before the consolidation of the residential maintenance function, the acquisition of a highly qualified supervisor from USAID made the combined section stronger.

Dar es Salaam initially reported that it had avoided \$42,000 in costs by reducing the number of locally employed staff. However, in our discussions with post officials we found that it has also replaced a U.S. direct hire position with an eligible family member position. State's Bureau of Resource Management has computed the average cost of each overseas

position at \$400,000 for fiscal year 2007, including salary, benefits, and support costs, plus a number of costs that apply only to officials overseas. It also includes costs for providing a secure building for officers to work in overseas. By replacing a U.S. direct hire position with an eligible family member position, post officials estimated that they saved approximately \$300,000, chiefly by not having to pay additional support costs associated with a U.S. direct hire. For this reason, costs avoided amounted to approximately \$342,000, the most of any pilot post.¹⁴

Jakarta

Jakarta reported that it was able to consolidate three services, including leasing, and avoid costs of \$114,000. However, post staff we spoke with in February 2006 indicated that in fact leasing had been only partially consolidated and that while residential leasing was taken over by USAID, nonresidential leasing had not been consolidated. Nonetheless, Jakarta reported gaining some efficiencies. For example, driver utilization—a measure of the amount of time a driver is in use—increased from below 50 percent before motor pool consolidation to 78 percent after consolidation. In addition, post staff indicated that dropping a \$50,000 residential maintenance contract contributed to cost avoidance.

Cairo

Cairo reported that it avoided \$180,000 in costs mainly by terminating the USAID warehouse contract. State/ICASS took over the management of both warehouses, increasing its inventory by 50 percent but leaving the number of staff the same. Because the USAID and State warehouse buildings are adjacent to one another, placing them under a single management structure was a priority. However, although State/ICASS now oversees warehouse activities for both agencies, operations are not fully integrated. USAID still has a separate building and post officials maintained that the separate building is necessary for keeping track of its inventory, some of which legally must be used only to support development activities in Egypt and therefore cannot be merged with State's inventory. State officials contend that effective monitoring would address the issue and that further efficiencies could be gained by combining warehouse space.

Cairo did not consolidate the other targeted services for two main reasons. First, the two agencies are in separate, very distant compounds. While the embassy is located in central Cairo, USAID's building is in a suburb of the

¹⁴OMB's estimate of the average cost across all agencies of having one U.S. direct hire overseas for 2007 is \$491,000, including direct and indirect personnel costs.

city. Second, the post reported that merging leasing, residential maintenance, and motor pool services would not result in benefits. Cairo's ICASS Council, which includes management officers and support services personnel from both agencies, analyzed these services as candidates for consolidation. It found no evidence that cost avoidance, improvement in service, or change in staffing levels could be achieved, and therefore recommended they remain separate. However, post officials also cautioned that their data was imprecise and was derived from proxies or rough extrapolations. In addition, State officials questioned the post's conclusion that consolidating services would not reduce costs or result in operational efficiencies, suggesting that the post had not explored the full potential. Moreover, State officials suggested that other services might be candidates for consolidation, including travel services and human resource services for locally employed staff.

State and USAID Learned Lessons from the Pilot Projects

State and USAID have learned some important lessons from the pilot projects. These lessons were partially detailed in the October 2005 Joint Management Council evaluation, which included a number of recommendations to improve the initiative, some of which have been implemented. They included the following:

- Posts, not Washington, should decide whether to consolidate services sequentially or simultaneously. During the pilot program, Washington made many of the key decisions, according to post officials in Jakarta, Cairo, and Dar es Salaam. In addition, posts reported that it was much easier to consolidate services sequentially. More recently, many of the key decisions about consolidating services, including whether or not to consolidate services sequentially or simultaneously, have been left to post officials. Nairobi, for example, has chosen to consolidate services sequentially.
- To realize operational efficiencies and eliminate the potential for increased duplication and operational confusion, certain services, such as residential leasing and maintenance, should be paired and operated by a single service provider. During the original pilot projects, these services were not paired. According to officials in Jakarta, this resulted in some operational inefficiencies and missed costs avoided. For example, according to one official in Jakarta, Washington chose to consolidate only residential leasing, though consolidating all leasing services would have been more logical. In addition, while State and USAID decided to consolidate property management, they did not include supply management, which is closely related. More recently, Nairobi and San

Salvador decided to pair residential leasing and maintenance, among other services.

- Posts that have consolidated support services should be encouraged to expand the number of services consolidated. Phnom Penh, for example, consolidated vehicle maintenance along with motor pool operations and currently is exploring other possibilities.

In addition, in our discussions with agency and post officials, they also identified other lessons, including the following:

- The need for chiefs of mission to take a strong and active role in consolidating services. State and USAID officials attributed Phnom Penh's positive results in part to the chief of mission's strong commitment.
- The need for the agencies, particularly State, to make better use of locally employed staff consistent with security and accountability requirements in order to reduce the cost of support services overseas.

In July 2006, the State Department Inspector General issued a report that addressed, in part, the consolidation of duplicative administrative services. It found that State had done a good job of consolidating services at posts receiving new embassy compounds, but had not been as successful in combining services at posts not scheduled to receive a new embassy compound. The report also found that despite the Joint Management Council's guidance to eliminate duplicative State and USAID support services, State and USAID had duplicative services in 22 of the 27 posts that it inspected in fiscal years 2005 and 2006.

State and USAID Are Expanding Their Efforts to Consolidate Services

State and USAID are expanding their efforts to consolidate services, relying on posts to identify and eliminate duplicative services and designate a lead service provider. The approach was defined in a December 2005 message from State and USAID that provided a status report on the consolidation initiative, including lessons learned from the pilot project; recommended collocating posts adopt a model merging State and USAID services into a streamlined, unified operation; and defined the services that could be provided by State's Office of Global Support Services and Innovation. The message also directed chiefs of mission and USAID mission directors involved in the process of developing a mission performance plan to lead the effort to consolidate services at their posts, including the development of short and long-term consolidation plans. However, according to State and USAID officials, the message did not go far enough. For example, it did not define in detail the services that posts

could and could not consolidate. In addition, no detailed guidance was available for posts, particularly USAID missions, to quickly identify the functions and their associated costs that should be included in the operational baseline analysis needed to determine the lead service provider—a process that USAID mission officials in Jakarta told us was time and labor intensive because of differences in State’s and USAID’s accounting and financial systems and the inclusion of certain administrative costs within USAID’s program functions.¹⁵

Recognizing that additional guidance was needed, in March 2006, State and USAID developed a template to enable posts to quickly identify and document the items that should be included as part of the operational baseline analysis of costs and services. In addition, in April 2006, State and USAID sent a second message to posts that updated and clarified the December 2005 guidance. This message defined in detail the services that posts could and could not consider for consolidation. Services identified for consolidation included administrative support functions, such as warehouse management, expendable supplies, and motor pool services; financial management functions, such as cashiering and locally employed staff payroll processing; human resource functions, such as recruitment, and language training at post for Americans; and joint information technology systems. Services identified as not subject to consolidation included USAID technical and program management functions and nonadministrative staff and management activities that support these functions, and USAID legal advisory functions. The April 2006 message assumes that collocating posts will consolidate all administrative functions provided by State/ICASS, leaving to posts the decision about which agency will serve as the lead service provider.

