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# RIGHT SIZING THE U.S. PRESENCE ABROAD

## HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND INTERNATIONAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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# RIGHT SIZING THE U.S. PRESENCE ABROAD

**WEDNESDAY, MAY 1, 2002**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:06 a.m., in room 2154, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Kucinich, Lewis, Watson, Putnam, Tierney, and Gilman.

Staff present: Lawrence J. Halloran, staff director and counsel; Thomas Costa, professional staff member; Jason M. Chung, clerk; David Rapallo, minority counsel; and Earley Green, minority assistant clerk.

Mr. SHAYS. Good morning. Welcome to our hearing entitled Right-Sizing the U.S. Presence Abroad.

Last year the Office of Management and Budget, OMB, concluded, "The U.S. overseas presence is costly, increasingly complex, and a growing security concern" with no mechanism to assess the overall rationale and effectiveness of where and how U.S. employees are deployed.

The President called for reforms to ensure U.S. national security and foreign policy interests are advanced by the right number of people with the right expertise at the right foreign posts. That was by no means the first call to right-size the U.S. Government presence abroad.

In the wake of the 1998 embassy bombings in Africa, the State Department undertook a costly program to harden U.S. diplomatic posts and reassess the need for large, multi-agency delegations in so many embassies.

In November 1999, the State Department's Overseas Presence Advisory Panel recommended creation of a formal inter-agency process to rationalize the size and scope of U.S. Government activities abroad, aligning resources with overall policy goals and security requirements, yet today, 4 years after terrorists successfully targeted our embassies, no one can determine with any precision the total number of executive branch employees working in foreign posts.

Nearly a decade after the end of the cold war there is no systematic way to shape the U.S. foreign presence to meet new U.S. goals in a more dynamic, far more dangerous world. Federal agencies often set overseas staffing levels and pursue missions that may not

coincide with State Department goals. Duplicative administrative systems waste resources.

Security can be compromised when too many people occupy already-crowded facilities to conduct activities effectively accomplished here at home, regionally abroad, or over the Internet. Presiding over this dysfunctional diplomatic family is the U.S. Ambassador, personally charged by the President with "full responsibility for the direction, coordination, and supervision of all U.S. Government executive branch employees." In fact, at most posts the U.S. Ambassador is little more than the titular leader of two-thirds of the U.S. citizens assigned there. That gap between responsibility and authority undermines the cohesion and effectiveness of our Nation's mission and message abroad.

Last year in London, then-U.S. Ambassador to the United Kingdom Phillip Lader described the illusory aspects of Ambassadorial power this way. He said—I smile every time I read it—"Running an embassy was like being given command of a great ocean liner, only to learn the wheel you're turning to steer the ship of statecraft is not even attached to the rudder."

In preparation for today's hearing, we were briefed by three Ambassadors who echoed the need to better target all U.S. Government resources, not just State Department personnel and assets abroad.

We also received a written statement from former Ambassador Felix Rohatyn, who, while in Paris, led efforts to right-size embassy operations with an entrepreneur's disdain for hide-bound customs and a zest for innovation.

They persuasively stress the need for a united, efficient, and effective voice for U.S. policy and priorities, particularly in regions of the world seething with hate and resentment of our strengths and values.

Our witnesses today bring experience, depth of insight, and breadth of knowledge to our discussion of right-sizing U.S. presence abroad to meet our mission as a beacon of freedom and economic advancement to the world. We appreciate their being here today and we look forward to their testimony.

[The prepared statement of Hon. Christopher Shays follows:]

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# Statement of Rep. Christopher Shays
## May 1, 2002

Last year, the Office of Management and Budget (OMB) concluded "the U.S. overseas presence is costly, increasingly complex, and of growing security concern" with no mechanism to assess the overall rationale and effectiveness of where and how U.S. employees are deployed. The President called for reforms to ensure U.S. national security and foreign policy interests are advanced by the right number of people, with the right expertise, at the right foreign posts.

That was by no means the first call to "right-size" the U.S. government presence abroad. In the wake of the 1998 embassy bombings in Africa, the State Department undertook a costly program to harden U.S. diplomatic posts and reassess the need for large, multi-agency delegations in so many embassies. In November 1999, the State Department's Overseas Presence Advisory Panel recommended creation of a formal interagency process to rationalize the size and scope of U.S. government activities abroad, aligning resources with overall policy goals and security requirements.

Yet today, four years after terrorists successfully targeted our embassies, no one can determine with any precision the total number of executive branch employees working in foreign posts. More than a decade after the end of the Cold War, there is still no systematic way to shape the U.S. foreign presence to meet new U.S. goals in a more dynamic, far more dangerous world.

Federal agencies often set overseas staffing levels and pursue missions that may not coincided with State Department goals. Duplicative administrative systems waste resources. Security can be compromised when too many people occupy already crowded facilities to conduct activities as effectively accomplished here at home, regionally abroad or over the Internet.

Presiding over this dysfunctional diplomatic family is the U.S. ambassador, personally charged by the President with "full responsibility for the direction, coordination, [and] supervision of all United States Government Executive Branch employees…." In fact, in most posts, the U.S. ambassador is little more than the titular leader of two-thirds of the U.S. citizens assigned there. That gap between responsibility and authority undermines the cohesion and effectiveness of our nation's mission and message abroad.

Last year in London, then-U.S. Ambassador to the United Kingdom Phillip Lader described the illusory aspects of ambassadorial power this way: He said running an embassy was like being given command of a great ocean liner, only to learn the wheel you're turning to steer the ship of statecraft is not even attached to the rudder.

In preparation for today's hearing, we were briefed by three ambassadors who echoed the need to better target all U.S. government resources, not just State Department personnel and assets abroad. We also received a written statement from former Ambassador Felix Rohatyn, who while in Paris led efforts to right-size embassy operations with an entrepreneur's disdain for hide-bound customs and a zest for innovation.

They persuasively stress the need for a united, efficient and effective voice for U.S. policy and priorities, particularly in regions of the world seething with hate and resentment of our strengths and values.

Our witnesses today bring experience, depth of insight and breadth of knowledge to our discussion of right-sizing the U.S. presence abroad to meet our mission as a beacon of freedom and economic advancement to the world. We appreciate their being here today and we look forward to their testimony.

Mr. SHAYS. At this time the Chair would recognize Mr. Kucinich.

Mr. KUCINICH. I want to thank the Chair for this opportunity to make a statement and to advise you that I have to momentarily go to a markup, and I appreciate the chance to be here and join you.

Mr. SHAYS. I understand.

Mr. KUCINICH. I want to thank our witnesses for appearing here today and to thank all of those who serve our country abroad through the State Department for the wonderful work that they do.

Today we gather to discuss right-sizing the U.S. presence, particularly the State Department presence, abroad. While I am confident that our distinguished chairman retains an open mind as to what the right size of this presence really should be, I'm concerned that for some right-sizing means down-sizing.

