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December 1992

Foreign Economic Assistance Issues





United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new administration in the area of foreign economic assistance. The issues include (1) reassessing the goals and rationale for foreign economic assistance, (2) ensuring management accountability in aid programs, (3) establishing a work force planning system in the Agency for International Development, (4) improving information resource management, and (5) establishing modern financial management and accounting systems.

The GAO products upon which this report is based are listed at the end of this report.

We are also sending this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the designated heads of the appropriate agencies.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Charles A. Bowsher

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Foreign Economic Assistance Issues

Since the end of World War II, beginning with the Marshall Plan and throughout the Cold War era, foreign economic assistance has served as an important tool of U.S. foreign policy. Foreign economic assistance programs have focused on a wide range of national objectives—political, economic, commercial, security, developmental, and humanitarian. However, with the end of the Cold War and the easing of East-West tensions, the perceived threats to our national interests—the glue that once held together the political and popular support of foreign aid—have disappeared. New challenges are on the horizon, both at home and abroad. However, the role of foreign aid in meeting these challenges is unclear, and mismanagement at the Agency for International Development (AID), the primary agency for delivering U.S. bilateral economic assistance, has clouded the agency's future.

Four years ago, we reported that the legislative framework, the Foreign Assistance Act of 1961, as amended, needed to be reexamined. The multiplicity of objectives in the legislation had created confusion as to the direction assistance programs should take, had contributed to the lack of consensus on priorities, and had made it difficult to hold the agency

accountable for achieving any particular objective. Attempts to reform the foreign assistance legislation have so far been unsuccessful.

Other problems discussed in our 1988 report also remain. Management weaknesses have caused problems in accountability and in control over funds and have reduced the effectiveness of our foreign assistance programs. For the past decade, AID has maintained a pipeline of several billion dollars in obligated but unspent funds; since 1987, these funds have totaled more than \$8 billion. Also, for many years, AID's weak, unintegrated accounting system has precluded it from reliably determining (1) what the status of its appropriated funds is, (2) whether it actually has on hand all the property it has paid for, and (3) what resources have been used to achieve program results. AID has initiated a project to improve its financial management system, but it is repeating past mistakes. AID has begun to address its other management problems. In December 1990, the AID Administrator announced a strategic management initiative with overall short- and long-term goals, and other actions were taken to provide more accountability for

policy, operations, and administration.
However, progress has been slow.

Reassessing Goals and Rationale for Foreign Economic Assistance

It has been over 30 years since the Foreign Assistance Act of 1961 was enacted. Since that time, the United States has provided an estimated \$180 billion in bilateral economic aid to 153 countries, in addition to an estimated \$27 billion provided through international financial institutions such as the World Bank. The act has been frequently amended, often to add new objectives or to refocus old ones; however, neither our foreign assistance goals and objectives nor the best mechanisms for providing assistance have been fully reexamined. With the breakup of the Warsaw Pact and the Soviet Union and other global changes and with increasing demands for assistance, it is time for such a reexamination.¹

The Agency for International Development, the primary agency administering U.S. bilateral economic aid, does not have a clearly articulated strategic mission. The Foreign Assistance Act of 1961, as amended, contains more than 30 directives covering a wide range of development assistance objectives, such as promoting human rights, protecting tropical forests, integrating women into developing countries'

¹Similar concerns have been raised about the future of U.S. military assistance, particularly as it pertains to U.S. security commitments abroad. These concerns are addressed in a separate report of this transition series.

economies, promoting private enterprises, and using appropriate technology for small farms and businesses. New programs and approaches introduced by each Administrator, added to ongoing activities and congressional directives, have resulted in a complicated and incoherent set of objectives with no clear priorities. The foreign economic assistance program has become fragmented, largely because of a lack of consensus among the many groups that are concerned with AID's mission or that have a stake in AID's services and resources. The program has been buffeted by the competing agendas of other federal agencies, the significant role the Congress has taken in programming decisions, and the lobbying efforts of special interest groups outside the government.

AID's traditional role as the lead agency for administering U.S. economic assistance is being eroded, and other agencies—such as the Departments of State, the Treasury, and Commerce and the Environmental Protection Agency—have begun to take the lead in implementing specific new programs. This phenomenon stems partly from the lack of strong leadership at AID and partly from the perception that AID cannot manage its programs well. In a 1991 report on assistance

to Central and Eastern Europe, we noted that the State Department had taken the lead in managing this assistance effort. While more than 15 U.S. government agencies and other entities were involved, AID's role was unclear. State Department officials observed that some U.S. agencies were using their assistance programs as an opportunity to establish an overseas presence. A similar number of U.S. agencies is involved in providing assistance to the republics of the former Soviet Union; AID's role in managing this effort is again ill defined. In Latin America, the Treasury Department took the lead in implementing the Enterprise for the Americas Initiative, and AID found itself taking a secondary and poorly defined role.

In April 1992, the President's Commission on the Management of AID Programs concluded that AID's organizational status and location within the executive branch—as a semiautonomous agency under the general policy direction of the State Department—did not equip it to respond with the effectiveness and flexibility required by the rapidly changing world of the 1990s. The Commission argued that AID had difficulty attracting effective leaders because it lacked prestige; that the agency was less able to resist the imposition of new priorities

and programs because it spoke with less than Cabinet-level influence in both the executive and legislative branches; and that AID had found itself isolated from the rapidly flowing political events of the 1990s, such as the developments in Central and Eastern Europe and the former Soviet Union. Concluding that the rationale for foreign assistance programs was to support U.S. foreign policy objectives, the Commission recommended that AID be fully merged into the State Department.

We have identified many of the same problems in AID that were articulated by the President's Commission and have come to some of the same conclusions about the pernicious effects of these problems. However, we have withheld judgment on the Commission's recommendation to merge AID into the State Department because we believe that the question of an organizational home for AID is premature. Before this question can be appropriately answered, the executive and legislative branches must agree on the policy goals of U.S. assistance. Although complete consensus may be unattainable, AID needs to articulate its strategic goals and assume leadership in obtaining the support of key groups. On our recommendation, AID has begun such a

process; however, for the process to be successful, the Congress and the new administration must become engaged at the very top levels in addressing basic questions about why the United States has a foreign aid program, what priority goals we are trying to achieve, and what the most appropriate means are for providing foreign aid.

Ensuring Management Accountability in AID Programs

AID has traditionally used a highly decentralized organizational structure to implement its programs through a worldwide network of overseas missions. Such an approach may be appropriate for an agency such as AID because the development and assistance needs of the countries and geographic regions it serves vary widely. However, AID has not carried through its management approach by establishing strong centralized policy and priority-setting mechanisms and systems to ensure that its decentralized units are fully accountable for implementing agency policy.

During the 1980s, AID increasingly decentralized approval authority for projects and programs. This weakened the central policy-making function and made the geographic regional bureaus much more independent. Lacking strong central policy guidance, the geographic regional bureaus and missions tried to develop performance measurement systems independently. We found that, because the bureaus and missions did not coordinate, the data they were using were not comparable and their efforts were redundant and costly. The centrally funded functional bureaus—responsible for activities such as private enterprise development, population

programs, and efforts to combat HIV/AIDS—responded to the shift in power by marketing services directly to the missions.

We have cited numerous instances in recent years in which organizational fragmentation has made management inefficient. We reported that interbureau disagreements had slowed and diffused AID's response to the HIV/AIDS crisis in less developed countries. In addition, the targeting of resources to a few countries where AID could have the most impact was delayed, partly because the central and geographic bureaus could not agree on which countries were priorities. Earlier, we had found that 43 units within three geographic bureaus and one central bureau were implementing AID's population program and no single program officer or office had overall management authority and oversight responsibility.

AID has not emphasized project implementation and program results as much as project design and the obligation of funds. The agency therefore has not collected the baseline data needed and does not have adequate evaluation systems for measuring the impact of its individual projects, country programs, or overall operations.

For the past decade, AID's pipeline of obligated but unspent funds has exceeded \$6 billion—\$8 billion since 1987. These funds exist largely because of unrealistic or overstated plans for implementing projects. AID does not intend to use a sizable percentage of these funds within the next 2 years. Thus, they represent a lost opportunity for AID to redirect scarce resources to higher priorities.

Good management procedures are sometimes neglected. For example, contrary to AID guidance, missions generally do not assess a host country's contracting practices or audit capabilities before deciding to use host country contracting procedures. Also, AID makes cash grants too far in advance of when recipient countries need the money, thus adding to the U.S. government's borrowing costs. Recipient countries earned, for their own use, nearly \$229 million in interest on these cash grants between October 1988 and May 1992.