Some Additional Posts Have Begun to Plan New Consolidation Projects

Certain posts have begun to plan new consolidation projects. Officials in Phnom Penh told us that they intend to consolidate additional services, and eight other posts— Jakarta, Indonesia; Nairobi, Kenya; San Salvador, El Salvador; Managua, Nicaragua; Kiev, Ukraine; Tegucigalpa, Honduras; Pristina, Kosovo; and Cotonou, Benin—have also begun to plan consolidation projects. However, only one of these posts has advanced beyond the planning stages, and Nairobi, which started first and had a timetable calling for State and USAID to consolidate services before

¹⁵Examples of administrative costs included in USAID’s programming include, for instance, the costs associated with budget analysis.

USAID's scheduled September 2006 move into the new embassy compound, now does not plan to begin consolidating services until after the move occurs.

Phnom Penh

Post officials in Phnom Penh told us in February 2006 that they plan to eventually consolidate all State and USAID services, but they have not announced any specific plans, deferring any actions to consolidate additional services until after USAID's move into the new embassy compound, scheduled for September 2006. Post officials underlined three main reasons for consolidating all State and USAID services: their desire to become a model post, an interest in greater efficiencies, and cost savings.

Jakarta

In May 2006, the post announced that it had consolidated one additional service, was in the process of consolidating a second, and planned to consolidate two other services by November 2006. As of May 2006, USAID had taken over nonresidential leasing and had begun the process of taking over warehousing functions. USAID plans to complete its takeover of warehouse functions by October 2006. However, post officials reported that one issue, if not resolved, could erase any cost savings resulting from this effort—the need to reconcile State's personal property regulations, which require posts to track and account for all items valued at more than \$500 with USAID's much more rigorous regulations, requiring missions to track and account for all items valued at more than \$100.¹⁶ The post has asked State and USAID to waive USAID's regulations on personal property management.

In addition, the post plans to consolidate procurement and human resource services for locally employed staff under the leadership of State/ICASS by November 2006. State/ICASS plans to take over USAID's administrative procurement function. However, this will not affect USAID's program-related procurements. In addition, State/ICASS plans to take over all of USAID human resource functions involving locally employed staff, such as payroll services.

Nairobi

In preparation for USAID's move to the new embassy complex, expected in September 2006, Nairobi plans to consolidate seven services. The post's original timetable called for State and USAID to consolidate services

¹⁶Personal property includes such items as vehicles, furniture, equipment, supplies, and machinery.

before USAID's scheduled move into the new embassy compound. As of June 2006, the post had not begun to consolidate any services.

Nairobi began the process of consolidating support services in April 2005. In August and September 2005, a combined State and USAID team from Washington, with assistance from a private consultant, conducted an assessment of services. The team's report, submitted in September, 2005, recommended consolidating six services—motor pool, vehicle maintenance, non-expendable property, warehousing, expendable property and administrative supply, residential maintenance, leasing, shipping, and customs. It also recommended combining all administrative services and staff into a single organization under the leadership of State/ICASS, but with a strong role for USAID. As an alternative, the team's report recommended consolidating the six services under the leadership of either State/ICASS or USAID.

Post officials decided to consolidate the six services, but not to combine the services into a single organization in the short term. Five reasons were given for not adopting this model: differences between the two agencies on where the savings should be achieved, with USAID arguing that consolidation should not result in any additional costs for the agency; the need for Washington to harmonize systems before certain services could be consolidated at post; ambiguity in lines of authority; uncertainty over personnel assignments; and skepticism that meaningful cost savings could be achieved with this combined structure. Instead, the post decided to adopt the same model used by the pilot projects involving the provision of services by one of the two service providers. However, three factors—budget constraints, conflicting interests of the two agencies, and a lack of effective communication between Washington and posts—continued to slow the progress of this effort.

More recently, in June 2006, the post reported that it had decided to consolidate a seventh service—reproduction services. As of June 2006, it had not begun to consolidate any service.

San Salvador

In April 2006, a team from State and USAID in Washington traveled to San Salvador to assist the post's efforts to consolidate State and USAID support services, including determining the lead service provider. A total of nine services were identified for consolidation, including administrative supplies, motor pool, vehicle maintenance, nonexpendable property management and warehousing, leasing, residential maintenance, reception and switchboard, copy services, and mail and messenger services. The State and USAID team suggested that San Salvador take several steps to

move the initiative forward, including developing a timeline and an overall plan for implementation. The post has indicated that it plans to consolidate reception and switchboard, copy, and mail and messenger services by October 1, 2006. The post plans to consolidate the other services beginning on April 1, 2007.

Managua

In May 2006, a Washington team visited Managua to facilitate the post's consolidation efforts. The team examined motor pool, administrative supplies, warehouse, residential maintenance, leasing, shipping, travel, reproduction, reception services, and human resource services for locally employed staff. Their report recommended that the post develop an overarching communication plan and form a working group to manage implementation activities, including conducting a cost analysis, reviewing service quality, standardizing processes, outlining a plan, and creating a timeline. The report also stated that if cost savings cannot be reached within 3 to 6 months, the post should identify a plan to achieve cost savings over the next 1 to 2 years.

Kiev

USAID is reducing the size of its mission in Ukraine and is looking to State to take over some of its administrative services. In addition, the post is in the process of planning for a new embassy compound. For these reasons, the post has announced plans to consolidate a number of State and USAID support services. The services that will be consolidated are travel services, shipping and customs, warehousing, and human resource services for locally employed staff. In addition, the post plans to consolidate motor pool, and residential maintenance and leasing services. For this purpose, the post has developed and sent a communications strategy to post personnel and is currently at work on an implementation strategy and timeline.

Tegucigalpa, Pristina, and Cotonou

Tegucigalpa plans to consolidate State's and USAID's warehouses in the summer of 2006. It recently created a task force to examine the provision of other support services and recommend consolidation where practicable and plans to consolidate additional support services next year. However, as of June 2006, the post had not identified the other support services that it plans to consolidate. In addition, Pristina has stated that it plans to implement a consolidation project in the next 2 years, starting with motor pool services. Finally, Cotonou, Benin, has announced plans to consolidate warehouse, motor pool, and maintenance services beginning in October 2006.

State and USAID Face Challenges in Expanding Consolidation of Support Services

State and USAID face challenges in expanding the consolidation of support services. The challenges include the need for State and USAID in Washington and at posts to address concerns that USAID's costs may increase if services are consolidated due in part to State/ICASS's reliance on higher-cost U.S. direct hire staff even though overall U.S. government costs will decrease; develop better cost and performance data, reduce or replace U.S. direct hire and locally employed staff, communicate better, and resolve technical differences. During the course of our work, State and USAID have taken steps to address some of these challenges. For instance, in April 2006, State took steps to encourage the regional bureaus to identify and replace U.S. direct hires with locally employed staff. In addition, in June 2006, the two agencies produced a draft strategy that defines broad goals and sets forth a common vision—to combine at collocating posts all State and USAID services into a single administrative structure and reduce the number of U.S. direct hire personnel. The steps taken by State and USAID are a positive development. However, their full impact has yet to be determined. In addition, the draft strategy is not sufficiently comprehensive, since it does not include a plan that contains key elements including specific timelines, accountability mechanisms, specific goals, and performance measures to show results.