Our corps of State Department personnel overseas plays a critical role in our Nation's foreign policy. These men and women are the public face of the U.S. Government abroad. In countries with which the United States has a particularly important economic or strategic relationship or particularly volatile one, the individuals in the State Department are instrumental in advancing American interests. They are often instrumental in helping to defuse conflicts that might otherwise require military action. But the conditions in which these men and women work belie their importance in our foreign policy apparatus.

The findings of the Overseas Presence Advisory Panel created by Secretary Albright after the 1998 embassy bombings in Africa are instructive. The panel's conclusion is stark and alarming. "The condition of U.S. posts and missions abroad is unacceptable," going on to say, "The panel fears that our overseas presence is perilously close to the point of system failure."

Specifically, the panel cited a lack of adequate security, a lack of common Internet and e-mail communications network; "shocking shabby and antiquated building conditions"; "worn, overcrowded, and inefficient facilities"; and staffing shortages that lead to substandard consular services. Unsurprisingly, the panel also noted that, "morale has suffered."

I think it is important for us to note the panel's approach to these problems. The panel also said that new resources will be needed for security technology and training and to upgrade facilities, and went on to say that in some countries where the bilateral relationship has become more important, additional posts may be needed to enhance the American presence or to meet new challenges.

Now, in August the administration announced its intention to implement the panel's recommendations, but the administration's budget allocations cast doubt on its commitment to implementing these recommendations. International affairs functions will be allocated $25 billion next year. That's less than fiscal year 2002. Yet, I might add that Defense spending will be near $400 billion. Missile defense, alone, will receive $8 billion next year, about as much as the State Department's entire budget.

In addition, the number of direct hire positions abroad stands at only 18,000, 4.5 percent less than in 1995 and nearly 60 percent

less than in 1966. These individuals are being forced to make do in substandard conditions.

In today's complex world, U.S. personnel overseas play as important a role as ever. Mr. Chairman, our overseas personnel and our foreign policy which they are called upon to execute certainly deserve better attention, and I want to thank the Chair for providing this opportunity to see that happen, so thank you.

Mr. SHAYS. I thank the gentleman.

I recognize he has other activities he needs to get to.

At this time the Chair would recognize Diane Watson. Any statement you would like to make?

Ms. WATSON. Not at this time, Mr. Chairman.

Mr. SHAYS. Nice to have you here. Thank you.

And then the vice chairman of the committee, Adam Putnam.

Mr. PUTNAM. No statement, Mr. Chairman.

Mr. SHAYS. Well, that enables me to get right to our witnesses. It enables the committee to get right to our witnesses.

First, before swearing in, let me get rid of the business of the committee, just the requirement. I ask unanimous consent that all members of the subcommittee be permitted to place an opening statement in the record and the record remain open for 3 days for that purpose. Without objection, so ordered.

I ask further unanimous consent that all witnesses be permitted to include their written statement in the record. Without objection, so ordered.

We have three panels today. Our first panel is the Honorable Grant S. Green, Jr., Under Secretary for Management, U.S. Department of State; and the Honorable Nancy Dorn, Deputy Director, Office of Management and Budget.

We're delighted both of you are here. We will ask you, as we ask everyone, to stand and we'll swear you in.

I'd just put for the record the only one who has never been sworn in is Senator Byrd. I chickened out.

[Witnesses sworn.]

Mr. SHAYS. Note for the record our witnesses have responded in the affirmative. Actually, I think being sworn in is an honor, frankly. We take your testimony very seriously and we are very grateful you are here.

We will start with you, Mr. Green.

## STATEMENTS OF GRANT S. GREEN, JR., UNDER SECRETARY FOR MANAGEMENT, U.S. DEPARTMENT OF STATE; AND NANCY P. DORN, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. GREEN. Thank you, sir. Mr. Chairman and members of the subcommittee, I am pleased to be here this morning to testify on the importance of ensuring that the United States has the right people in the right places with the right resources to advance America's foreign policy interests. Contrary to some folklore and, as Mr. Kucinich mentioned, right-sizing does not necessarily mean staffing reductions. In some locations, right-sizing can, in fact, lead to a reduction in staff, but true right-sizing, however, may require new staffing and new resources at posts that currently lack both.

As was mentioned, the number of U.S. direct hire positions under the authority of the chiefs of missions now stands at 18,000. The current level is essentially at the same as in 1990 and reflects a 4.5 decline since 1995 and is certainly smaller now than in 1959, when it stood at 24,000 direct hire, and at its peak in 1996 at 42,000. Since at least the 1950's, the State Department representations is a third or less of all overseas staffing.

Rationalization of the U.S. Government's overseas presence is no easy task. Past efforts to develop an interagency staffing methodology have not succeeded. The Overseas Presence Advisory Panel, for example, did not develop a methodology, even though doing so was part of its original charter. And the followup interagency right-sizing effort in 2000 also could not reach agreement on a methodology. But past difficulties are no reason not to try. Rationalization of our overseas presence is one of the President's management agenda initiatives. As a first step, President Bush, in his May 2001, letter to chiefs of missions instructed them to review closely staffing at their individual posts to ensure that their staffing levels were neither excessive nor inadequate to meet mission goals.

We are working very closely with OMB on a number of right-sizing issues, including data collection, establishment of a regional center in Frankfurt, and examination of the European and Eurasian Bureau overseas posts and development of an embassy construction financing mechanism that will include cost sharing with other agencies.

In addition, OMB has been working with us on right-sizing issues we have been addressing, including revising the mission performance plan process.

In addition, the General Accounting Office has kept us informed of its Paris staffing review and has briefed us on the conceptual framework it is developing. The Department of State is committed to working with OMB and the GAO in the development and implementation of a successful right-sizing initiative.

In a related area, let me say that we believe there is still no substitute for face-to-face interaction with host governments and publics. State continues to support the principle of universality under which the U.S. Government maintains an on-the-ground presence in virtually all nations where we have diplomatic relations.

We agree with OPAP's conclusion that today a universal, on-the-ground overseas presence is more critical than ever to the Nation's well-being.

While we believe strongly in the need to maintain an on-the-ground presence in virtually all nations with which we have diplomatic relations, the Department of State pursues regionalization initiatives where appropriate. We rely heavily on centralizing a variety of administrative, consular, and some policy functions such as labor attaches and science and technology officers, either overseas or in the United States.

We currently have four U.S. regional centers: the Ft. Lauderdale regional center, which provides support services to our posts throughout the Western Hemisphere; the National Visa Center in Portsmouth, New Hampshire; and the Kentucky Consular Center in Williamsburg, Kentucky, which performs a variety of consular

tasks traditionally carried out at individual posts overseas. We also have the Charleston Financial Services Center in Charleston, South Carolina, which already provides support for our Western Hemisphere post and is in the process of assuming financial functions for our European and African posts which were formerly carried out at Embassy Paris.