AID has managed some programs effectively. In October 1992, we reported that AID's Office of U.S. Foreign Disaster Assistance has been generally responsive to both quick-onset and long-term disasters. The effectiveness of the Office is due largely to

its programming and funding flexibility (which was authorized by the Congress) and its ability to work well with international and private voluntary organizations.

AID has recognized the need for stronger controls to hold bureaus and missions accountable for their programs. The Administrator tried to address the lack of central direction through his reorganization of headquarters operations in October 1991. Despite this and other management initiatives, AID still lacks the strong central leadership and management systems required to make its decentralized operation effective.

Establishing a Work Force Planning System in AID

The number of AID employees has steadily declined over the past decade as AID has evolved from a hands-on agency implementing projects to one that largely oversees the implementation of projects by third parties such as contractors and private voluntary organizations. However, AID employees, particularly at the agency's missions, frequently do not have the skills necessary to perform their new responsibilities. The underlying reason is that AID has not systematically planned for its work force needs.

AID acknowledges that it does not have an integrated system for determining the appropriate composition of its work force or the skills missions require. Consequently, it cannot systematically match its mission needs with available skills or fill gaps in the agency's skill profile. The agency also has not developed effective placement, training, and recruiting programs to make better use of its staff. AID officials are developing a work force planning system but are constrained by the lack of basic information about the agency's work force—its size, components, and skills. AID's ongoing work force planning efforts are inhibited by the lack of a clear strategic direction for the future.

AID believes that the steady decline in the number of U.S. employees, coupled with the rapid expansion of programming and management requirements, has been a major source of its accountability problems, and missions have frequently told us that they have insufficient staff to manage and oversee their projects. While staff reductions do challenge AID's ability to manage its activities, we believe the agency could significantly improve accountability and oversight over its programs by strengthening the management of its work force. The first step in this process is to develop a work force planning system.

Improving Information Resource Management

Like other agencies, AID depends on information to sustain its programs and operations, to fulfill a multitude of internal and external reporting requirements, and to evaluate program performance in response to legislative concerns. However, long-standing shortfalls exist in AID's information resource management (IRM), including problems with undefined agency information needs to support technology decisions; duplicate data; redundant, outdated, and unintegrated information systems; complaints from users about inadequate IRM support; and nonexistent data standards and procedures. In 1990, AID hired a management consulting firm to review its IRM program and develop a strategic IRM plan to correct deficiencies. The agency has since taken steps to improve its IRM program, but it has still not developed a business plan and remains unfocused in its overall approach to IRM. AID is just beginning to shift its focus from obtaining information technology, with little control or standardization of data or systems agencywide, to managing information as a corporate resource. As a first step, AID should develop a functional business plan to provide the agency with a framework for managing its information resources and formally designate a senior IRM official with overall responsibility for

**Improving Information Resource
Management**

agencywide leadership in information
resource management.

Establishing Modern Financial Management and Accounting Systems

AID administers billions of dollars of economic and development assistance programs worldwide. However, the agency has serious accounting and financial reporting problems that preclude it from reliably determining (1) what the status of its appropriated funds is, (2) whether it actually has on hand all the property it has paid for, and (3) what resources have been used to achieve program results. These problems exist because AID managers have not enforced established accounting and financial reporting procedures. Currently, AID uses 45 headquarters and overseas financial management systems to account for, control, and report on resources used for its program and administrative operations, but these systems do not meet the information needs of AID managers.

AID cannot reliably account for and report on the status of its appropriated funds. As of September 20, 1992, AID had \$418 million in disbursements that remained unmatched with corresponding obligations, some for as long as 10 years. Consequently, AID has no assurance that these disbursements were made only against valid, preestablished obligations. AID's accounts also include erroneous information, and in two cases the amounts obligated for programs exceeded

the appropriation. Until AID matches its unliquidated obligations with the disbursements already made and determines which of the remaining unliquidated obligations represent valid amounts still owed by the federal government, AID cannot determine the status of its appropriated funds or ensure that it fully complied with congressional directives on using these funds.

AID's property systems do not reliably account for and control property. One system overstated vehicle acquisitions by 44 percent and disposal by 14 percent. Another system recorded more than 20,000 items valued at about \$1.9 million that could not be located during a physical inventory. Still another system understated property balances in overseas offices by about \$13 million in 1990 and by about \$1.9 million in 1991. Because of this unreliable information, AID has no assurance that it has on hand all property paid for and that property has not been misappropriated.

AID's systems do not record and report financial and quantitative information on the resources used and results achieved by program operations. As a result, AID cannot efficiently provide program and financial

information to program managers and the Congress. To obtain information on program results, AID must use ad hoc manual data from project files, which can take weeks to gather and process.

AID has initiated a major project to improve its financial management systems, but it appears to be repeating past mistakes by not having a comprehensive plan for the project and a management structure to ensure that the project's design is fully developed and implemented. We believe that the agency will need to develop a long-term plan that establishes a steering committee; designates a project manager; and specifies the goals, objectives, and scope of the financial management system.

Related GAO Products

Foreign Assistance: Cost Reductions Possible From Improved Cash Transfer Management (GAO/NSIAD-93-58, Nov. 18, 1992).

Foreign Disaster Assistance: AID Has Been Responsive, but Improvements Can Be Made (GAO/NSIAD-93-21, Oct. 26, 1992).

Information Resources Management: Initial Steps Taken, but More Improvements Needed in AID's IRM Program (GAO/IMTEC-92-64, Sept. 29, 1992).

Foreign Assistance: Combating HIV/AIDS in Developing Countries (GAO/NSIAD-92-244, June 19, 1992).

Foreign Assistance: Management Problems Persist at the Agency for International Development (GAO/T-NSIAD-92-31, May 1, 1992).

Poland and Hungary: Economic Transition and U.S. Assistance (GAO/NSIAD-92-102, May 1, 1992).

Foreign Assistance: A Profile of the Agency for International Development (GAO/NSIAD-92-148, Apr. 3, 1992).

AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992).

Foreign Assistance: AID's Use of Personal Service Contracts Overseas (GAO/NSIAD-91-237, Sept. 13, 1991).

Foreign Assistance: Progress in Implementing the Development Fund for Africa (GAO/NSIAD-91-127, Apr. 16, 1991).

Foreign Assistance: Funds Obligated Remain Unspent for Years (GAO/NSIAD-91-123, Apr. 9, 1991).

Latin America: Views on the Enterprise for the Americas Initiative (GAO/T-NSIAD-91-07, Feb. 27, 1991).

Eastern Europe: Status of U.S. Assistance Efforts (GAO/NSIAD-91-110, Feb. 26, 1991).

Foreign Assistance: AID Can Improve Its Management of Overseas Contracting (GAO/NSIAD-91-31, Oct. 5, 1990).

Foreign Assistance: Use of Host Country-Owned Local Currencies (GAO/NSIAD-90-210BR, Sept. 25, 1990).

Related GAO Products

Foreign Assistance: AID's Population
Program (GAO/NSIAD-90-112, May 1, 1990).

Foreign Economic Assistance Issues
(GAO/OCG-89-23TR).

Transition Series

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Budget Issues (GAO/OCG-93-1TR).

Investment (GAO/OCG-93-2TR).

Management

Government Management Issues
(GAO/OCG-93-3TR).

Financial Management Issues
(GAO/OCG-93-4TR).

Information Management and Technology
Issues (GAO/OCG-93-5TR).

Program Evaluation Issues (GAO/OCG-93-6TR).

The Public Service (GAO/OCG-93-7TR).

Program Areas

Health Care Reform (GAO/OCG-93-8TR).

National Security Issues (GAO/OCG-93-9TR).

Financial Services Industry Issues
(GAO/OCG-93-10TR).

International Trade Issues (GAO/OCG-93-11TR).

Commerce Issues (GAO/OCG-93-12TR).

Energy Issues (GAO/OCG-93-13TR).

Transportation Issues (GAO/OCG-93-14TR).

Food and Agriculture Issues
(GAO/OCG-93-15TR).

Environmental Protection Issues
(GAO/OCG-93-16TR).

Natural Resources Management Issues
(GAO/OCG-93-17TR).

Education Issues (GAO/OCG-93-18TR).

Labor Issues (GAO/OCG-93-19TR).

Health and Human Services Issues
(GAO/OCG-93-20TR).