USAID's Concerns about Potential Cost Increases

USAID officials have expressed concerns that because State/ICASS relies more heavily on higher-cost U.S. direct hire staff, its costs could increase if services are consolidated. However, State officials have argued that by consolidating services, USAID will save a significant amount of the cost imposed by the Capital Security Cost Sharing Program, which requires agencies with staff assigned to overseas missions to pay a portion of the construction costs of new embassy compounds based on the number of agency staff at all overseas locations and the type of office space.¹⁷ USAID acknowledges that in some cases, it will save money by consolidating services under State/ICASS. However, USAID officials also cautioned that they have not determined the full budget impact of support service consolidation, taking into consideration the Capital Security Cost Sharing Program.

An October 2005 memo issued by the post in Nairobi, repeated again in a message to Washington in June 2006, stated that while the proposed unified administrative structure had great potential for overall cost savings

¹⁷P. L. 108-447, Div. B, Title IV, sec. 629. Congress authorized the Capital Security Cost Sharing Program in fiscal year 2005.

to the U.S. government, it would likely result in increased costs for USAID. It also stated that the probable increased cost to USAID of ICASS services was a key obstacle that had to be surmounted before the project could move forward—an assessment that post officials in Nairobi during our visit in January 2006 agreed was slowing the progress of the project considerably. In particular, USAID officials have expressed concern about the effects that increased costs as a result of service consolidation could have on its operating expense budget. USAID officials in Washington stated that while USAID’s program budget worldwide has increased since fiscal year 2001, its operating expense budget, adjusted for inflation, has remained essentially flat. In addition, USAID has opened missions in Afghanistan and Iraq, which have placed additional strains on its operating expense budget. Our analysis of the data shows that USAID’s operating budget from fiscal year 2001 to fiscal year 2006 increased annually on average by 2.5 percent.

In addition, while USAID officials recognize that consolidating support services overseas could result in reduced costs for the U.S. government as a whole, they have expressed skepticism about State/ICASS’s ability to control or reduce the cost of services. Specifically, these officials stated that State/ICASS relies more heavily than USAID on more expensive U.S. direct hire personnel and has in the past experienced difficulties controlling costs. In September 2004, we found that State/ICASS costs rose almost 30 percent from 2001 to 2003 because of State’s increased hiring of U.S. direct hire personnel, rising security costs, and other factors.¹⁸ We also reported that 21 out of 23 customer agencies had chosen to reduce their participation in ICASS during the same period. More recently, OMB rated ICASS’s performance only as “adequate” in part because of the program’s inability to control costs, which according to OMB, have increased an average of 7.5 percent since fiscal year 2001.¹⁹

However, State officials have argued that by consolidating services under State/ICASS, USAID could save a significant amount of the cost imposed by the Capital Security Cost Sharing program as they would likely have fewer staff assigned to embassies. Under the Capital Security Cost Sharing

¹⁸See [GAO-04-511](#).

¹⁹Office of Management and Budget, Program Assessment Rating Tool. OMB developed the Program Assessment Rating Tool to assess and improve program performance. Using the tool, OMB places each program into one of five categories: “Effective,” “Moderately Effective,” “Adequate,” “Ineffective,” and “Results Not Demonstrated.”

Program, agencies with staff assigned to overseas missions pay a portion of new embassy compound construction costs based on the number of agency staff at all overseas locations and the type of office space. The agencies' share of embassy construction costs is phased in over a 5-year period, beginning in fiscal year 2005.

USAID officials acknowledge that the costs imposed by the Capital Security Cost Sharing Program could mean that for certain missions it may make sense to consolidate services under State/ICASS. For example, according to USAID, a June 2006 examination of support services provided by USAID in Gaborone, Botswana, determined that by consolidating services under State/ICASS, the post could save approximately \$78,000 per year, chiefly by reducing the number of locally employed staff and terminating the lease on a warehouse. However, USAID officials also cautioned that the Capital Security Cost Sharing Program is relatively new and its full effect is uncertain.

Posts Lack Reliable Cost Data

In its October 2005 evaluation of the pilot project, State and USAID reported that consolidating services at the pilot posts resulted in costs avoided estimated at approximately \$386,000. However, agency officials indicated that this estimate is imprecise and based on figures provided by posts, which themselves stem in part from extrapolations or proxies. Post officials stated that because certain performance and cost data was lacking, data often was not available to make valid before-and-after comparisons, forcing them to use rough approximations.

Several factors complicated posts' efforts to estimate cost avoidance. First, State and USAID use different budgeting and accounting methods, and did not follow the same methodology for developing cost information. For example, State and USAID's motor pool logs do not capture the same information and therefore cannot be used to make direct comparisons. In addition, some USAID staff manage multiple services but do not closely monitor time spent on each, making it difficult to disaggregate the cost of a service. Further, during the pilot project, posts did not have good guidance for reconciling different accounting rules for transferring assets, such as building space and vehicles. This caused uncertainty in valuations and raised questions about how to calculate one time costs.

Reluctance to Reduce Staff

To achieve cost benefits from consolidation, State and USAID need to reduce or replace U.S. direct hire staff where appropriate or better utilize locally employed staff. According to the October 2005 Joint Management Council evaluation, significant savings from consolidation of services can only occur if there is a reduction in the number of U.S. direct hire staff

overseas. Although officials from both agencies in Washington and in the field recognize this fact, only one of the pilot posts—Dar es Salaam—was able to achieve such an outcome.²⁰ Dar es Salaam decided to replace a U.S. direct hire position—a State Department assistant general services officer—with an eligible family member.²¹

Post officials we spoke with in Phnom Penh and Dar es Salaam said that they were reluctant to implement reductions in force, in part because of a lack of consistent guidance from State and USAID, choosing to combine the two workforces and transfer the cost of personnel from one agency to another, or rely on slow attrition to achieve this reduction. According to agency and post officials, the failure to implement reductions in force of locally employed staff has reduced the overall impact of consolidating services. The October 2005 evaluation stated that Washington needed to provide detailed guidance to posts on both U.S. and locally employed position reductions resulting from service consolidation. Post officials also attributed their reluctance to reducing the number of locally employed staff to other factors. For example, post officials in Nairobi and Dar es Salaam told us that their reluctance to reduce the number of locally employed staff also stemmed from loyalty to their staff, many of whom have worked for the United States for many years and were present during the 1998 embassy bombings. In addition, post officials cited concerns about diminishing morale.

State has demonstrated potential cost avoidance from reducing staff positions overseas. For example, State reported that a rightsizing initiative in Addis Ababa, Ethiopia, avoided approximately \$14.2 million in construction costs for the new embassy compound. According to State, the initiative avoided construction costs by reducing the number of projected staff positions by 79—including 36 U.S. direct hire staff. However, we have not validated State's reported cost avoidance.

USAID has argued that one way State can reduce the cost of providing support services is by replacing U.S. direct hire personnel, particularly State Department general service officers, with locally employed staff. State has estimated the average cost of employing a locally employed staff

²⁰Nairobi has also taken steps to eliminate two U.S. direct hire positions. However, as of June 2006, Nairobi had not begun to consolidate support services.