In addition, the Department has also begun to shift routine passport production from overseas posts to U.S. domestic passport agencies in order to take advantage of the high security photo-digitization process installed here in the United States.

When relocating to the United States is not feasible, U.S. Government agencies, including State, may use embassies and consulates such as Frankfurt and Hong Kong as regional platforms for their activities. A major regionalization effort currently underway is the 23-acre Creek Bed site in Frankfurt, Germany, which formerly housed the Department of Defense's 469th Hospital. Creek Bed will not only become the new site for consulate Frankfurt, but also be the location for a regional support center and home to numerous personnel from other agencies with regional responsibilities in Europe, Eurasia, Africa, and portions of the Middle East.

Another initiative which you no doubt have heard about are the American presence posts. These are creative and cost-effective ways to give the United States more visibility in places we would otherwise not be represented. Under former Ambassador Felix Rohatyn's leadership, five APPs were opened in France. The experience of those APPs shows what can be accomplished with a determined chief of mission and a committed staff using a creative and modern approach to doing business and mission resources. Obviously, such posts pose security concerns, but we will continue to consider proposals from chiefs of mission for additional APPs as they arise.

In conclusion, let me say that we are working very closely with the Office of Management and Budget on its right-sizing effort as part of the President's management agenda. We believe that is the appropriate mechanism for further study and resolution of this issue.

Mr. Chairman, I would be happy to answer any questions you or other members of the subcommittee may have at this point.

Mr. SHAYS. Thank you, Mr. Green.

[The prepared statement of Mr. Green follows:]

# PREPARED STATEMENT FOR THE RECORD

## UNDER SECRETARY OF STATE FOR MANAGEMENT
## GRANT S. GREEN, JR.

For the

House Government Reform Subcommittee
on National Security,
Veterans Affairs, and
International Relations

May 1, 2002

Good morning, Mr. Chairman. I would like to thank the Subcommittee for holding a hearing on this very important issue.

Historically, the State Department has been one of many U.S.G. agencies operating overseas, and in many posts we are in fact outnumbered by our colleagues from other agencies. With increasing responsibilities overseas, not only for our own employees - who are dealing with increasingly complex issues and relationships - but for the entire government, the issue of overseas staffing is particularly timely.

***OPAP and Rightsizing Thus Far***

Rationalizing the U.S. Government's overseas presence is no easy task. Past efforts to develop an interagency staffing methodology have not succeeded. The Overseas Presence Advisory Panel (OPAP), for example, did not develop such a methodology, even though doing so was part of its original charter. The follow-up interagency rightsizing effort in 2000 also could not reach agreement on one.

Rightsizing does not necessarily imply staffing reductions. In some locations rightsizing may lead to a reduction in staff. True rightsizing, however, will require new staffing and new resources at posts that are currently lacking both.

We welcome OMB's decision to include rightsizing as one of the initiatives in the President's Management Agenda. We are working with OMB on a number of rightsizing issues, including data collection, establishment of a regional center in Frankfurt, an examination of the European and Eurasian Bureau overseas posts, and development of an embassy construction financing mechanism. In addition, OMB has been working with us on rightsizing issues we have been addressing, including revising the Mission Performance Plan process.

The General Accounting Office (GAO) has kept us informed of its Paris staffing review and has briefed us on the conceptual framework it is developing. The Department is committed to working with OMB and the GAO in the development and implementation of a successful rightsizing initiative.

In 2000 an interagency committee considered how best to implement the OPAP rightsizing recommendations. The committee visited six U.S. pilot missions: Amman, Jordan; Bangkok, Thailand; Mexico City, Mexico; New Delhi, India; Paris, France; and Tbilisi, Georgia. The committee found that there have been

significant redeployments of staff from some areas of the world to others in response to new mission priorities, such as the need to staff the posts opened in the republics of the former Soviet Union. Some agencies have increased the number of their personnel overseas, notably those from the law enforcement community. These staffing increases - which flow from the importance the United States assigns to security, law enforcement, narcotics control, and counter-terrorism - have been offset by staffing reductions taken by other agencies.

There still is no substitute for face-to-face interaction with host governments and publics. State continues to support the principle of universality, under which the U.S. Government maintains an on-the-ground presence in virtually all nations with which we have diplomatic relations. We agree with OPAP's conclusion that "a universal, on-the-ground overseas presence is more critical than ever to the nation's well-being."

There is a common perception that the U.S. Government presence at our embassies and consulates has grown substantially from a nucleus of five major "foreign affairs agencies" in the aftermath of World War II to today, where almost all Executive Branch Departments as well as other entities such as the Library of Congress are represented. This perception is wrong. A range of U.S.G. agencies has traditionally staffed U.S. embassies and consulates. The current number of U.S. direct hire positions under the authority of Chiefs of Mission stands at about 18,000, smaller now than at its 1966 peak of 42,000. The current level is essentially the same as in 1990, and reflects a 4.5% decline since 1995. Since at least the 1950s, the Department of State has represented a third or less of all overseas staffing.

Chiefs of Mission (COMs) have the primary responsibility for deciding U.S.G. staffing and are in the best position to make the decisions. There is a perception on the part of COMs that their authority to make staffing decisions is circumscribed in practice by the manner in which they receive many of the requests. Agencies often approach COMs at the end of the process, after OMB consultation, budget allocations, and congressional action have all concluded. As a first step, President Bush instructed all COMs overseas to review closely staffing at their individual post to ensure that staffing levels are neither excessive nor inadequate to meet mission goals.

***Diplomatic Platform***

Even though we have limited direct authority over other agencies' personnel, the Department of State is responsible for maintaining the Diplomatic Platform for the U.S. Government's overseas operations.

International Cooperative Administrative Support Services (ICASS) was implemented in FY 1998. ICASS is a shared administrative support system through which more than 250 U.S. government entities at our overseas posts obtain essential services and share costs of operating facilities and services. ICASS's cost distribution system ensures that a more comprehensive estimate of the cost of each agency's presence overseas is reflected in that agency's budget. ICASS services are currently provided at more than 160 U.S. missions around the world.

The Department of State is the primary service provider in ICASS, and also the largest consumer of services. ICASS is governed by a 14-member executive board composed of assistant-secretary level representatives of the largest customer agencies. At our embassies throughout the world, interagency ICASS Councils determine which services will be provided, by which agency, and at what cost.

ICASS facilitates rightsizing in several ways. First, it helps identify the true support costs for each agency's overseas presence. Agencies must take these costs into account when making decisions about creating and maintaining positions overseas.

Second, ICASS provides information to the Chief of Mission on the impact agency requests for new positions will have on the mission's support structure, and the amount of additional support resources that will be required.

Third, ICASS facilitates outsourcing of services where appropriate, which helps reduce staffing requirements. For example, Embassy Rabat received the ICASS Best Practices Award in April, 2001 for improving service quality while saving an estimated $700,000 over five years by outsourcing certain support services.