Veterans Affairs Issues (GAO/OCG-93-21TR).

Housing and Community Development
Issues (GAO/OCG-93-22TR).

Justice Issues (GAO/OCG-93-23TR).

Internal Revenue Service Issues
(GAO/OCG-93-24TR).

Foreign Economic Assistance Issues
(GAO/OCG-93-25TR).

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Foreign Affairs Issues





United States
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**Comptroller General
of the United States**

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this report discusses major foreign affairs policy, management, and program issues we have identified through our evaluations of several key State Department and U.S. Information Agency activities. The issues discussed in this report include (1) adjusting to post-Cold War diplomacy, (2) addressing the future of international broadcasting, (3) implementing management improvements, (4) improving U.S. participation in United Nations organizations, (5) improving the effectiveness of international narcotics control programs, and (6) improving the administration of refugee programs.

As part of our high-risk series on program areas vulnerable to waste, fraud, abuse, and mismanagement, we are issuing a related report, Management of Overseas Real Property (GAO/HR-93-15, Dec. 1992).

The GAO products upon which this transition series report is based are listed at the end of the report.

We are also sending this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the designated heads of the appropriate agencies.

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Charles A. Bowsher

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Foreign Affairs Issues

To cope with the management challenges posed by the end of the Cold War and the demise of the Soviet Union, the Congress and the new administration need to consider how the State Department and other foreign affairs agencies will be able to operate more efficiently with declining resources and how these agencies and their programs will effectively interact or coordinate their expanding overseas activities. Traditional Cold War institutions, like the Voice of America and Radio Free Europe, and the planned billions of dollars in costs to operate and modernize them need reevaluation. Two other key foreign policy issues, foreign economic assistance and security assistance, are addressed in separate reports in this transition series, Foreign Economic Assistance Issues (GAO-93-25TR) and National Security Issues (GAO-93-9TR).

In our 1988 transition series, we reported that the State Department needed to improve its management and more effectively support activities in international organizations, international counternarcotics programs, and refugee relief programs. Effective policies, management, and programs directed to these issues remain as priorities today. While there has been some progress in addressing management

problems the State Department has experienced in managing over \$8 billion of overseas real property, a continued commitment to addressing management concerns of this and other Department programs is needed from the Congress and the new administration. The increased volatility of a post-Cold War world with pressing economic problems has increased the criticality of the U.S. role with international organizations, the international war against drugs, and the increasing tide of refugees.

Adjusting to Post-Cold War Diplomacy

With the end of the Cold War and the demise of the Soviet Union, the United States faces a challenge in adjusting its foreign policy and diplomatic activities to fit a new era. The biggest challenge will involve moving from a primary concern with a monolithic threat to a more global foreign policy that promotes broader U.S. interests. Fostering democratic institutions, especially in the former Soviet Union and Warsaw Pact countries, and enhancing U.S. economic competitiveness throughout the world are two examples of the emerging agenda.

Our recent work shows that the State Department has begun the process of expanding U.S. involvement in Eastern Europe and the former Soviet republics by opening 14 new embassies. However, the opportunities to help that region make the transition to market economies and democratic institutions may be lessened by limited staff and resources.

State is beginning to focus more attention on economic issues. In 1989 and 1991, the Deputy Secretary of State called on embassies to assist U.S. businesses in finding markets and investment opportunities. This is a new emphasis for the Department, which in the past was reluctant to have its officials

become involved with individual businesses. To be effective in this new role, State will have to adequately train its people and coordinate its activities with other agencies, such as the Departments of Commerce and Agriculture, that provide similar services. Our recent work shows that State has increased staff and improved interagency coordination to address international economic issues in Japan and Korea. Similar efforts will be needed in other countries for the United States to be competitive internationally. For further information on international trade and finance issues, see the transition series report International Trade Issues (GAO/OCG-93-11TR, Dec. 1992).

Many experts believe that fundamental organizational and operational changes are needed at State. The Department recently drafted a report on the kinds of changes necessary to meet the foreign affairs challenges of the 1990s. Some of the key proposals, which seem to have merit, involve

- merging domestic and international priorities into a single foreign policy;
- streamlining the organization and policy process; and

- focusing on key policy and management issues such as global programs involving human rights, democracy, and narcotics; economic and environmental issues; international security; and regional and multinational affairs.

The Congress and the new administration should focus on how well the Department is managing its resources and implementing changes in its operations to meet the domestic and foreign policy challenges of the 1990s.

Addressing the Future of International Broadcasting

Technology and world events are changing the outlook for U.S. international broadcasting. Currently costing over \$500 million annually, U.S. radio broadcasts by the Voice of America and Radio Free Europe/Radio Liberty are seen by some in the Congress and the administration as a relic of the Cold War. In Eastern Europe and the former Soviet Union, governments that previously denied their own populations access to reliable news and information have, to various degrees, allowed the liberalization of their domestic media sources. These governments have terminated efforts to block external broadcasts, as was done by the Soviet jamming of U.S. radio broadcasts.

This opening to a freer flow of information has prompted calls for the termination of broadcasts by Radio Free Europe to Eastern Europe and by Radio Liberty to the former Soviet Union. Such a move could save the \$200 million a year spent on these radio broadcasts and the additional costs of building or upgrading transmitters now aimed at the former Soviet Union.

A 1991 presidential task force on U.S. government international broadcasting reported its belief that Radio Free

Europe/Radio Liberty broadcasts should continue at least through the end of the decade. We believe that even if such broadcasts are considered to be necessary, serious consideration should be given to eliminating the potential duplication in U.S. broadcasting organizations and to achieving operating economies. Both the Voice of America and Radio Free Europe/Radio Liberty have recognized that there is increasing pressure to reduce U.S. broadcast costs. They are sharing facilities and other resources such as audience research. Absent the elimination of Radio Free Europe/Radio Liberty or the reduction of spending on new shortwave facilities, such sharing appears to have the greatest near-term potential for minimizing the costs of U.S. international broadcasts.

Currently, the Voice of America's radio broadcasts are one of the few sources of objective news and information to the people of China, Laos, Cambodia, and Vietnam. This situation has prompted calls for increasing U.S. broadcasts to this part of the world. Similar demands for direct broadcasts to Cuba prompted the establishment of Radio and TV Marti. However, these broadcasts have been criticized for not having a means to ensure

that they adhere to the Voice of America's standards for objective coverage of news and information. While free access to broadcasts is still an issue in these parts of the world, declining resources still warrant careful consideration of the additional costs of starting up a "Radio for Free Asia" as well as the cost-effectiveness of continuing TV Marti.

Shortwave signals are the primary medium used by international radio broadcasters. The quality of these signals is poor, and increasing competition from higher-quality indigenous media, both television and radio, may be making inroads on shortwave radio listening.

The traditional U.S. reliance on shortwave as an international broadcast medium should be reviewed. The Voice of America is currently spending over \$100 million annually to upgrade and replace its aging shortwave facilities. In 1991, the Voice of America proposed a plan to build new, and refurbish existing, facilities at a cost of \$1.5 billion. Prior modernization plans to be accomplished from 1983 through 1991 were less than successful. Only 4 of 16 planned facilities were built or were under construction at a cost of about \$580 million.

This prior experience, changing world events, and impending technological advances in other broadcast media, such as satellite broadcasts, raise serious questions about whether substantial investments in shortwave types of facilities make sense.

Correcting State Department Management Deficiencies

The State Department is responsible for conducting U.S. foreign policy, managing embassies and other real property overseas, and providing support services to over 50 other federal agencies with overseas offices. Appropriations totaled \$3.8 billion for an estimated 22,000 positions in fiscal year 1992. State's overseas real property is valued in excess of \$8 billion. In 1988, we identified key management control weaknesses that reduce the efficiency of State's operations and increase the agency's vulnerability to fraud, waste, and abuse. State has taken some steps to strengthen its management capability. Nevertheless, the following significant deficiencies remain:

- State's financial operations are weak and have been for many years. They continue to be hampered by inexperienced and inadequately trained staff; to operate with incompatible domestic and overseas systems that are unable to meet cost, performance measurement, and other information needs; and to fail to provide managers with necessary data on overseas real estate.
- Personnel management problems continue to affect operations. These include staffing gaps at embassies, inadequately trained staff in management areas requiring specialized

skills, and inadequate integration of civil service and other personnel.