²¹General services officers provide leasing, housing and contracting services for State and other agencies.

member, including salaries and benefits, at approximately \$24,000.²² USAID tends to use locally employed staff extensively, and these staff often play a key role in the mission's operations and programming. However, State tends to use locally employed staff to a lesser degree because of requirements involving entry into secure parts of the chancery and other factors. In June 2006, the post in Nairobi asked State and USAID in Washington to clarify the extent to which locally employed staff can substitute for State Department direct hire general service officers.

In April 2006, State's Undersecretary for Management took steps to reduce the number of U.S. direct hire staff overseas, requiring State regional executive directors to submit by June 1, 2006, a list of U.S. direct hire positions for conversion to locally employed staff. Moreover, in June 2006, State and USAID developed a draft strategy that states, among other things, that posts rightsizing and consolidating services need to conduct reductions in force of locally employed staff in a transparent fashion and, where appropriate, to establish plans for this purpose. However, as of July 2006, the April 2006 message had resulted in the identification of only 21 U.S. direct hire positions for conversion. State officials told us in July 2006 that they expect that the bureaus will identify additional positions. In addition, a recent survey of posts by the Bureau of Human Resources disclosed that as of June 2006, 61 embassies had not prepared reduction in force plans for locally employed staff, and another 30 have plans that are over 10 years old.

Communication between Headquarters and Posts

State, USAID, and post officials told us that consistent and effective communication between Washington and the posts has not always been forthcoming, hampering posts' efforts to develop and implement consolidation projects. For example, in February 2005 USAID instructed posts to demonstrate that consolidating services would not result in increased costs to the agency. The directive showed that there was a basic philosophical difference between State and USAID about where savings should be achieved. State/ICASS has argued that saving money for the U.S. government is the overall goal, and USAID has argued that any consolidation be cost-neutral for USAID. According to post officials in Nairobi, the effect of the USAID directive was to cause confusion about

²²According to State, this estimate was derived by adding the salaries of all locally employed staff worldwide, including locally employed staff employed by other agencies, and dividing this by the number of staff employed. While we have not validated State's methodology for producing this estimate, our analysis indicates that the salary costs of locally employed staff overseas are considerably lower than those for U.S. direct hires.

Technical Differences Will Hamper Efforts to Consolidate Services

the purpose of consolidating services, slowing the process, and causing it to be more contentious, since a time-consuming cost analysis is needed to demonstrate that consolidating services would not result in increased costs to USAID. According to USAID officials, as of April 2006, this conflicting guidance remained in effect. However, State and USAID officials said in June 2006 that they are trying to address the difference by collaborating on the creation of a new shared strategic vision for consolidating services.

State's and USAID's efforts to consolidate support services face challenges stemming from having different technical systems, such as different accounting, financial, and information technology systems and software. In addition, State and USAID have different regulatory requirements with respect to accounting for and tracking property. While State and USAID have recommended that collocating posts adopt a model merging State and USAID services into a streamlined, unified operation, Nairobi's experience suggests that State and USAID will not achieve this goal until these technical challenges are resolved.

State and USAID have incompatible budgeting, accounting, and information technology systems. As a result, posts have found it difficult and contentious to determine the most cost-effective service provider. In addition, the different systems have complicated efforts to merge operations, such as warehousing. State and USAID have tried to address these issues by creating a cost analysis template and a specialized version of their standard costing software application. However, while posts acknowledge that these tools have helped, they also stated that the tools have not entirely resolved the problems caused by incompatible systems.

To identify the most cost-effective service provider, posts must identify the appropriate functions that must be included in the analysis and their associated costs. In addition, they must conduct a side-by-side comparison of the two service providers' cost and quality of services, and produce a "what if" analysis using a different mix of inputs, such as vehicles and drivers. This is done to determine the per unit cost of enlarging the scope of a service, for example, the cost of transferring vehicles and drivers from one agency's motor pool to another. To facilitate valid cost comparison, State and USAID have agreed to use the State/ICASS system to examine costs and created a special software tool for alternate service providers, such as USAID, to use. However, posts still face three key problems.

First, the process of putting a value on certain inputs can to a certain degree be subjective and is based on past performance, not future requirements. For example, calculating a hypothetical cost for USAID to provide motor pool services involves placing a value on staff time spent supervising or operating the vehicle fleet. According to State and USAID officials, this value can vary substantially among posts and between agencies because of a lack of standardized rules and procedures. Oversight of most support services also varies. In addition, forecasting new requirements on the basis of past performance can lead to misjudging costs substantially.

Second, most USAID missions do not have experience using the alternate service provider software. According to State and USAID officials, the recent development of a template in March 2006 to gather and translate data related to specific cost centers has reduced the amount of time and effort required to gather the needed data and create the baseline analyses needed to compare the two service providers' cost and quality. In addition, according to State officials, State/ICASS is developing a new version of the alternate service provider software. According to State and USAID officials, this software will make it easier for posts, particularly USAID missions, to identify the appropriate costs that must be included and produce "what if" analyses. However, State, USAID and post officials also cautioned that the template will not eliminate the subjective quality of the cost comparison, and as a result, quantifying costs will remain a problem. In addition, as of April 2006, State and USAID officials did not know when the new version of the alternate service provider software would be released.

Third, State and USAID use different information technology systems to track and account for property items in their warehouses, manage and monitor payroll and human resource activities, and communicate internally and externally, among other things. For instance, State uses a property tracking system that is different from that of USAID. To fully integrate their warehousing services, State and USAID will need to adopt one system. In May 2006, the post in Jakarta asked State and USAID to allow it to use State's system for tracking property to track all items in the warehouse, including those of USAID. However, as of June 2006, post officials indicated that State and USAID had not responded to Jakarta's request. Post officials also told us that as an interim measure, they have determined that whichever agency is serving as the service provider will be utilizing its own guidelines in providing the services, as is consistent with State/ICASS guidelines for alternate service providers.

In July 2006, State officials told us that the Joint Management Council was in the process of developing plans for harmonizing the two agencies' systems and procedures. However, these plans were not completed in time for us to analyze them.

State and USAID Need a Comprehensive Plan

In June 2006, State and USAID developed a draft strategy that defines broad goals and sets forth a common vision. Among other things, the draft strategy sets as an immediate goal one of consolidating all State and USAID services into a combined or single mission administrative operation for those posts moving into new embassy compounds. It also sets as a goal the reduction of U.S. direct hire personnel and their replacement, where appropriate, with locally employed staff. The draft strategy is a step forward, but our experience shows that the strategy must be coupled with a more comprehensive, detailed implementation plan that includes milestones, specific timelines, accountability mechanisms, more detailed goals, and performance measures to show results. State officials told us in early July 2006 that the Joint Management Council is in the process of developing a plan. However, it was not completed in time for us to analyze the results.

The Government Performance and Results Act of 1993 requires federal agencies to develop plans and measures to assess progress in achieving their goals. In particular, it requires agencies to set multiyear strategic goals in their strategic plans and corresponding annual goals in their performance plans, measure performance toward the achievement of those goals, and report on their progress.