Fourth, ICASS helps eliminate duplication of effort among agencies overseas through shared services. For example, USAID

now acts as a service provider in several posts where they are better suited than State to do so.

ICASS does not, however, provide a mechanism for sharing costs of new construction. The Department of State has always borne the full cost of new construction. After the Africa Embassy bombings, the Department launched a massive, multi-year security construction program. The Department is working with OMB on a proposal for capital cost sharing that would spread the costs of construction of new secure facilities. This truer reflection of the costs of maintaining employees overseas would also contribute to agencies' abilities to fully evaluate their overseas presence. Disciplined human resources planning by all agencies will contribute to successful construction planning, as staff size is one of the most significant factors in estimating needed facility size.

There are other security considerations beyond just the buildings. Most security elements and costs are integral to the safe operation of the Post and are not directly linked to staffing. Therefore, modest rightsizing initiatives will not result in a proportionate decrease or increase in security costs. For example, local guards, surveillance detection, access control and physical/technical security programs are driven by threat more than by Post staffing levels. Therefore staffing changes, absent a measurable change in the threat would not result in security staffing changes.

Collocating personnel increases the ability to provide protection. However, some agencies are purposefully located outside the chancery to be more accessible to the customers they serve. Typically, these facilities are more difficult to secure, and may involve waivers for some security standards. An increase or decrease in collocating may impact costs associated with providing security for those Posts.

***Department of State Staffing Overseas***

Now let me turn to what the Department is ultimately responsible for - our own staffing overseas - and how we manage our overseas presence.

We are in the first year of our Diplomatic Readiness Hiring initiative, which is one of the Secretary's top priorities. We thank the Congress for its support. The increased hiring under the Diplomatic Readiness Initiative addresses fundamental staffing needs in order to reverse the trend of the early 1990s

when we hired under attrition, resulting in a serious staffing gap. This initiative seeks to strengthen our diplomatic corps with over 1100 new hires beyond those required to replace attrition.

We need these new positions to fill unmet needs overseas and to provide for enough personnel to respond to crises and go to training without leaving staffing gaps. Without adequate staffing, we will not be able to carry out the foreign policy priorities of the President.

The overseas requirements were determined in part by the Overseas Staffing Model, our workforce planning tool that assists management in allocation of resources, including those needed to support the USG diplomatic platform.

To determine specific allocation of those new resources by bureau and post, we assessed their human resource requests during our planning and budgeting process. We made decisions about where we need new positions based on recommendations from our budget and human resource offices and based on the priorities identified in our planning process.

Finally, we will allocate new positions based on our decisions about policy initiatives. These can change, as you well know, and we have a dynamic system to respond to those changes.

This Diplomatic Readiness Initiative is therefore part of our efforts to have the right staff overseas to meet our mission.

Let me say a little more about that strategic planning and human resource allocation process and how it works.

First, our overseas missions submit Mission Performance Plans (MPPs). The MPPs are reviewed each spring. Summaries of resource requirements are provided to Department principals. Then the regional bureaus develop their Bureau Program Plans (BPPs) which "roll-up" mission requests with the requirement that needs must be linked to one of the Department's strategic goals. These are presented to the Deputy Secretary and me in formal resource briefings early in the financial plan development process.

The Bureau of Human Resources and the Bureau of Resource Management make secondary recommendations based on emerging priorities, funding potential, Overseas Staffing Model projections as well as senior BPP review decisions. The Deputy

Secretary and I make final resource decisions in terms of positions to be allocated and supporting funding.

The Bureau of Human Resources allocates positions to coincide with resource decisions. Bureaus have the flexibility to make decisions across region as to where to place personnel (e.g., move positions from Paris to Moscow if needed) however, most allocated resources are provided for specific priorities and bureaus cannot reprogram without central management approval.

Through this process, we link resources with our strategic priorities and ensure that our overseas staffing meets our mission needs.

One of the considerations in making staffing decisions is whether the work must be done by Americans or whether we can use local hires. Our Foreign Service National colleagues are a vital part of our team. The management of FSNs is a decentralized process run by managers at Posts where they take into account available local talent pool, cost, and need for training opportunities for Junior Officers. Centrally, the budget process is where management ensures that in allocating resources for new American personnel or for FSNs that post management has taken into account the options for arranging their workforce to meet their needs. We do have tools in the consular work area to manage the FSN requirements and we use ICASS to manage FSN's doing administrative work in support of other agencies.

Another important consideration is security. Security and threat issues can affect how much staff we need to provide security, facility requirements, whether we can rely on local hires or require cleared American staff, and even if we will have a presence at all. Maintaining a safe environment is difficult, and the Secretary does not want to put anyone in harm's way unnecessarily, so we do look for ways to ensure that we are not doing functions overseas that would be better done here.

All of these considerations are part of our decisions on State Department staffing overseas. We believe that the strong linkage between strategic priorities and resource decisions - with senior management involvement - ensure that we are able to meet our mission.

***Ongoing Initiatives***

The need for more people overseas in many functions has not stopped us from undertaking several initiatives to streamline.

**Regionalization**

While we believe strongly in the need to maintain an on-the-ground presence in virtually all nations with which we have diplomatic relations, the Department of State pursues regionalization initiatives when appropriate. We rely heavily on centralizing a variety of administrative, consular, and some policy functions (e.g., Labor Attaches, science hubs), either overseas or in the United States. We have four U.S. regional centers:

- The Fort Lauderdale Regional Center provides support services to U.S. posts throughout the Western Hemisphere.
- The National Visa Center in Portsmouth NH and the Kentucky Consular Center in Williamsburg, KY perform various consular tasks traditionally carried out at individual posts.
- The Charleston Financial Service Center is in the process of assuming functions for European and African posts formerly carried out at the Embassy in Paris.

The Department has also begun to shift routine passport production from overseas posts to U.S. domestic passport agencies in order to take advantage of the high security passport photodigitization process installed here in the United States.

When relocation to the United States is not feasible, U.S.G. agencies (including State) use many embassies and consulates such as Frankfurt and Hong Kong as regional platforms for their activities.

We have signed a letter of intent with the German Government to purchase the 23-acre "Creekbed" site in Frankfurt. It housed the Department of Defense's 469th Hospital and was scheduled to be returned to the Germans this year. Creekbed will not only become the new site for Consulate Frankfurt, but also the location for a Regional Support Center and home to numerous personnel from other agencies with regional responsibilities in Europe and Eurasia, Africa, and the Middle East. We are asking COMs to consider whether there are staff positions with regional responsibilities in their missions who could be relocated to the Creekbed facility.

This regionalization is consistent with both our rightsizing efforts and the principle of universality. While we maintain universality of embassies, many functions can be managed regionally. In addition to the service centers, a large number of embassy staff will have regional responsibilities. For example, many medical and security functions are managed by employees on a regional basis. While we can gain economies (usually in the management field) by regionalizing some functions, this does not eliminate the need more people at some of our posts.