- Although State has initiated reforms to correct long-standing management weaknesses in overseas real property and construction programs, some reforms will take years to implement, and continued commitment to reform is essential. A fuller discussion on this issue is contained in our high-risk series report.
- Major problems continue in the Foreign Affairs Administrative Support System, which is supposed to provide reasonably priced overseas support services to other agencies. These problems include difficulties in recovering costs reimbursable from other agencies, poor record-keeping and inaccurate data, and outdated regulations and procedures.
- Serious internal control deficiencies of cashiering operations and the management of personal property continue, including weak oversight and controls over consular collections and property inventories.

In a period of tight budgets and limited resources, State managers must continue to make sustained efforts to improve the

management of the agency's global operations and to identify opportunities to optimize resources. In the past, we have reported that in preparing its real estate plans, State should consider the disposal of some of its overseas property. For example, the sale of just a few high-value properties could generate billions of dollars that could be used to offset the cost of future property acquisitions around the world.

U.S. Participation in the United Nations

Until recently, the United States viewed the United Nations as an inefficiently managed organization that could not act decisively on matters of international importance. To prompt the United Nations to fulfill its mission more effectively, the United States withheld a portion of its assessed contribution—nearly \$292 million as of August 1992—throughout the 1980s.

The United Nations has begun a number of management reforms, and in February 1992, the Secretary-General announced a major restructuring of the Secretariat to improve the efficiency of administrative and financial functions. Management reforms are continuing, and although these actions are encouraging, it is too soon to assess their success.

More important than the management reforms, the emergence of an era of cooperation among former Cold War adversaries has created an historic opportunity for the United Nations to fulfill its primary mission of maintaining international peace and security. However, fulfillment of this mission carries a high price tag at a time of severely constrained national budgets. The Secretary-General noted that the convergence of these events

has created a serious financial crisis at the United Nations. As of October 1992, only 18 member countries had paid their assessments in full. The remaining owed about \$1.2 billion—more than \$550 million for the regular budget and \$605 million for peacekeeping operations.

Payment of U.S. Arrearages

In September 1988, the administration announced that it would seek full funding for its assessed contributions to the United Nations and explore the feasibility of paying U.S. assessments in arrears. In our November 1988 transition series report, we noted that the Department of State needed to develop, in partnership with the Congress, a clear program that would institutionalize the management improvements achieved from its withholdings and allocate arrearage payments to specific useful purposes. The amounts owed were originally assessed primarily for activities that were budgeted and programmed for in prior fiscal years. U.S. officials said that, in principal, the money was no longer needed if those activities were rescheduled in later fiscal years because they would be included in the more recent budgets. Thus, it was important that any arrearage payments be made in a

way that would avoid unplanned cost growth.

The United States planned to pay its arrearages over a 5-year period starting in fiscal year 1991, disbursing about 20 percent of the total arrearages each year through fiscal year 1995.¹ According to the Department of State, \$115.6 million was paid in 1992 for assessments made prior to December 31, 1991—\$40.6 million for the regular budget and \$75 million for peacekeeping accounts—and about \$44 million was proposed for arrearage payments for 1993.

Peacekeeping Operations

Since 1948, the United Nations has established 25 peacekeeping operations, including 8 that were established during 1991 and 1992. Through 1991, the total cost of these operations was about \$8.3 billion. However, the cost of peacekeeping operations has grown dramatically, particularly since the advent of

¹The United States does not plan to pay about \$89 million in arrearages that represent its contribution for activities the Congress and the executive branch do not approve of. These activities include programs benefiting the Palestine Liberation Organization and the South West Africa People's Liberation Organization; construction of a conference center in Addis Ababa, Ethiopia; cost-of-living increases for United Nations employees in New York; and alleged kickbacks from some United Nations employees to their home governments.

peacekeeping missions to Yugoslavia (estimated to cost \$293 million through February 1993), Cambodia (estimated to cost \$1.6 billion through July 1993), and Somalia (estimated to cost \$124 million through April 1993, not including Department of Defense costs for Operation Restore Hope).

Since 1973, nearly all peacekeeping operations have been funded by a special scale of assessments whereby the United States pays 30.4 percent of total costs. With the growing number and cost of peacekeeping operations, this assessment scale places a significant financial burden on the United States at a time when other countries may have a greater capacity to share in peacekeeping costs. Accordingly, we recommended that State seek a reexamination of the United Nations' special assessment scale for peacekeeping operations.

The United Nations' financial oversight of peacekeeping operations could be strengthened. The United Nations' Board of Auditors has been requested to expand its coverage of peacekeeping operations, and beginning in 1992 the Board will provide separate reports on its peacekeeping reviews. In addition, concerns have been

raised about the adequacy of the General Assembly's budget reviews and the lack of information available to member countries on internal audits of peacekeeping operations. Finally, the Department of State has not monitored peacekeeping operations in the field to ensure that they are functioning efficiently and thus minimizing the cost to the U.S. government. During our visits to peacekeeping missions, we saw indications of duplicate peacekeeping roles and overstaffing and potential opportunities to reduce costs and improve efficiency.

**Need for Central
Audit and
Evaluation
Authority**

The United Nations' internal and external audit and evaluation structures do not ensure program accountability or provide member states with adequate oversight of the United Nations' finances and operations. The United Nations has improved its audit and evaluation standards and procedures, but significant problems remain. These include

- fragmented audit and evaluation functions that at times either duplicate efforts or produce gaps in coverage;

- internal audit and evaluation units that lack independence;
- external audit and evaluation mechanisms that are not fully effective because of frequent staff turnover and an inability to routinely perform systems-based audits;
- internal control mechanisms that are inadequate; and
- weak reporting and follow-up systems.

If the existing internal and external audit and evaluation structures were centralized under an independent, central audit and evaluation authority, the United Nations could resolve many of these problems. This suggestion is not new. It was proposed over 30 years ago by a former Secretary-General, in 1979 by Canadian consultants to the Auditor General of Canada, throughout the 1970s and 1980s by us, and in 1991 by the U.S. permanent representative to the United Nations.

As envisioned, a central audit and evaluation authority would be responsible for conducting and supervising audits, evaluations, inspections, and investigations. The office would (1) promote the implementation of the common auditing

standards adopted by the International Organization of Supreme Audit Institutions and internal control standards throughout the United Nations, (2) strengthen follow-up mechanisms to ensure responsiveness to recommendations in audits and evaluations, and (3) prescribe standardized accounting principles and standards and ensure that United Nations' bodies use them.

Improving the Effectiveness of International Narcotics Control Programs

Since the adoption of a national drug strategy in 1989, which included a key goal of stopping illegal drugs from entering the country, the U.S. government has greatly expanded its overseas counternarcotics programs to cut drug production in, and shipment from, source countries. The expanded programs have not yet shown that they can slow the production of drugs and the flow of them to the United States. Many obstacles to effective overseas counternarcotics programs, such as insufficient source country cooperation and capabilities, cannot be easily overcome, and experts acknowledge that, at best, progress in the overseas drug war will take many years. Nevertheless, our reviews indicate that more can be done to improve the management and accountability of the U.S. programs.

The State Department has the lead responsibility for directing the U.S. overseas counternarcotics programs. The international portion of the U.S. National Drug Control Program budget has grown from \$209 million in 1988 to about \$768 million for fiscal year 1993. State's fiscal year 1992 program of narcotics-related aid totaled \$171 million. State, particularly in South America, has challenges not only in

effectively managing its programs, but in coordinating regional and country programs with (1) the international intelligence-gathering, technical assistance, and law enforcement activities of the Drug Enforcement Administration; (2) security assistance provided by the Defense Department to foreign military and law enforcement agencies and its drug shipment monitoring and detection activities; and (3) the economic development assistance programs of the Agency for International Development and other international entities.

The Department must improve its management of activities that support both State's and other agencies' overseas counternarcotics activities. We and State's Inspector General have reported numerous problems with overseas programs, including inadequate policy implementation; reliance on unqualified/untrained staff and other resource management weaknesses; unclear functional responsibilities; and inadequate procurement, budgeting, accounting, and evaluation practices. The State Department has taken some steps to correct these deficiencies, and some of the overall general management improvements for State we have discussed earlier in this report will also

improve program management for the agency's counternarcotics responsibilities. However, our ongoing work indicates that serious problems remain.

The Congress and the new administration, as they consider the future U.S. drug control strategy and the national security objective of preventing unchecked narcotics dealers from destabilizing other nations' governments, will have to determine the appropriate levels of U.S. resources to be allocated to direct U.S. international counternarcotics efforts and to coordinate with other foreign governments. The steps needed to streamline State's counternarcotics programming and management system—designing and using better review and evaluation procedures and promoting more international cooperation and support—will require a long-term commitment to be successfully implemented.