The draft strategy outlined by State and USAID in June 2006, while a step in the right direction, does not provide a detailed map of actions to take, and for this reason, State and USAID need to define a more comprehensive plan. For example, the strategy does not identify the actions that need to be taken to establish a single, joint administrative structure. Such a structure was recommended for Nairobi in September 2005, but the post decided not to adopt this structure in the short term, in part because of skepticism that meaningful cost savings could be achieved with this structure and the need for harmonization of State and USAID systems and procedures. In addition, the strategy does not address the fundamental problem that in some cases adequate performance measures to fully demonstrate the extent of cost and operational efficiencies do not exist.

The set of challenges faced by State and USAID as they consolidate overseas support services are similar to those faced by other

organizations. In May 2006, we convened a workshop with State and USAID officials as well as outside experts to discuss the most important issues. The experience of other organizations generally supports our analysis of the key challenges and highlights the need for strong leadership, a clear direction, consistent communication, and agreement on a standard set of procedures and systems. For more detailed information on outcomes from the workshop, see appendix III.

Conclusion

State and USAID have taken important steps toward the consolidation of support services. During the course of our work, relations between State and USAID improved. State and USAID have begun to integrate certain operations and management structures and are currently revising their joint strategic plan. This provides an opportunity to move the consolidation process forward by addressing the challenges that have limited the progress of the consolidation effort. If State and USAID can overcome these challenges, they may have the potential to realize significant savings and efficiencies. To do so, State and USAID need to develop a more comprehensive plan that establishes clear goals, performance targets, and accountability mechanisms.

Recommendations for Executive Action

We recommend that the Secretary of State, in conjunction with the USAID Administrator,

- designate overseas services consolidation a priority joint State/USAID objective;
- define a comprehensive plan that provides a detailed picture of the desired end state; addresses cost and incentive differences between agencies; enables clear and consistent communications from headquarters to post; demonstrates the overall cost benefits of consolidation; defines timelines, metrics, and results-oriented criteria for success; and outlines, where appropriate, options for leveraging more locally employed staff; and
- set timelines for accomplishing the standardization of State and USAID policies, procedures, and systems.

Agency Comments and Our Evaluation

We provided a draft of this report to the Department of State and USAID for comment. State's and USAID's comments can be found in appendixes V and VI. We also received technical comments from both State and USAID, which have been incorporated into the report as appropriate.

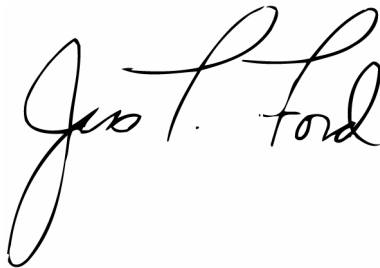
State fully agreed with our recommendations. State said that it is actively working with USAID to address the policy, procedural, and technical issues identified in our report. State believes that elimination of duplicative administrative support platforms will result in overall savings to both State and USAID.

USAID also agreed with the basic findings of our report. USAID said that it is clear that by consolidating duplicative administrative operations and eliminating staff, the U.S. government will save considerable sums of money. USAID said that it and the State Department are in the process of developing a comprehensive plan to improve the manner in which support services are managed.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies of this report to other interested members of Congress, the Library of Congress, and the Secretary of State. 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 staff have any questions about this report, please contact me at (202) 512-4128. Other GAO contacts and staff acknowledgments are listed in appendix VII.

Sincerely yours,

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

Jess T. Ford
Director, International Affairs and Trade

Appendix I: Posts Where State and USAID Are Currently Collocated

Alexandria, Egypt
Amman, Jordan
Baku, Azerbaijan
Basrah, Iraq
Beirut, Lebanon
Belgrade, Serbia
Bishkek, Kyrgyzstan
Bogotá, Colombia
Brasilia, Brazil
Bridgetown, Barbados
Brussels, Belgium
Bujumbura, Burundi
Colombo, Sri Lanka
Dar es Salaam, Tanzania
Dhaka, Bangladesh
Djibouti, Djibouti
Dushanbe, Tajikistan
Freetown, Sierra Leone
Geneva, Switzerland
Georgetown, Guyana
Hillah, Iraq
Islamabad, Pakistan
Jakarta, Indonesia
Jerusalem, Israel
Kabul, Afghanistan
Lima, Peru
Luanda, Angola
Mexico City, Mexico
Minsk, Belarus
Monrovia, Liberia
Moscow, Russia
New Delhi, India
Nicosia, Cyprus
Phnom Penh, Cambodia
Podgorica, Montenegro
San Salvador, El Salvador
Istanbul, Turkey
Sanaa, Yemen
Sofia, Bulgaria
Tashkent, Uzbekistan
Tirana, Albania

**Appendix I: Posts Where State and USAID Are
Currently Collocated**

Ulaanbaatar, Mongolia
Yerevan, Armenia
Zagreb, Croatia

Appendix II: Posts Currently Planned for Construction During Fiscal Years 2006-2011 Where State and USAID Will be Collocated

Abuja, Nigeria
Accra, Ghana
Addis Ababa, Ethiopia
Almaty, Kazakhstan
Antananarivo, Madagascar
Astana, Kazakhstan
Asuncion, Paraguay
Baghdad, Iraq
Bamako, Mali
Conakry, Guinea
Cotonou, Benin
Dili, East Timor
Harare, Zimbabwe
Istanbul, Turkey
Juba, Sudan
Kampala, Uganda
Kathmandu, Nepal
Khartoum, Sudan
Kiev, Ukraine
Kigali, Rwanda
Kingston, Jamaica
Kinshasa, Congo
Lusaka, Zambia
Managua, Nicaragua
Manila, Philippines
Mbabane, Swaziland
Nairobi, Kenya
Ouagadougou, Burkina Faso
Panama City, Panama
Peshawar, Pakistan
Port-au-Prince, Haiti
Pristina, Kosovo
Quito, Ecuador
Santo Domingo, Dominican Republic
Sarajevo, Bosnia
Skopje, Macedonia
Tbilisi, Georgia

Appendix III: Results of Workshop on Consolidating Support Services

In May 2006, we convened a workshop with State and U.S. Agency for International Development officials as well as two outside experts to discuss the most important issues related to State and USAID efforts to consolidate overseas support services.

The experience of other organizations suggests that creating shared service centers and consolidating support services can achieve significant cost avoidance and efficiencies. Moreover, experts suggest four elements are critical for achieving success in such efforts: defining an overarching vision, communicating clearly and consistently, demonstrating the cost benefits, and developing metrics.

External studies and the results of our May 2006 workshop show that private and public sector organizations that consolidate support services and create shared service centers can achieve major cost avoidance and efficiencies. For example, in the private sector, British Petroleum, one of the world's largest energy companies, has achieved savings of 20 percent to 50 percent since adopting a consolidated services model in 1995. In the public sector, the U.S. Postal Service reported that consolidating and creating shared accounting service centers enabled it to achieve economies of scale by closing 80 district accounting offices. According to one study, the average organization may realize net cost decreases of approximately 25 to 55 percent through efforts to consolidate services and create shared service centers, depending on the function. For instance, consolidating and creating shared service centers for purchasing typically results in a 25 percent cost reduction for that function; while consolidating and creating shared service centers for general accounting functions can result in a 55 percent cost reduction.