**American Presence Posts**

American Presence Posts (APPs) are a creative and cost effective way to give the United States more visibility in places we would otherwise not be represented. Under former Ambassador Felix Rohatyn's leadership, five APPs were opened in France. The experience of those APPs shows what can be accomplished with a determined COM and committed staff using a creative and modern approach to doing business and mission resources. Obviously such posts pose significant security concerns. We will continue to consider proposals from COMs for additional APPs as they arise.

**Conclusion**

We are working with the Office of Management and Budget on its rightsizing effort as part of the President's Management Agenda. We believe that is the appropriate mechanism for further study of this issue.

Thank you for your interest in this issue and support of our overseas presence. I welcome your questions.

Approximate Average Costs Associated with the establishment of a New Overseas Position

| | note | | |
|---|---|---|---|
| **Salary/Benefits** | a | | |
| SA Grade 14 | | **$** | **151,842** |
| | | | |
| **ICASS** | b | **$** | **41,649** |
| | | | |
| **Office Costs** | c | | |
| Furniture @ $30,000/empl | | $ | 30,000 |
| Vehicles @ $35,000/empl | | $ | 35,000 |
| Laptop Computer/Docking Station/Monitor | | $ | 4,000 |
| Desktop Computer | | $ | 1,951 |
| Printer | | $ | 424 |
| | | | |
| Total Office / IT Equipment Costs per Employee | | **$** | **71,375** |
| | | | |
| **Housing Costs** | | | |
| Residential Lease | d | $ | 98,421 |
| Residential Utilities | e | $ | 6,000 |
| Make ready costs | f | $ | 8,000 |
| Residential Furniture/ equipment | g | $ | 53,000 |
| | | | |
| Total Housing Costs | | **$** | **165,421** |
| | | | |
| **Educational Allowance** | h | | |
| grades k-8 | | $ | 19,400 |
| grades 9 - 12 | | $ | 21,300 |
| | | | |
| Educational Allowance Total | | **$** | **40,700** |
| | | | |
| **Danger Pay** | l | **$** | **12,698** |
| | | | |
| **Language Incentive Pay** | j | **$** | **21,164** |
| | | | |
| **Post Allowance** (COLA) | k | **$** | **9,575** |
| | | | |
| **Post Differential (aka hardship pay)** | l | **$** | **21,164** |
| | | | |
| **Overseas Post Field work Travel** | m | **$** | **10,000** |
| | | | |
| **Permanent Change of Station Travel to Overseas Post** | n | | |
| PCS Travel | | $ | 1,700 |

| | | | |
|---|---|---|---|
| PCS House hold goods shipment | | $ | 18,477 |
| Airfreight | | $ | 4,495 |
| PCS car shipment | | $ | 6,995 |
| PCS HHG storage | | $ | 16,614 |
| PCS TQ 70 days | | $ | 34,839 |
| PCS misc. | | $ | 1,000 |
| PCS taxes | | $ | 15,015 |
| Total PCS TVL costs | | **$** | **99,135** |
| **R&R travel** | o | **$** | **2,124** |
| **Transfer Orientation Training** | p | | |
| 10 NFATC courses | | **$** | **2,520** |
| **Foreign Language Training** | q | **$** | **6,000** |
| **Miscellaneous Expenses** | | | |
| cellular telephone costs | r | $ | 3,428 |
| pager service | s | $ | 1,000 |
| GOV parking | t | $ | 1,391 |
| GOV gasoline | u | $ | 2,400 |
| GOV insurance | v | $ | 500 |
| employee physicals | w | $ | 520 |
| office supplies | x | $ | 500 |
| Total Misc. Expenses | | **$** | **9,739** |
| **Total Costs associated with the creation of a new foreign post of duty position** | | **$** | **665,106** |

**LEGEND REGARDING COSTS OF ESTABLISHING A NEW USSS POSITION (family of four) AT AN EXISTING OVERSEAS POSTS OF DUTY**

NOTES: The costs provided are from a variety of the posts that the Secret Service currently has established, the reason being the amount reflected in each category represents the most costly amount for that specific category among those offices. The aggregate is the "most costly" estimate of categories related to a staffing increase (i.e. creation) of a new position. The establishment of a new position at an existing post other than the post listed in the legend for a specific category should therefore realize a cost reduction for that item.

a. Salary/Benefits –Assume a GS-14/5 (base salary $84,658) with a pay raise of 4.6%, 25% LEAP and 42% for benefits. [The same calculations can be conducted for new agent GS-13/5 positions (base salary $71,642) with 25% LEAP and 42% for benefits; new administrative support GS-9 positions (base salary $41,541) with a pay raise of 4.6% and 42% benefits; new FSN- 7 investigator positions vary from post to post. The salary and benefits for an FSN-7 position at Berlin, Germany was provided by the embassy as $80,000.]

b. ICASS costs - This amount of $41,649 was derived from the FY 2001 ICASS billing statement for the Rome Field Office (staffed with 10 employees) in the aggregate amount of $416,491.00.

c. Office furnishings/equipment and IRM IT equipment costs – Furniture costs can fluctuate from post to post and are dependent upon the Secret Service purchasing materials from local vendors (cost savings) or the Secret Service being mandated by the U.S. Embassy at post that all materials must be purchased through the State Department channels (more costly due to handling fees), as is the case with Sao Paulo, Brazil. For Sao Paulo, furniture is purchased through a GSA contract generally from Knoll at a cost of $30,000 per employee. Cost includes shipping and installation. This is assuming that the USSS will be in CAA space. If not in CAA space, furniture may be procured locally at a significantly reduced cost, as previously stated. FSN furniture may be purchased locally due to FSN not being in CAA space.

The majority of the IT equipment costs (e.g. computers, printers, fax machines) and other office equipment costs (copiers, date/time stamp, shredder, vehicles) are uniform based upon the fact that the Secret Service purchases all of these items directly and ships them to post. This being said, the costs provided were only those attributable to a single employee. The remainder of Office Costs (shared equipment such as a copier, microwave, radio system) were not provided as they would already be in place.

d. Housing Costs – residential lease amount provided for Hong Kong, currently the highest USSS residential lease post, for August 2001 through July 2002.

e. Residential utilities – residence of RAIC in Mexico City, Mexico FY 2002.

f. Residential make ready costs (painting, carpeting, etc) – Apartment for one SA in Rome, Italy.

g. Residential Furniture / equipment – Furniture costs can fluctuate from post to post and are dependent upon the employee bringing all of the required furniture from their personal U.S. residence (cost saving), Secret Service purchasing materials from local vendors (cost savings) or the Secret Service being mandated by the U.S. Embassy at post that all materials must be purchased through the State Department channels (more costly due to handling fees). The case with Moscow, Russia, is that the post mandates that each agency join the Residential Furniture Pool in order to be in the Housing Pool within the language of the NSDD-38 approval. At Moscow, the one time sign up fee is $42,000/employee, with a yearly payment of $11,000/employee due each year thereafter.