Increasing Emphasis on Refugee Issues

In the last 4 years, refugee populations have increased (from 13 million to 17 million), and their plight has worsened. Violent and dangerous events throughout the world continue to force people from their homelands, creating an insistent demand for international actions to provide relief and safety for these refugees. Even when temporary refuge is obtained, the world is faced with millions of displaced people needing support in temporary camps, and when some resolution of the homeland crisis is reached, continuing conflicts have delayed the refugees' repatriation.

While the worldwide refugee problem will require coordinated international efforts from the public and private sectors, the United States has, and will continue to have, a major role to play in the international refugee relief programs. The U.S. Refugee Coordinator (who is responsible for coordinating U.S. policy and programs for refugees), the State Department, and other agencies dealing with refugee problems will be faced with the question of the extent to which the United States should place more emphasis on forging international solutions. For example, the new administration and the Congress will have to consider the levels of U.S. diplomatic efforts and support needed

to facilitate and coordinate international and/or direct U.S. efforts to deal with emerging refugee crises and repatriations.

The United States also has policies and programs to (1) determine the numbers of refugees allowed annually to resettle in the United States, (2) verify their refugee status, and (3) cover some of their transportation and resettlement costs. The number of refugees entering the United States has increased from 107,000 in fiscal year 1989 to an estimated 131,000 in fiscal year 1992, but federal funding for the resettlement costs has not kept pace. Although the Immigration and Nationality Act, as amended, authorizes the federal government to pay for 100 percent of eligible refugees' needs for up to 36 months, subject to available appropriations, assistance has been reduced to cover needs for 12 months because of federal budget constraints. As a result, a significant proportion of the refugee assistance burden has shifted to state and local governments. These governments are complaining about this additional burden on their already strained social welfare and assistance programs.

Changes after the end of the Cold War may also require the United States to review how

its allocation of the numbers of refugees from different regions of the world is determined. U.S. legislation and presidential executive orders have afforded special consideration to prospective refugees from the former Soviet Union and Vietnam, contributing to their large proportion of admissions—about 83 percent of all admissions into the United States over the last 4 years. The prospect for continual pressure to accept refugees from other parts of the world means that the administration and the Congress will have to reconsider both the financial impacts of increasing admissions on the states and the apportioning of numbers of admissions to different refugee populations.

Related GAO Products

Management of Overseas Real Property
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Veterans Affairs Issues (GAO/OCG-93-21TR).

Housing and Community Development
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GAO

Transition Series

December 1992

NASA Issues





United States
General Accounting Office
Washington, D.C. 20548

**Comptroller General
of the United States**

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new administration at the National Aeronautics and Space Administration (NASA). This report recognizes the changes that have occurred since our first NASA transition report 4 years ago and summarizes the current challenges facing the agency: (1) bringing plans in line with likely budgets, (2) managing systems development more efficiently, (3) improving operations and oversight, and (4) preserving U.S. aeronautics leadership.

As part of our high-risk series on program areas vulnerable to waste, fraud, abuse, and mismanagement, we are issuing a separate report that also addresses some of NASA's current challenges, NASA Contract Management (GAO/HR-93-11, Dec. 1992).

The GAO products upon which this transition series report is based are listed at the end of the report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, and the Administrator-designate of NASA.

A handwritten signature in cursive script that reads 'Charles A. Bowsher'.

Charles A. Bowsher

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In our November 1988 transition report, we noted that NASA needed to (1) launch planetary missions on time, (2) institutionalize a life-cycle cost management approach for the Space Station, and (3) develop a strategic plan and report full project costs to the Congress. Since that time, most of these issues have been at least partly resolved.

When we issued that report, NASA's program officials had established the protection of launch opportunities for four major planetary missions as their highest priority. The agency met the mission schedules that were in place at that time. NASA's only remaining planetary mission currently under development—the Cassini mission to Saturn—is scheduled for launch in October 1997.

In our report, we discussed the long-term cost savings potential of a life-cycle cost management approach for the Space Station program. However, the comprehensive use of such an approach, which can entail higher near-term development costs, has been hampered by budget levels lower than those required to support the program's planned content and pace. As a practical matter, with budgets below planned levels likely to

continue for the foreseeable future, the life-cycle approach cannot be fully implemented until upgraded and replacement systems are needed over the Space Station's operating life.

NASA still does not report complete cost estimates on all its significant projects, but it has improved its reporting of cost estimates on selected major development efforts. Under an agreement with its congressional authorization and appropriations subcommittees, NASA currently reports more comprehensive cost estimates on approved development projects when contractors' costs to research and develop them are estimated at \$200 million or more.

In the late 1980s, NASA intended to develop a strategic plan. However, no plan was issued until NASA was directed by the Congress to prepare one in association with its fiscal year 1993 budget request. That plan was deficient in a number of significant ways. Specific problems with the plan are discussed below in relation to a mismatch of more than \$15 billion between the agency's current 5-year plan and its likely budgets. In addition, this report discusses other major issues facing NASA's management. All of these issues are known to NASA's

management and, in varying degrees, are currently being addressed by the agency.

Bringing Plans in Line With Likely Budgets

NASA's strategic and program plans for future years do not adequately recognize the likely level of available resources. From the mid-1980s until last year, NASA's budget increased from less than \$8 billion to over \$14 billion. However, the agency's fiscal year 1993 budget is essentially unchanged from that of 1992, and NASA has been told to expect only modest budget growth in the near future. But NASA's plans call for future budgets that are well above likely funding levels.

The overall situation is exacerbated by the increasing share of NASA's total budget that is scheduled for the agency's largest programs. In its fiscal year 1993 budget submission, NASA called for over \$15 billion more for fiscal years 1993 through 1997 than the President's budget. NASA's 11 largest programs would absorb over three-quarters of the funding called for in the President's budget. Programs with too much content and too fast a pace are a prescription for an annual cycle of cutbacks, restructuring, stretching of projects over more time than was planned, and potential terminations, as costs are postponed.

Need for
Improvement in
Strategic Plan

In late 1988, we pointed out that NASA needed to develop a strategic plan that clearly stated the agency's vision for the future and the steps needed to realize that future in an affordable manner. An effective strategic plan could provide a rational basis for helping NASA bring the content and pace of its programs more in line with likely future budgets.

The Senate Committee on Appropriations directed NASA to complete an agencywide strategic plan by the time the fiscal year 1993 budget was submitted to the Congress. The Committee specified certain criteria for the plan, including setting priorities, anticipating more modest future budget growth, and coming to grips with accurate cost estimates. In January 1992, NASA published a strategic plan called Vision 21. However, the plan did not indicate mission priorities, strike a balance between strategic planning and budgeting, or discuss plans for improving cost estimates.

Improvement
Efforts Under
Way

The NASA Administrator has stated that the development of a new strategic plan that matches specific program goals with realistic budgets is one of his highest priorities. Also, NASA officials told us they

will not pursue their major programs as currently planned at the expense of other essential activities if budget constraints require adjustments to programs. They are working to reshape their programs in recognition of more constrained future funding, and an agencywide review is under way with a goal of reducing the future cost of NASA's major programs. However, the effects of NASA's efforts to bring the content and pace of its programs more in line with likely budgets will not be known until the agency makes its fiscal year 1994 budget request.

Managing Systems Development More Efficiently

In managing its research and development efforts, NASA must establish realistic cost, schedule, and technical performance goals and then work to identify and mitigate problems that can significantly increase costs, disrupt schedules, and impair performance. Currently, however, NASA projects often cost more than estimated, frequently do not meet schedules, and sometimes perform at lower levels than originally forecast. Such cost, schedule, and performance problems arise for a myriad of reasons, some of which NASA can overcome. NASA must be willing to set priorities, identify and pursue cost-effective alternatives, and terminate low-priority projects. Two efforts that currently deserve special attention from NASA's management are the Space Station Freedom and Advanced Solid Rocket Motor (ASRM) programs.

Space Station's Continuing Challenge

NASA faces a major challenge in keeping development of the Space Station on schedule and within its estimated cost without adversely affecting the facility's remaining scientific purpose—microgravity and life science research. This challenge will be especially difficult because of the expectation of only modest growth in NASA's

budget and the program's limited financial reserves, especially for the next few years.