A number of private sector corporations in the United States and throughout the world have adopted a consolidated or shared service model. For example, British Petroleum's program involves the consolidation of finance and accounting functions, including internal and external financial reporting, and budgeting and forecasting functions, as well as the creation of shared service centers. According to one private sector consulting company, as a result of these actions, British Petroleum's finance and accounting transactional unit costs have steadily declined, and working capital improvements measured in the tens of millions of dollars have already been achieved, with more on the way.

In addition, public sector organizations in the United States and throughout the world have also adopted shared services models. These include the U.S. Postal Service, which as part of an initiative in 2003 to

consolidate its finance function reported that consolidating and creating shared accounting service centers enabled it to achieve economies of scale by closing 80 district accounting offices. The Postal Service's *Strategic Transformation Plan: 2006-2010* also outlines a human resources shared services initiative that will centralize certain transactional human resource functions and other noncore support functions as well, such as information technology and purchasing functions.¹

While examples of public and private sector successes in consolidating services are numerous, it is important to note that cost savings and operational efficiencies can vary. State and USAID may not be able to achieve similar levels of success because of differences in the nature and scope of their efforts. Nonetheless, the fact that large companies and organizations have achieved positive results clearly demonstrates that the potential for savings exists and suggests that their lessons learned may be applicable to State and USAID's efforts.

The challenges faced by State and USAID as they consolidate overseas support services are similar to those faced by other organizations. The experiences of these organizations highlight the need for strong leadership, a clear direction, consistent communication, and agreement on a standard set of procedures and systems. For example:

- Defining an overarching vision: Experts suggest that a strategic framework is critical to the success of a consolidation effort. Such a framework should provide a detailed picture of the desired end state, define results-oriented criteria for success, and outline key milestones. In addition, it should address concerns about staff reductions and career implications. Most importantly, the plan should state that leadership commitment, from the executives of both agencies, is strong and unified.
- Communicating clearly and consistently: Experts suggest that communication should be consistent and clear, with detailed direction on how to implement the consolidation effort at post. Agency officials indicated that posts have received mixed messages from headquarters in the past.
- Demonstrating the cost benefits: Experts suggest demonstrating a compelling rationale for undertaking the consolidation effort is critical.

¹United States Postal Service, *Strategic Transformation Plan: 2006-2010*, (Washington, D.C.: September 2005).

However, State and USAID do not have the data or a method for accurately determining and comparing the cost and quality of services provided by each agency, making it difficult to accurately demonstrate the benefits of consolidating services and achieve consensus on which is the most efficient service provider.

- **Developing metrics:** Experts suggest that the adoption of performance measures is critical to evaluating operational efficiencies. Although State and USAID have developed some metrics, key performance metrics are lacking. For example, the May 2005 study that recommended consolidating services at the four pilot posts noted that for both State/ICASS and USAID, motor pool trip logs are not used for an analysis of driver/vehicle utilization, peak volume/time determination, or capacity requirements. Moreover, warehouse capacity use and inventory turnover are not tracked to determine the need for warehouse space or to highlight opportunities for disposal of unused items. The lack of performance measures has also complicated posts' efforts to quantify and document cost avoidance.

Appendix IV: Scope and Methodology

To address what State and USAID have accomplished and learned from their initiative to consolidate overseas support services, we obtained and reviewed a number of State and USAID documents, including the State and USAID joint strategic plan for fiscal years 2004 through 2009, the May 2004 study that led to the original pilot project, and the October 2005 evaluation of lessons learned as a result of the pilot project. We also met with State and USAID officials in the functional and regional bureaus, as well as private sector consultants knowledgeable about the initiative. We conducted fieldwork at three of the four original pilot posts—Cairo, Egypt; Dar es Salaam, Tanzania; and Phnom Penh, Cambodia and conducted a teleconference with officials of the fourth—Jakarta, Indonesia. We also conducted fieldwork at a post that is planning to consolidate support services—Nairobi, Kenya. At each post, we met with the principal officers, including the chief of mission and the deputy chief of mission, as well as the State management officer and the USAID executive officer. At many posts, the State management officer and the USAID executive officer are responsible for managing the day-to-day operations of their respective agencies, and in most cases, these officials were given the responsibility of working out the details of consolidating support services. To assess the reliability of the cost and operational efficiency data that posts provided, we (1) reviewed pertinent documents provided by State, USAID, and the posts, such as the May 2004 study that detailed problems with obtaining reliable cost and performance data, and (2) discussed data reliability with agency and post officials knowledgeable about the data. We noted limitations in the data that result from State and USAID collecting data through different systems and managers sometimes failing to record accurately the times allocated to different tasks. However, we determined the data to be sufficiently reliable for the purposes of this report.

To address the challenges that State and USAID have encountered in implementing this program, we obtained and analyzed a number of documents, among them the May 2004 study that led to the original pilot project, the February 2005 directive from USAID directing missions to demonstrate that consolidating services would not result in any additional costs to the agency before agreeing to consolidate a support service, the October 2005 evaluation of lessons learned, and the December 2005 and April 2006 directives from State and USAID to the missions that, among other things, established the services that can and cannot be consolidated. We also reviewed a copy of State and USAID's June 2006 draft strategy. In addition, we met with knowledgeable agency and post officials, including State/ICASS officials and USAID contractors knowledgeable about the ICASS alternate service provider software and its use. Moreover, we reviewed certain State/ICASS and USAID policies and procedures that

outline the requirements for managing property at post. These are spelled out in USAID's Automated Directives System, and in State's Foreign Affairs Manual.

To learn what private and public sector lessons learned can be applied to this initiative, which we used to help frame our recommendations, we reviewed a number of studies that examined how private and public sector organizations have implemented efforts to consolidate and share support services. Many of these studies detail shared service best practices and lessons learned. We also met with private and public sector officials knowledgeable about or responsible for implementing shared services. Finally, in May 2006 we convened an informal roundtable discussion featuring two respected experts on governance and shared services. The two experts were Jonathan Breul, of the IBM Center for the Business of Government, a research center dedicated to improving government services; and Brad Gladstone, of Accenture, a global management consulting and technology services company. Breul, a Senior Fellow with the IBM Center, previously served as a Senior Advisor to the Deputy Director for Management in the Office of Management and Budget, and has provided his insights to a number of government agencies and initiatives, including the State Department, and the *President's Management Agenda*. Gladstone, a Senior Executive in Accenture's Federal Client Group, leads their finance and performance management practice. He has provided his expertise on consolidation and shared services to a wide range of customers in both the public and private sectors, including the Departments of Interior and Agriculture. State, USAID, and other agency officials participated in this informal roundtable. We prepared a summary of lessons learned based on the roundtable discussion and shared this with State and USAID officials.

We performed our work from November 2005 through July 2006 in accordance with generally accepted government auditing standards.

Appendix V: Comments from the Department of State



United States Department of State

*Assistant Secretary for Resource Management
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

AUG 28 2006

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "OVERSEAS STAFFING: State and USAID Should Adopt a Comprehensive Plan to Improve the Consolidation of Overseas Support Services," GAO Job Code 320380.