h. Educational Allowance – Currently, one of the most costly USSS posts for educational allowance is Moscow, Russia. Assume one child in grades K-8 ($19,400) and one child in grades 9-12 ($21,300). Amounts derived from Section 920, Post Classification and Payment Tables, and Amendments to the Standardized Regulations (State Department).

i. Danger Pay – currently, only the Bogotá Office receives danger pay at the rate of 15% of the $84,658 base salary example = $12,698.

j. Language Incentive Pay – Currently, the Secret Service language incentive pay scale ranges from 0% to 25% of the individual's base pay. Therefore, utilizing the base salary of $84,658 and the highest percentage of 25%, the estimate for an individual utilizing a language skill at the highest degree is $21,164.

k. Post Allowance (COLA) - Currently, COLA amount, when applicable at post, various from post to post [0% - 25%]. The COLA at Hong Kong is 25% and is calculated from a salary/family size chart that utilizes a range of base salaries to arrive at the requisite amount. Therefore, with the base salary of $84,658 and a family of four, the COLA at Hong Kong is $9,575

l. Post Differential (hardship pay) – Currently, the Lagos, Nigeria Office receives hardship pay at the rate of 25% of the $84,658 base salary example = $21,164.

m. Overseas Post Field Work Travel – The average FY cost for travel related to field work at the overseas post, per employee.

n. Permanent Change of Station Travel to Overseas Post of Duty (PCS Costs) – Assume employee spouse, one child under 12 and one child over 12. In this estimate residential furniture is provided by the post (Sao Paulo, Brazil) and as a result the employee is authorized to ship a maximum of 7,200 pounds plus 700 pounds of airfreight, and may store up to 10,800 pounds for the duration of the tour of duty. Shipment of a personal vehicle is assumed. Assume temporary quarters of 70 days (includes 10 days for predeparture); travel of $425 per person; and reimbursement of a RITA at 40% of the covered taxable reimbursements (temporary quarters, miscellaneous, travel).

o. Rest and Recuperation Travel – R&R time is deducted from the employee's annual leave balance and therefore the Government does not incur an additional salary expense. The only payment is for the air travel and associated travel costs (taxis, etc) from the post of duty to the designated Relief Area. The example cited is Bangkok, Thailand, at which the Relief Area of Sidney, Australia has been designated per 3 Foreign Affairs Handbook – 1 H-3722, exhibit 3 Department of State Personnel Operations Handbook. A revised message allows the traveler to select any city in the continental U.S. as the Relief Area. The traveler is therefore authorized to travel to the first available continental port of entry at Government expense. Airfare from Bangkok to Sydney is $2,124.00 roundtrip; to New York City it is $1,200.00.

p. Transfer Orientation Training – The Secret Service is developing a four-week orientation program aimed at preparing employees and family members for overseas service. This program is being developed in comparison with that of the FBI. Secret Service staff at no additional cost to the agency is conducting much of the training. There are some outside vendor components however that do result in additional costs to the agency, such as 10 National Foreign Affairs Training Center courses (total expenses for all 10 courses per employee = $2,520.00

q. Foreign Language Training – The Secret Service affords those employees under PCS transfer to a foreign post of duty the opportunity to enroll in foreign language training to prepare them for overseas service. The employee is then afforded the opportunity to continue the language training at post to facilitate their service overseas. The average cost for an initial full battery of pre-departure classes and continued at post study is $6,000.

r. Cell phone costs taken from FY2002 Rome Field Office projected costs of $24,000 for 7 personnel = $3,428/employee.

s. Average cost taken from all foreign posts.

t. Cost per parking space for one GOV at Paris, France.

u. Cost per GOV for FY at Mexico City, Mexico.

v. Cost per GOV insurance averaged from all foreign posts.

w. Cost per employee physical FY 2001 at Rome.

x. Average cost for expendable office supplies per employee.

y. FSN position costs: The following must be deducted from the table when examining the costs for an FSN or American Family Member / Locally Engaged Staff Administrative staffing increase:

$35,000 – vehicle
$4,000 -laptop computer
$98,421 – residential lease
$6,000 – residential utilities
$8,000 – residential make ready costs
$53,000 – residential furniture / equipment costs
$40,700 – educational allowance
$21,164 – language incentive pay
$99,135 – PCS Total costs
$2,520 – NFTAC training courses
$1,391 – GOV parking
$2,400 – GOV gasoline
$500 – GOV insurance

$372,231 – Total deducted

z. Additionally, the following must be deducted from the table when examining the costs for an FSN staffing increase:

$12,698 – danger pay
$9,575 – COLA
$21,164 – Post Differential
$2,124 – R & R
$6,000 – Foreign Language Training

$51,561 – Total deducted

Approximate Average Costs Associated with the Replacement of an Existing Overseas Position

| | note | | |
|---|---|---|---|
| **Salary/Benefits** | a | | |
| SA Grade 14 | | **$** | **151,842** |
| **ICASS** | b | **$** | **41,649** |
| **Housing Costs** | | | |
| Residential Lease | c | $ | 98,421 |
| Residential Utilities | d | $ | 6,000 |
| Make ready costs | e | $ | 8,000 |
| Recurring Furniture Pool Costs | f | $ | 11,000 |
| Total Housing Costs | | **$** | **123,421** |
| **Educational Allowance** | g | | |
| grades k-8 | | $ | 19,400 |
| grades 9 - 12 | | $ | 21,300 |
| Educational Allowance Total | | **$** | **40,700** |
| **Danger Pay** | h | **$** | **12,698** |
| **Language Incentive Pay** | I | **$** | **21,164** |
| **Post Allowance** (COLA) | j | **$** | **9,575** |
| **Post Differential (aka hardship pay)** | k | **$** | **21,164** |
| **Overseas Post Field work Travel** | l | **$** | **10,000** |
| **Permanent Change of Station Travel to Overseas Post** | m | | |
| PCS Travel | | $ | 1,700 |
| PCS House hold goods shipment | | $ | 18,477 |
| Airfreight | | $ | 4,495 |
| PCS car shipment | | $ | 6,995 |
| PCS HHG storage | | $ | 16,614 |
| PCS TQ 70 days | | $ | 34,839 |
| PCS misc. | | $ | 1,000 |
| PCS taxes | | $ | 15,015 |
| Total PCS TVL costs | | **$** | **99,135** |
| **R&R travel** | n | **$** | **2,124** |

| | | | |
|---|---|---|---|
| **Transfer Orientation Training** | o | | |
| 10 NFATC courses | | **$** | **2,520** |
| **Foreign Language Training** | p | **$** | **6,000** |
| **Miscellaneous Expenses** | | | |
| cellular telephone costs | q | $ | 3,428 |
| pager service | r | $ | 1,000 |
| GOV parking | s | $ | 1,391 |
| GOV gasoline | t | $ | 2,400 |
| GOV insurance | u | $ | 500 |
| employee physicals | v | $ | 520 |
| office supplies | w | $ | 500 |
| Total Misc. Expenses | | **$** | **9,739** |
| **Total Costs associated with the creation of a new foreign post of duty position** | | **$** | **520,990** |