NASA estimates that Space Station Freedom will cost \$30 billion to develop, construct, and operate through 1999, when permanent occupancy of the facility is scheduled to begin. However, we have reported that this estimate should be at least \$40 billion because of additional equipment, assembly, and operations costs related to the facility, including a crew rescue vehicle and a centrifuge for life science experiments. The total estimated program cost increases to about \$118 billion because another \$78 billion will be needed to keep the facility fully operational between 2000 and 2027.

Efforts are under way to examine how to cut the program's cost. Some of these efforts may lead to increasing reliance on other countries' funding, technology, or space hardware for the station. One such initiative is an assessment of the potential for adapting a Russian spacecraft for use as a crew rescue vehicle in lieu of NASA's developing and constructing the vehicle at a cost well in excess of \$1 billion.

Reduced Need for New Rocket Motor

The ASRM was intended to enhance the space shuttle's safety and reliability and to provide an additional 12,000 pounds of lift. So far, the ASRM's development cost has almost doubled—to a total of more than \$3 billion. Also, the ASRM's first flight has slipped by over 2-1/2 years since the program was first approved, and another delay of about 2 years is expected. The cost of this additional delay is not yet known.

NASA advisory groups have questioned the development of the ASRM because the motor currently in use has proven safe and reliable since being redesigned after the Challenger accident. In addition, the only two shuttle payloads requiring the added lift the ASRM would provide were the Advanced X-ray Astrophysics Facility and the Space Station's laboratory modules. The X-ray facility will now be launched in smaller payloads. Moreover, as currently scheduled, the ASRM will not be available in time to launch the U.S. laboratory module for the Space Station, although it may be available for the Japanese and European laboratory modules. Ultimately, the ASRM may not be needed at all to help launch Space Station Freedom. NASA is currently evaluating alternatives to the space shuttle for launching the station.

Improving Operations and Oversight

NASA can improve its efficiency and effectiveness by changing the way it manages its major operational system—the space shuttle—and the way it oversees its contractors. By strengthening its guidance and oversight, NASA could improve its operating efficiency and reduce the risk of inconsistent and substandard performance by its field centers and contractors. Contractor oversight could also be enhanced by improvements in accounting for and reporting contractors' costs and government-owned property.

Shuttle Targeted for Reduction

The space shuttle is the only U.S. vehicle for carrying humans into space, and it will have to continue operating into the 21st century. To keep it flying, NASA must upgrade components to prevent obsolescence and improve some subsystems to maintain safety margins. The program to operate and maintain the shuttle is NASA's most expensive one. It is, therefore, the most likely program to yield significant savings from the use of more efficient operating procedures. The shuttle currently consumes well over a quarter of NASA's budget, and the agency is trying to significantly reduce the system's future operating costs. To do so may require that many flight processing procedures and

related documentation requirements be streamlined or eliminated. Special care must be taken to see that this streamlining does not compromise the safety of ground personnel or crews.

Need for
Improvement in
Contract-
Management
Activities

NASA spends almost 90 percent of its funds each year on contracts, and since the late 1980s, the agency has acknowledged in its Federal Managers' Financial Integrity Act reports that its contract management is inadequate. Without effective management of its contracts, NASA cannot reasonably ensure that its contract funding is properly used and accounted for. In some cases, inadequate contractor oversight has contributed to cost increases, schedule delays, and performance problems with space equipment.

NASA's difficulties in contract management stem mostly from three major problems. The first is the previously discussed mismatch between plans and budgets. With such a high proportion of its budget linked to contracts, NASA is forced to adjust the planned content and pace of work under contract when optimistic expectations are met with funding levels substantially lower than planned.

The other two problems involve instances of noncompliance by NASA's field centers with contract management requirements and the use of ineffective procedures and systems in overseeing contractors. The latter problem includes inadequacies in NASA's accounting, reporting, and property management systems. For example, contractors' costs and reports on government-owned property are sometimes not received, are filed late, or contain errors and insufficient detail. In addition, the results of property management system surveys that are intended to provide NASA with reasonable assurance that its contractors' property reports are reliable are not always reported to NASA. NASA also has a long-standing and well-recognized need to develop an adequate agencywide accounting system to help improve its oversight of contractors by providing more timely and accurate information. However, NASA's efforts have been slow, and the agency's planning for the new system has been inadequate.

NASA now has an opportunity to correct its financial management weaknesses. A Chief Financial Officer providing strong and sustained leadership could greatly improve the agency's financial management systems and operations by eliminating existing

system weaknesses and expediting the development and implementation of the new system.

NASA has taken, or plans to take, steps to correct most of the contract management and contractor oversight problems discussed in our reports in recent years. NASA officials have also initiated other corrective actions in contract management and related areas. NASA's problems have been many years in the making, and they will not be corrected quickly or easily. NASA's management faces a formidable challenge that will require vision, perseverance, and strong leadership.

Preserving U.S. Aeronautics Leadership

Foreign companies have made significant gains in the global market for aeronautics products at the expense of U.S. manufacturers. According to the National Research Council, foreign companies now dominate the general aviation/commuter market, seriously threaten the subsonic jet transport market, and are positioning themselves for a leading role in the supersonic transport market. The Council also noted that foreign governments, in concert with their industries, have increased their investments in aeronautics research and development, especially for the subsonic jet transport market. A major airline manufacturer values this market at between \$1.6 trillion and \$1.8 trillion through 2030.

Research Support Limitations

NASA is responsible for helping the U.S. aeronautics industry maintain its leadership position. However, NASA's aeronautics research funding has been limited relative to the agency's overall budget. An analysis of NASA's budget over the last 20 years illustrates that the agency has placed greater emphasis on space programs than it has on aeronautics programs. In fiscal year 1992, NASA budgeted about \$1 billion—about 7 percent of its total budget—for its aeronautics program.

Moreover, within its limited aeronautics budget, NASA has emphasized fundamental research rather than systems technology (demonstration and validation) efforts. While useful in supporting long-term competitiveness, fundamental research is less likely to affect near-term competitiveness. Under current policies, NASA has limited its support for the systems technology efforts needed to reduce the aeronautics industry's economic and technical risks in applying new technology.

NASA has devoted only a small part of its research activities to the area with the greatest near-term sales potential—large, subsonic jet transports. In addition, NASA has not adequately supported the U.S. industry's aircraft wind tunnel test requirements.

NASA recently reorganized to achieve a better balance of its aeronautics research and technology programs in sub-, super-, and hypersonics. However, given existing policies, it will be difficult for NASA to put more emphasis on systems technology work.

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Aeronautics
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Limited (GAO/T-NSIAD-92-14, Mar. 18, 1992).

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December 1992

General Services Issues





United States
General Accounting Office
Washington, D.C. 20548

**Comptroller General
of the United States**

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new Administrator of the General Services Administration. These issues include (1) resolving the fundamental conflict between the agency's roles as service provider and regulator, (2) replacing outmoded centralized methods of delivering services with new methods based on entrepreneurial and competitive principles, (3) strengthening weak and ineffective internal management systems, and (4) improving GSA's oversight of governmentwide procurement practices. In addition, we point out that improvements are possible in congressional oversight of GSA's many activities.

The GAO products upon which this report is based are listed at the end of the report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the Administrator-designate of the General Services Administration.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Charles A. Bowsher

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General Services Issues

We did not issue a transition report on general services issues in 1988 because our work at the General Services Administration (GSA) did not provide a comprehensive overview of the agency and its functions. Since then, however, we have completed a general management review of GSA and reviewed in depth many of the areas for which GSA serves as the government's central management agency—such as public buildings, supply, and information resources.

The time is due for a significant restructuring of the way government agencies obtain the general purpose goods, offices, and services they need to support their missions. The governments of many other countries and some state and local governments in this country have revamped the way they provide general administrative services, separating policy and regulation from operations, encouraging competition, and decentralizing some operations to bring services closer to the customer. The next Administrator of GSA faces two fundamental challenges. First, he or she must continue to improve, as the current GSA Administrator has done, the internal management of an agency with a history of operational problems, a mix of regulatory and service functions, and frequent changes in

leadership and direction. Second, the new Administrator must address the underlying structural weaknesses in the way GSA does business. As long as GSA depends for survival on its monopoly over the provision of office space, supplies, telecommunications, and computers, it will lack the incentive and pressure needed to meet modern standards its customers—the rest of the government—demand. The Congress, too, has an opportunity to reshape its oversight of GSA by providing for periodic reauthorization of the agency's major functions on the basis of the agency's performance at meeting specified strategic goals.