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 Jennifer Bantel, Special Assistant, Bureau of Administration, Office of Global Support Services and Innovation at (202) 663-3505.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradford R. Higgins".

Bradford R. Higgins

cc: GAO – Jose Pena
A – Raj Chellaraj
State/OIG – Mark Duda

**Department of State Comments on the GAO Draft Report
Overseas Staffing: State and USAID Should Adopt a Comprehensive Plan to
Improve the Consolidation of Overseas Support Services
(GAO-06-829, GAO Code 320380)**

Thank you for the opportunity to comment on your draft report entitled, *Overseas Staffing: State and USAID Should Adopt a Comprehensive Plan to Improve the Consolidation of Overseas Support Services*. The Department of State fully agrees with the GAO Recommendations for Executive Action as stated in the Draft Report. The Department believes that the Secretary of State has already designated overseas services consolidation a priority joint State/USAID objective as detailed in the State/USAID Joint Performance Plan for FY 2007. Under the auspices of the State/USAID Joint Management Council (JMC), State is committed to working with its USAID partners to realize the elimination of duplicative administrative support platforms at all of our overseas locations through the consolidation of common, agreed-upon administrative services. The Department of State fully believes that administrative consolidation, in conjunction with ongoing efforts to streamline, rightsize and reduce costs, will result in overall savings to both State and USAID. The Department is working to realize the consolidation of common administrative services overseas and streamlined policies, procedures, and technology at the agency level.

Under the direction of the JMC, co-chaired by State's Under Secretary for Management and USAID's Deputy Administrator, State and USAID are actively using Enterprise Architecture methodology to systematically define the comprehensive plan to achieve this goal. Joint Business Analysis Teams, created by the JMC and reporting to the JMC Directorate, employ Enterprise Architecture techniques and are actively working with State and USAID agency stakeholders to address the outstanding policy, procedural, and technical issues.

As noted in the GAO report, State and USAID agreed upon an overarching strategic vision statement at the JMC Meeting on July 14, 2006. That statement will be operationalized through a communications strategy, an optimization strategy, a governance strategy, and an overall management plan. All are currently in draft. State anticipates that the management plan will be approved by both agencies, and disseminated to all stakeholders by mid-September of 2006. State is committed to ensuring that this plan, and all steps and processes needed, contain the components of success to include those outlined by the Draft Report.

State and USAID have already determined that the path forward will be a three-tiered approach to the consolidation of common administrative platforms:

1. Consolidation at posts in which State and USAID are or will be co-located in FY 2007;
2. Consolidation to extent possible at posts where State and USAID will be co-located after FY 2007, with consolidation of the remaining services within six months of co-location;
3. Consolidation or employment of Alternate Service Provider (ASP) at all posts where co-location is not currently envisioned resulting in a single service provider for each service.

State's Office of Global Support Services and Innovation (A/GSSI) is conducting extensive analysis of the financial impact of consolidation on State International Cooperative Administrative Support Services (ICASS) and USAID Operating Expenses (OE) budgets as well as on all customer agency invoices by using the information provided by four of the posts that participated in the Shared Services Baseline Operational Studies conducted jointly by State and USAID Washington teams. This work will provide concrete information regarding cost savings realized through consolidation. It will also provide the basis to address the cost and incentive differences between the two agencies. Furthermore, the two agencies' ICASS experts will meet in late August to resolve ICASS issues related to administrative consolidation.

State and USAID, through the JMC, are incorporating communication to overseas posts into the Strategic Vision and into all facets of policy, timelines, procedural changes, and milestones required to meet our desired end state. The JMC has created a website containing all policy information, guidance, contact information, and the timelines, milestones, requirements, and status of the JMC working groups. In addition, all policy and timeline requirements will be addressed to overseas posts via official cable on a continuing basis.

Under the auspices of the JMC, State and USAID have already realized many instances of standardization of policies, procedures, and systems. State welcomes the opportunity to expand on these achievements to ensure successful consolidation of common administrative services at our mutual overseas missions. The JMC working groups are now assessing which elements of their respective business lines will require changes to ensure harmonized procedures and regulations, and are systematically working on implementing that harmonization. State firmly believes that this is the backbone to the long-term realization of cost savings and cost avoidance.

State also offers the following comments on the Draft Report.

The Bureau of Human Resources, Office of Overseas Employment (HR/OE) has taken a very proactive approach to addressing Reduction in Force (RIF) issues. HR/OE's initiative on RIF issues includes updating the RIF Plan Template and accompanying guidelines for posts to use in developing post-specific RIF plans. The revised RIF Plan Template is currently under review and will replace the template on HR/OE's website as soon as it is approved. HR/OE is also looking at revising the guidelines to include a requirement that posts, at a minimum, revise their RIF plans every five years. RIF planning requires local legal consultation at the post level in order to ensure that local labor laws are factored into every mission's RIF plan. While posts often focus attention on RIF planning only when a potential RIF is likely, HR/OE guidelines encouraging regular, periodic review will ensure that RIF plans will be up to date, or require only minimal updating when RIFs come into play.

With regard to the discussion of the financial effect of the Capital Security Cost Sharing Program, State believes that the full effect of this program is known. The program has been in effect since FY 2005 and all participating agencies, including USAID, have been paying their bills. In addition, during the annual budget cycle, every agency is given their calculated CSCS charges so agencies can include these charges in their budget requests.

Regarding the section titled "Technical Differences Will Hamper Efforts to Consolidate Services", State readily accepts the challenges of streamlining and standardizing our procedures, policies and technology. Regarding the creation of values for inputs for determining administrative costs, particularly the allocation of employee time, State notes that this is an integral component of the ICASS system, under which both State and USAID work to provide administrative support services. The issue pertaining to USAID mission experience with the alternate service provider software will be mitigated through the new strategic plan with the three-tiered approach in which only a few USAID missions will be alternate service providers and will need to use the software. Lastly, the Draft Report mentions that actions need to be taken to establish a single, joint administrative structure, such as was recommended for Nairobi in September 2005. State agrees, is taking measures to provide additional information to affected missions, and notes that the rightsizing reports created by the Office of Rightsizing (M/R) contain this information for posts sub-function by sub-function. M/R will work directly with posts which will be consolidating, either in a New Embassy

Compound (NEC) or their current location, but which have not yet had the benefit of a rightsizing study.

Appendix VI: Comments from USAID



USAID
FROM THE AMERICAN PEOPLE

AUG 28 2006

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 U.S. Agency for International Development's (USAID) formal response to the GAO report entitled "State and USAID Should Adopt a Comprehensive Plan to Improve the Consolidation of Support Services" (GAO 06-829).

USAID agrees with the basic findings of the study. In recent months State and USAID have made considerable headway in the development of a comprehensive plan to improve the manner in which support services are managed overseas. The report identifies many of the challenges that we currently face in our efforts to eliminate management redundancies. It is the intention of the Department of State and USAID to operate more efficiently as well as reduce the USG footprint as part of congressionally mandated rightsizing efforts. In this regard we have made significant progress (see enclosure).

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,

A handwritten signature in cursive script that reads "Cynthia Pruett".

Cynthia Pruett
Acting Chief Financial Officer

Enclosure: a/s

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

Response to GAO Report 06-829
OVERSEAS STAFFING: State and USAID Should Adopt a Comprehensive
Plan to Improve the Consolidation of Overseas Support Services (July 2006)

The challenges that face State and USAID are many and complex. Although joined together in many programmatic arenas, we remain two separate organizations with a history of similar, and in many cases standardized, administrative procedures. As with most federal organizations, however, State and USAID have independently relied on their own personnel and technology tools to support organizational needs overseas. Historically there has been little effort to find common platforms to identify and eliminate redundancies. As a result, we are embarking on a major paradigm shift in how administrative services will be provided on all new embassy compounds (NECs).

With the arrival of Ambassador Tobias, our Agency resolve to find common ground with the Department on how to best manage USG administrative operations overseas is reinforced. The challenges to be overcome for successful development of standard management services and technology tools require both additional resources and a heightened level of effort.

Detailed analyses are underway to ensure that the best methods for combining services are utilized. With the elimination of the alternate service provide approach, in specific locations cost efficient and high quality services are of vital concern to the Agency. Specifically, as we move towards a single administrative support platform under one International Cooperative Administrative Support Services (ICASS) invoice we will have to rely on State to provide basic administrative support services that will serve as an underpinning for USAID personnel in implementing USG development assistance programs overseas. This cultural change is being managed through a newly invigorated Joint Management Council (JMC) and the sharing of best practices.

The Foreign Affairs Manual (FAM) provides the basic standards by which our respective agencies' administrative areas are to be managed (e.g., personnel, motor pool, property management, office and housing requirements, etc.) while working under the authority of a Chief of Mission

and the ability for USAID to manage these support areas as an independent organization. In the area of real property management, we have already agreed upon changes that incorporate procedures for unified residential housing programs overseas. This will result in streamlining the leasing and maintenance services to support this program. It is clear that by consolidating specific duplicative administrative service operations and eliminating staff the USG will stand to save considerable sums of money. We have agreed with State however, that as a precursor to consolidation, there must be a cost analysis which clearly articulates the relationship between cost, efficiency, and quality of service. The challenge for USAID will be to eliminate the duplications in a manner that is timely and affordable and does not compromise our ability to continue to serve as an independent Agency providing quality development assistance and humanitarian relief efforts abroad.

Many of our joint efforts to date have been successful; other areas require more work. State and USAID have identified and agreed upon specific administrative services that lend themselves to consolidation. We are focused on ensuring personnel levels are reduced as we plan for staffing in NECs. In particular, State and USAID have refined a software tool that allows posts overseas to compare service functions and their costs in order to determine which are best suited for consolidation.

As noted in the report, however, there remain several serious constraints inhibiting USAID from moving forward quickly with consolidation. The most notable is cost. With the elimination of USAID as a competing service provider we are concerned about the controls that are in place to ensure costs will be reduced overseas. Ultimately each Chief of Mission has great latitude in the level of services and number of personnel used to deliver administrative services. Without the implementation of strict and accountable performance measures for the services delivered by a single provider model, e.g., ICASS, cost escalation will go unchecked. One approach to bring this issue to the attention of administrative and executive managers overseas is to seek regular management and financial audits of the ICASS program by an outside firm. With an annual revenue base exceeding more than one billion dollars, regular audits should be a mandatory requirement. USAID will continue to pursue this management control option under the auspices of the Joint Management Council, as well as with OMB. We will need the Department of State to join us in pursuing this goal.

What has been broadly realized and is pointed out in the GAO report is that there are economies of scale in combining numerous services in certain locations overseas through reducing US direct hire staff. In fact, direct hire staff reduction will reap the greatest savings. USAID has already experienced this over the years with its Foreign Service personnel levels diminishing from over 3000 in 1990 to about 1000 officers worldwide now. To offset fewer management officers we have relied on locally employed staff (LES) to manage what was traditionally managed by US direct hires only. State has begun to embrace this approach and we encourage them to continue. The report's example of eliminating one US direct position in Dar es Salaam is an excellent start. As noted by GAO, however, to realize success this area requires more effort on the part of State in other locations overseas, as real cost savings will come from the elimination of State's US direct hire positions overseas, where in the management cone alone State outnumbered USAID by a ratio of 17 to 1 (based on a total of 61 USAID EXOs and 1032 State USDH officers in the management cone).

The ICASS billing methodology calls for distributing all of the costs for services among the ICASS customers. The cost basis includes the many US direct hire staff that State relies on for management oversight. Although combining services and reducing staff may reduce overall costs to the USG in certain circumstances, USAID costs invariably will go up at the post level. This only reinforces the need to reform the way in which ICASS is managed and implemented, particularly in light of the new USAID Administrator's mandate to ensure that the Agency manages its operations within its allocated operating expense levels as determined by Congress.

With respect to the challenge of developing reliable cost data, the Joint Management Council (JMC) has established a team comprised of management analysts (referred to as the Joint Business Analysis Team, or JBAT) that will assist in sorting out the many implications of consolidation of services. The JBAT members will work directly with each of the JMC working groups responsible for aligning State and USAID lines of business. The JMC has also restructured itself organizationally with a focus on rightsizing, regionalization, and consolidation of administrative support services. These activities will be guided by the JMC's new strategic vision and management plan, as well as the JMC's new governance structure to ensure timely and responsive action. As part of the analytical

responsibilities of the JMC Executive Secretariat and the JBAT, timelines and metrics will be developed to assist in the establishment of policies, systems, and procedural standards for the consolidation efforts.

Lastly, the harmonization of our respective technology systems is an area that will require time and resources. The GAO report accurately identifies many of the problems associated with having distinct systems to manage the administrative operations of personnel, information technology, property management, and finances. Our respective systems respond to agency-specific reporting and analytical needs and will require thorough reviews of how they can be best harmonized. We have already begun this process. As an example, in comparing the separate systems used by State and USAID for property inventory control, it was determined that USAID would not adopt the current State inventory system but rather a new one planned for the future. In this way, the planned system can be modified to reflect each organization's needs. This will take time and there will be associated costs to migrate USAID inventory data and add data fields to capture USAID funding sources and reporting requirements. However, the most significant aspect, and a major underpinning of the consolidation effort is the merger of State and USAID's IT infrastructure. USAID has already conducted an in-depth cost analysis of the various options and is working with State to verify the analysis and make joint recommendations to both State and USAID Agency senior management for decision.

USAID remains a strong supporter of improving the process by which services are consolidated overseas. We will continue to work collaboratively with our colleagues at the Department State to optimize this effort. In addition, we are appreciative of the proactive efforts demonstrated by the GAO team responsible for this report and the initiation of a successful workshop on consolidating support services.

Appendix VII: GAO Contact and Acknowledgments

GAO Contact

Jess Ford, (202) 512-4128

Staff Acknowledgments

In addition to the person named above, John Brummett, Assistant Director; Kevin Bailey; Joseph Brown; Joseph Carney; Virginia Chanley; Marc Castellano; Martin De Alteriis; Edward Kennedy; José M. Peña, III; and Wrenn Yennie made key contributions to this report.

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