Resolving Conflicting Roles

GSA was established in 1949, when centralized institutions were perceived as necessary to secure economies of scale. The Hoover Commission identified supply, records management, and the operation and maintenance of public buildings as needs common to all agencies, and GSA was created to bring central direction to the federal government's essential housekeeping functions. Civilian departments and agencies, with some exceptions, were required to come to GSA for common goods and services. GSA was envisioned, primarily but not exclusively, as a policymaking body with the option of delegating its authorities while maintaining comprehensive accountability to the Congress for efficiency and economy in these areas.

Since its creation, GSA has been torn between an internal dynamic that favors a centralized approach to directly providing services to agency customers, and a largely external expectation that its primary role should be to issue governmentwide policy guidance and oversee decentralized operations within the departments and agencies themselves. GSA has historically concentrated on day-to-day operations under its direct control. By 1978, GSA had about 37,500 employees running buildings and

switchboards, driving cars, storing records, and doling out supplies.

Today, however, changing work concepts brought about by new information and telecommunications technologies and a highly developed private sector service capability are calling this traditional centralized way of functioning into question. GSA has been reduced to about 19,000 employees, primarily through contracting out and delegating its functions during the early 1980s, driven by staffing reductions imposed by the Office of Management and Budget. In this process, agencies have commonly found that the quality of housekeeping services correlates directly with the closeness and accountability of those providing the service to the final customer.

Although GSA has reluctantly surrendered many of its operational functions, it is still insecure in its governmentwide policy role. Decentralized operations require a long-term strategy, sensible and flexible common policies, consistent and knowledgeable guidance from market and technical specialists, coordination to prevent competition among agencies, and comprehensive reporting and oversight so

that the Congress can hold the executive branch as a whole accountable for efficient use of the taxpayer's money. Lacking comprehensive and strategic information in these areas, the Congress cannot set priorities, establish budgets, or take action based on desired outcomes and is forced into making narrow, project-by-project decisions.

GSA, however, still tends to be preoccupied with its role as a direct deliverer of services and has not developed a long-term strategy for managing the government's valuable property assets or relationships with contractors. For example, GSA protects its control over 7,000 government buildings in its custody but lacks the solid cost and performance information necessary for effective oversight of the 2,000 buildings for which it has delegated operational responsibility to agency tenants. More significantly, GSA has not developed a comprehensive policy framework for managing the government's overall 400,000-building real estate portfolio to better integrate people, information, technology, and space to make the workplace more productive and responsive to agencies' missions. GSA's 1991 "strategic plans" were heavily oriented toward the

need to improve the delivery of services to customers—laudable goals, but underlining the message that GSA's basic role remains service delivery, not central management, policy-setting, and oversight.

Our most recent examinations of how other countries are managing similar organizations indicated that the most effective way of addressing the tendency for operations to drive out strategic policy considerations may be to separate policy and regulatory functions from responsibility for day-to-day operations. An important first step toward strategic leadership has just been taken. On November 30, 1992, the GSA Administrator established the Federal Property Asset Management Service. The new organization is intended to shift GSA away from its historical focus on the use and disposal of real estate toward a proactive role in governmentwide asset management. For the first time, a federal organization will look at the government's real estate holdings as valuable national assets and seek to provide governmentwide policy guidance to ensure that resources are invested where the return will be greatest. The organization will promote a life-cycle approach to real estate management, with emphasis on planning, policy, oversight, contractual services, and

inventory management. The success or failure of the fledgling organization will depend on the support given to it by the new Administrator.

Making GSA More Businesslike

GSA is in many respects a large, diversified business enterprise. Its real estate portfolio, supply procurement and distribution activities, travel and transportation services, telecommunications and computer services, and property management and disposal functions involve a cash flow of more than \$10 billion annually. If GSA were a private company, it would rank among the top 50 on the Fortune 500 list. Despite its businesslike mission, however, GSA all too rarely operates in a businesslike manner, as the following examples illustrate:

- Depot operations. Our most recent work on GSA's supply depot operations found that GSA has spent millions of dollars to modernize two of its four large depots but that the effort has been largely wasted because key software is lacking. This modernization effort comes at a time when the private sector is reducing the need for depots and their inventory by relying on improved information systems that transmit retail sales information directly to the manufacturer to regulate production and delivery. Our work found that millions could be saved by significantly reducing depot operations. GSA should increase reliance on direct vendor delivery to federal agencies, eliminate uneconomical orders, and systematically

question the need for its depots.

- Real estate operations. GSA does not manage its real estate portfolio strategically. For example, the lack of a consistent cost-conscious location policy concentrates the government in the nation's highest-cost labor markets, fails to take modern telecommunications capabilities into account, and ignores the incentives that localities may offer to attract employers. Agencies also lack incentives and analysis of alternatives to make efficient decisions on the amount and location of needed office space. Though GSA charges them rent, agencies typically treat office space as required overhead rather than as a cost within their control. In addition, GSA has yet to employ the basic concepts of asset management to determine the relative cost-effectiveness of building construction, purchase, lease, lease-purchase, modernization, or disposal so that decisionmakers can choose the options that offer the greatest economic return on investment. We have also found that GSA's ability to take advantage of the current downturn in the commercial real estate market is impeded by structural rigidities, such as a lack of discretionary building purchase authority and budget scorekeeping

limitations that discourage capital investment in favor of short-term leases.

- Disposal activities. GSA's program to identify and dispose of excess and underutilized government property has been largely ineffective. Because they have no financial incentive to do so, federal agencies have reported very few holdings as excess property to GSA. As a consequence, the government is incurring opportunity costs, since much of the property could be recycled to more economic uses, exchanged for needed property, or sold. The government also unnecessarily incurs considerable costs in holding, managing, repairing, and safeguarding property that could more appropriately be recycled or sold. GSA needs a practical ability to identify and remove buildings from its own portfolio that have passed their useful life. More than half of GSA's buildings are over 40 years old, face rehabilitation backlogs that GSA has not fully aggregated, and in some cases, buildings may have a negative return on further investment.

To be responsive to the needs of its customer agencies, GSA should replace these inefficient and outmoded methods of delivering services with new methods based

on entrepreneurial and competitive principles. While much can be done to improve GSA's management under its present structure, in the longer run the government needs to revamp the manner in which general services are provided to bring to bear the competitive forces of the marketplace. As long as GSA has a monopoly on the provision of office space, vehicles, supplies, telecommunications, and computers, it will lack the incentive and pressure to meet modern needs and standards.

Other countries—including Great Britain, Australia, New Zealand, and Sweden—have embarked on fundamental reform of their administrative service operations. Line agencies are given the choice to use their funds to obtain office space, maintenance, transportation, printing, and supplies from either the central government provider or private sector competitors. Since the funds are not earmarked for specific services, the customer agency decides on the desired quantity and quality by its own standards of value.

These countries share a common result. Where agencies have the choice between government providers and private providers

and varying levels of service, the government providers have become more efficient, innovative, and businesslike. Concepts like asset management and strategic planning have been adopted, output-based performance measures have been developed, and incentives and corporate cultures have been changed.

Strengthening GSA's Internal Management Systems

Given the nature, dollar magnitude, and governmentwide scope of GSA's activities, it is especially critical that the agency's operations be supported by reliable information systems and be adequately protected from fraud, waste, and mismanagement. Any losses and inefficiencies in GSA's activities not only adversely affect the agency's own operations, but also the operations of federal agencies that rely on GSA for facilities and other day-to-day support.

Our work over the last 3 years has found that GSA's general management and internal control systems and practices need substantial improvement. Our November 1989 general management review made 33 recommendations aimed at improving GSA's performance in executive leadership and direction setting, the management of information and human resources, and the adoption of a more strategic approach to the agency's responsibilities. Our April 1991 follow-up report noted that GSA was making good progress in the areas of executive leadership and information management, but that several of our key recommendations on human resources and strategic planning

related to facilities management had not been implemented.

Our September 1992 report on internal controls found that despite efforts by GSA to improve its performance, its operations are not adequately protected. Certain of its functions are high risk not only inherently, but also because key internal controls have not worked as intended or as well as they should. GSA's past efforts have been focused primarily on establishing control structures and procedures, and only secondarily on their outcomes and effectiveness in implementation. Historically, GSA has relied too much on the Inspector General (IG) as the agency's primary control to stop misguided actions. Although there has been some improvement, remaining deficiencies in management information continue to impede GSA's ability to improve the agency's operational performance and detect losses and inefficiencies.

Consequently, our September 1992 report made several recommendations designed to (1) improve GSA's existing efforts in three key areas—overall agency emphasis, implementation, and oversight of internal controls; resolution of GAO and IG audit findings and recommendations; and

Financial Integrity Act (FIA) implementation and reporting—and (2) more fully protect the eight GSA functions and activities that our assessment indicated are high risk.

GSA agreed with and committed to implement our recommendations and has other initiatives under way aimed at resolving the various management, operational, and oversight deficiencies discussed in the report. For example, GSA agreed that it needs to make the prevention and detection of fraud, waste, and mismanagement a higher agencywide priority and has already revised its strategic plan to do this. Also, GSA agreed that it should (1) focus more on the expected outcomes and measurable results of control structures and processes; (2) hold GSA services, regions, program offices, and managers fully accountable for more effective implementation of existing internal controls and audit recommendations; and (3) ensure that its FIA reports disclose all material internal control weaknesses and properly characterize the status of previously reported weaknesses. Finally, GSA has efforts under way to upgrade the capability and reliability of its various program management information systems.

**Strengthening GSA's Internal
Management Systems**

Since full implementation of the recommendations is a long-term process, it is essential that the corrective actions begun by the outgoing GSA Administrator be sustained by his successor.

Improving GSA's Governmentwide Procurement Practices

GSA is responsible for operating or overseeing several governmentwide procurement programs. Among these programs are the multiple award schedules and competitive indefinite delivery contracts programs to provide agencies with easy methods of acquiring commonly used supplies and equipment and a program to acquire short- and long-distance telecommunications services. Under the Brooks Act, GSA has oversight responsibility for information technology acquisition throughout the government. Our work in each of these areas indicates that effectiveness could be improved substantially.

GSA needs to reexamine its governmentwide procurement programs to (1) ensure clear and rational negotiation strategies, (2) eliminate chronic poor performers, (3) compare government requirements with commercial practices to determine whether the requirements are value added, and (4) identify and correct common or systemic problems. Specifically, GSA needs to address the following:

- Multiple award schedules. Our ongoing work on the multiple award schedules program has indicated that GSA's policies on pricing

and negotiation are poorly crafted and lead to widespread inconsistency, misunderstanding, and mistrust both within GSA and in the private sector. From the perspective of agency purchasing patterns, we found that, for the most part, agencies filled users' requests for a specific manufacturer's product without determining if other schedule products could satisfy the requirement at a lower price. GSA's negotiating policy statement needs a basic revision to clarify and rationalize discount goals and reduce burdensome and irrelevant data requirements for vendors.

- Competitive supply contracts. GSA continues to award contracts to vendors who repeatedly have supplied defective or poor-quality products or who were late with deliveries. Such procurement practices are wasteful and have adverse operational consequences, such as compromising customer agencies' mission accomplishment. GSA continues to do business with poor-performing contractors because it (1) lacks complete, readily usable data on vendors' past contract performance and (2) has not consistently emphasized product quality, on-time delivery, or vendor performance in awarding and administering contracts. GSA has recently initiated actions

to correct these problems, but it is too early to judge their effectiveness or whether they will be sustained.

- Governmentwide telecommunications. In 1988, GSA awarded FTS (Federal Telecommunications System) 2000 contracts to two vendors—AT&T and US Sprint—to provide state-of-the-art telecommunications services to federal agencies. These contracts are estimated to be worth over \$10 billion in total over a 10-year period. Since the contract was awarded, we have identified numerous problems with GSA's management of the program and have questioned the cost-effectiveness of the contracts. GSA has implemented our recommendations and made other management improvements. For example, GSA recently completed a recompetition between the two vendors that brought prices below comparable commercial rates, generating savings of over \$450 million over the remaining 6 years of the contracts. GSA is also negotiating price cap mechanisms to ensure that future prices remain cost-effective. The FTS 2000 program now seems on track. The ever-increasing importance of telecommunications to the office environment, however, combined with continuing budget pressures, indicates that GSA even now must begin defining

governmentwide telecommunications strategies for the longer term future.

- Agency procurement of computer equipment, software, and services. The federal government spends over \$20 billion annually acquiring computer hardware and software. GSA is the principal agency responsible for ensuring that the government acquires and manages this technology effectively. Under GSA's ineffective oversight, agency actions continue to result in poorly designed, ineffectively managed procurements with overruns measured in years and in the hundreds of millions of dollars. We found GSA's procurement and information technology management reviews, which are to help agencies develop good computer procurement practices, were too limited in scope and number. GSA needs to refocus its procurement review process by identifying and analyzing data on common or systemic problems.

Information resource management issues are addressed in more detail in a separate transition report entitled Information Management and Technology Issues (GAO/OCG-5TR, Dec. 1992).

Bolstering Congressional Oversight

While the Congress has kept a watchful eye over some efforts—such as FTS 2000, computer procurements, and certain building projects—over the years it has not devoted comprehensive or sustained oversight to GSA. The Congress has not been engaged in the debate over GSA's role or tried to hold GSA accountable for its overall performance as an agency. One reason is that jurisdiction over GSA is divided between the Public Works and the Government Operations/Governmental Affairs Committees, and Appropriations Committee attention has been affected by the unusual condition that less than 5 percent of GSA's funds are appropriated directly to the agency.

The current building prospectus process also hinders comprehensive congressional attention to GSA. GSA presents the Congress with dozens of prospectuses for capital investment projects each year, but the agency fails to cast them in any long-term context. S. 2068, introduced last year, recognized this problem and the importance of developing a broad, comprehensive approach to congressional oversight. If the bill had passed, it would have required GSA to submit 5-year plans for meeting public buildings needs with an explanation of their

priorities to the Congress. This would have addressed GSA's full range of needs from acquisition through disposal.

In the 103rd Congress, more than half of the chairpersons and ranking minority members of GSA's authorization, oversight, and appropriations subcommittees will change through reorganization or turnover. This circumstance, combined with new leadership for the agency, necessarily means that a large number of new actors will have an opportunity to influence GSA's direction. It also offers an opportunity to place congressional oversight of GSA on a new footing.

H.R. 3161, which was considered during the 102nd Congress, contained a section providing for the first time that GSA be periodically reauthorized by the Congress as a means of improving legislative oversight. If the focus of reauthorization is to hold GSA accountable for achieving a number of specific goals and objectives over a sustained period, the process could provide the regular and comprehensive congressional oversight that GSA has historically lacked.

Related GAO Products

General Services Administration: Increased Direct Delivery of Supplies Could Save Millions (GAO/GGD-93-32, forthcoming).

General Services Administration: Actions Needed to Stop Buying Supplies From Poor-Performing Vendors (GAO/GGD-93-34, forthcoming).

General Service Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98, Sept. 30, 1992).

Multiple Award Schedule Purchases: Changes Are Needed to Improve Agencies' Ordering Practices (GAO/NSIAD-92-123, June 2, 1992).

General Services Administration: Distribution Center Modernization Was Mismanaged (GAO/GGD-92-71, May 20, 1992).

Multiple Award Schedule Purchases: Improvements Needed Regarding Publicizing Agencies' Orders (GAO/NSIAD-92-88, May 12, 1992).

Federal Office Space: Obstacles to Purchasing Commercial Properties From

RTC, FDIC, and Others (GAO/GGD-92-60, Mar. 31, 1992).

GSA: A Central Management Agency Needing Comprehensive Congressional Oversight (GAO/T-GGD-92-3, Oct. 29, 1991).

Real Property Management Issues Facing GSA and Congress (GAO/T-GGD-92-4, Oct. 30, 1991).

ADP Procurement: GSA Needs to Improve Its Review Process to Enhance Its ADP Oversight (GAO/IMTEC-92-7, Oct. 28, 1991).

FTS 2000 Recompensation: Opportunity Exists for Better Prices (GAO/IMTEC-91-79, Sept. 11, 1991).

Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57, May 13, 1991).

General Services Administration: Status of Management Improvement Efforts (GAO/GGD-91-59, Apr. 3, 1991).

General Services Administration: Management of FTS 2000 (GAO/T-IMTEC-91-9, Apr. 18, 1991).

Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach (GAO/GGD-90-109, Sept. 28, 1990).

General Services Administration: Delegated Buildings Adequately Operated but Better GSA Oversight Needed (GAO/GGD-90-76, May 15, 1990).

Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989).

General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14, Nov. 6, 1989).

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