**LEGEND REGARDING COSTS OF A USSS REPLACEMENT FOR AN EXISTING POSITION (family of four) AT AN EXISTING OVERSEAS POSTS OF DUTY**

NOTES: The costs provided are from a variety of the posts that the Secret Service currently has established, the reason being the amount reflected in each category represents the most costly amount for that specific category among those offices. The aggregate is the "most costly" estimate of categories related to replacement (i.e. successor) of an existing position. The replacement of an existing position at an existing post other than the post listed in the legend for a specific category should therefore realize a cost reduction for that item.

a. Salary/Benefits –Assume a GS-14/5 (base salary $84,658) with a pay raise of 4.6%, 25% LEAP and 42% for benefits. [The same calculations can be conducted for new agent GS-13/5 positions (base salary $71,642) with 25% LEAP and 42% for benefits; new administrative support GS-9 positions (base salary $41,541) with a pay raise of 4.6% and 42% benefits; new FSN- 7 investigator positions vary from post to post. The salary and benefits for an FSN-7 position at Berlin, Germany was provided by the embassy as $80,000.]

b. ICASS costs - This amount of $41,649 was derived from the FY 2001 ICASS billing statement for the Rome Field Office (staffed with 10 employees) in the aggregate amount of $416,491.00.

c. Housing Costs – residential lease amount provided for Hong Kong, currently the highest USSS residential lease post, for August 2001 through July 2002.

d. Residential utilities – residence of RAIC in Mexico City, Mexico FY 2002.

e. Residential make ready costs (painting, carpeting, etc) – Apartment for one SA in Rome, Italy.

f. Residential Furniture / equipment – Furniture costs can fluctuate from post to post and are dependent upon the employee bringing all of the required furniture from their personal U.S. residence (cost saving), Secret Service purchasing materials from local vendors (cost savings) or the Secret Service being mandated by the U.S. Embassy at post that all materials must be purchased through the State Department channels (more costly due to handling fees). The case with Moscow, Russia, is that the post mandates that each agency join the Residential Furniture Pool in order to be in the Housing Pool within the language of the NSDD-38 approval. At Moscow, the one time sign up fee is $42,000/employee, with a yearly payment of $11,000/employee due each year thereafter. Therefore, since this is a "replacement" employee, only the recurring cost of $11,000 would be payable each year.

g. Educational Allowance – Currently, one of the most costly USSS posts for educational allowance is Moscow, Russia. Assume one child in grades K-8 ($19,400) and one child in grades 9-12 ($21,300). Amounts derived from Section 920, Post Classification and Payment Tables, and Amendments to the Standardized Regulations (State Department).

h. Danger Pay – currently, only the Bogotá Office receives danger pay at the rate of 15% of the $84,658 base salary example = $12,698.

i. Language Incentive Pay – Currently, the Secret Service language incentive pay scale ranges from 0% to 25% of the individual's base pay. Therefore, utilizing the base salary of $84,658 and the highest percentage of 25%, the estimate for an individual utilizing a language skill at the highest degree is $21,164.

j. Post Allowance (COLA) - Currently, COLA amount, when applicable at post, various from post to post [0% - 25%]. The COLA at Hong Kong is 25% and is calculated from a salary/family size chart that utilizes a range of base salaries to arrive at the requisite amount. Therefore, with the base salary of $84,658 and a family of four, the COLA at Hong Kong is $9,575

k. Post Differential (hardship pay) – Currently, the Lagos, Nigeria Office receives hardship pay at the rate of 25% of the $84,658 base salary example = $21,164.

l. Overseas Post Field Work Travel – The average FY cost for travel related to field work at the overseas post, per employee.

m. Permanent Change of Station Travel to Overseas Post of Duty (PCS Costs) – Assume employee spouse, one child under 12 and one child over 12. In this estimate, residential furniture is provided by the post (Sao Paulo, Brazil) and as a result the employee is authorized to ship a maximum of 7,200 pounds plus 700 pounds of airfreight, and may store up to 10,800 pounds for the duration of the tour of duty. Shipment of a personal vehicle is assumed. Assume temporary quarters of 70 days (includes 10 days for predeparture); travel of $425 per person; and reimbursement of a RITA at 40% of the covered taxable reimbursements (temporary quarters, miscellaneous, travel).

n. Rest and Recuperation Travel – R&R time is deducted from the employee's annual leave balance and therefore the Government does not incur an additional salary expense. The only payment is for the air travel and associated travel costs (taxis, etc) from the post of duty to the designated Relief Area. The example cited is Bangkok, Thailand, at which the Relief Area of Sidney, Australia has been designated per 3 Foreign Affairs Handbook – 1 H-3722, exhibit 3 Department of State Personnel Operations Handbook. A revised message allows the traveler to select any city in the continental U.S. as the Relief Area. The traveler is therefore authorized to travel to the first available continental port of entry at Government expense. Airfare from Bangkok to Sydney is $2,124.00 roundtrip; to New York City it is $1,200.00.

o. Transfer Orientation Training – The Secret Service is developing a four-week orientation program aimed at preparing employees and family members for overseas service. This program is being developed in comparison with that of the FBI. Secret Service staff at no additional cost to the agency is conducting much of the training. There are some outside vendor components however that do result in additional costs to the agency, such as 10 National Foreign Affairs Training Center courses (total expenses for all 10 courses per employee = $2,520.00

p. Foreign Language Training – The Secret Service affords those employees under PCS transfer to a foreign post of duty the opportunity to enroll in foreign language training to prepare them for overseas service. The employee is then afforded the opportunity to continue the language training at post to facilitate their service overseas. The average cost for an initial full battery of pre-departure classes and continued at post study is $6,000.

q. Cell phone costs taken from FY2002 Rome Field Office projected costs of $24,000 for 7 personnel = $3,428/employee.

r. Average cost taken from all foreign posts.

s. Cost per parking space for one GOV at Paris, France.

t. Cost per GOV for FY at Mexico City, Mexico.

u. Cost per GOV insurance averaged from all foreign posts.

v. Cost per employee physical FY 2001 at Rome.

w. Average cost for expendable office supplies per employee.

x. FSN replacement position costs: The following must be deducted from the table when examining the costs for replacing an existing FSN or American Family Member / Locally Engaged Staff Administrative staff position:

$98,421 – residential lease
$6,000 – residential utilities
$8,000 – residential make ready costs
$11,000 – residential furniture pool recurring fee
$40,700 – educational allowance
$21,164 – language incentive pay
$99,135 – PCS Total costs
$2,520 – NFTAC training courses
$1,391 – GOV parking
$2,400 – GOV gasoline
$500 – GOV insurance

$291,231 – Total deducted

y. Additionally, the following must be deducted from the table when examining the costs for replacing an existing FSN staff position:

$12,698 – danger pay
$9,575 – COLA
$21,164 – Post Differential
$2,124 – R & R
$6,000 – Foreign Language Training

$51,561 – Total deducted

Approximate Average Costs Associated with an Existing "On Site" Overseas Position

| | note | | |
|---|---|---|---|
| **Salary/Benefits** | a | | |
| SA Grade 14 | | **$** | **151,842** |
| **ICASS** | b | **$** | **41,649** |
| **Housing Costs** | | | |
| Residential Lease | c | $ | 98,421 |
| Residential Utilities | d | $ | 6,000 |
| Recurring Furniture Pool Costs | e | $ | 11,000 |
| Total Housing Costs | | **$** | **115,421** |
| **Educational Allowance** | f | | |
| grades k-8 | | $ | 19,400 |
| grades 9 - 12 | | $ | 21,300 |
| Educational Allowance Total | | **$** | **40,700** |
| **Danger Pay** | g | **$** | **12,698** |
| **Language Incentive Pay** | h | **$** | **21,164** |
| **Post Allowance** (COLA) | i | **$** | **9,575** |
| **Post Differential (aka hardship pay)** | j | **$** | **21,164** |
| **Overseas Post Field work Travel** | k | **$** | **10,000** |
| **R&R travel** | l | **$** | **2,124** |
| **Foreign Language Training** | m | **$** | **2,500** |
| **Miscellaneous Expenses** | | | |
| cellular telephone costs | n | $ | 3,428 |
| pager service | o | $ | 1,000 |
| GOV parking | p | $ | 1,391 |
| GOV gasoline | q | $ | 2,400 |
| GOV insurance | r | $ | 500 |
| employee physicals | s | $ | 520 |
| office supplies | t | $ | 500 |
| Total Misc. Expenses | | **$** | **9,739** |

| | |
|---|---|
| **Total Costs associated with the creation of a new foreign post of duty position** | **$ 437,576** |

**LEGEND REGARDING COSTS OF A USSS EXISTING "ON SITE" POSITION (family of four) AT AN EXISTING OVERSEAS POSTS OF DUTY**

NOTES: The costs provided are from a variety of the posts that the Secret Service currently has established, the reason being the amount reflected in each category represents the most costly amount for that specific category among those offices. The aggregate is the "most costly" estimate of categories related to yearly recurring costs of an existing "on site" position. The yearly recurring costs of an existing "on site" position at an existing post other than the post listed in the legend for a specific category should therefore realize a cost reduction for that item.

a. Salary/Benefits –Assume a GS-14/5 (base salary $84,658) with a pay raise of 4.6%, 25% LEAP and 42% for benefits. [The same calculations can be conducted for new agent GS-13/5 positions (base salary $71,642) with 25% LEAP and 42% for benefits; new administrative support GS-9 positions (base salary $41,541) with a pay raise of 4.6% and 42% benefits; new FSN- 7 investigator positions vary from post to post. The salary and benefits for an FSN-7 position at Berlin, Germany was provided by the embassy as $80,000.]

b. ICASS costs - This amount of $41,649 was derived from the FY 2001 ICASS billing statement for the Rome Field Office (staffed with 10 employees) in the aggregate amount of $416,491.00.

c. Housing Costs – residential lease amount provided for Hong Kong, currently the highest USSS residential lease post, for August 2001 through July 2002.

d. Residential utilities – residence of RAIC in Mexico City, Mexico FY 2002.

e. Residential Furniture / equipment – Furniture costs can fluctuate from post to post and are dependent upon the employee bringing all of the required furniture from their personal U.S. residence (cost saving), Secret Service purchasing materials from local vendors (cost savings) or the Secret Service being mandated by the U.S. Embassy at post that all materials must be purchased through the State Department channels (more costly due to handling fees). The case with Moscow, Russia, is that the post mandates that each agency join the Residential Furniture Pool in order to be in the Housing Pool within the language of the NSDD-38 approval. At Moscow, the one time sign up fee is $42,000/employee, with a yearly payment of $11,000/employee due each year thereafter. Therefore, since this is a "replacement" employee, only the recurring cost of $11,000 would be payable each year.

f. Educational Allowance – Currently, one of the most costly USSS posts for educational allowance is Moscow, Russia. Assume one child in grades K-8 ($19,400) and one child in grades 9-12 ($21,300). Amounts derived from Section 920, Post Classification and Payment Tables, and Amendments to the Standardized Regulations (State Department).

g. Danger Pay – currently, only the Bogotá Office receives danger pay at the rate of 15% of the $84,658 base salary example = $12,698.

h. Language Incentive Pay – Currently, the Secret Service language incentive pay scale ranges from 0% to 25% of the individual's base pay. Therefore, utilizing the base salary of $84,658 and the highest percentage of 25%, the estimate for an individual utilizing a language skill at the highest degree is $21,164.

i. Post Allowance (COLA) - Currently, COLA amount, when applicable at post, various from post to post [0% - 25%]. The COLA at Hong Kong is 25% and is calculated from a salary/family size chart that utilizes a range of base salaries to arrive at the requisite amount. Therefore, with the base salary of $84,658 and a family of four, the COLA at Hong Kong is $9,575

j. Post Differential (hardship pay) – Currently, the Lagos, Nigeria Office receives hardship pay at the rate of 25% of the $84,658 base salary example = $21,164.

k. Overseas Post Field Work Travel – The average FY cost for travel related to field work at the overseas post, per employee.

l. Rest and Recuperation Travel – R&R time is deducted from the employee's annual leave balance and therefore the Government does not incur an additional salary expense. The only payment is for the air travel and associated travel costs (taxis, etc) from the post of duty to the designated Relief Area. The example cited is Bangkok, Thailand, at which the Relief Area of Sidney, Australia has been designated per 3 Foreign Affairs Handbook – 1 H-3722, exhibit 3 Department of State Personnel Operations Handbook. A revised message allows the traveler to select any city in the continental U.S. as the Relief Area. The traveler is therefore authorized to travel to the first available continental port of entry at Government expense. Airfare from Bangkok to Sydney is $2,124.00 roundtrip; to New York City it is $1,200.00.

m. Foreign Language Training – The Secret Service affords those employees stationed at a foreign post of duty the opportunity to enroll in foreign language training to continue to facilitate their overseas service. The average cost for a full battery of continued language classes is $2,500.

n. Cell phone costs taken from FY2002 Rome Field Office projected costs of $24,000 for 7 personnel = $3,428/employee.

o. Average cost taken from all foreign posts.

p. Cost per parking space for one GOV at Paris, France.

q. Cost per GOV for FY at Mexico City, Mexico.

r. Cost per GOV insurance averaged from all foreign posts.

s. Cost per employee physical FY 2001 at Rome.

t. Average cost for expendable office supplies per employee.

u. FSN replacement position costs: The following must be deducted from the table when examining the recurring yearly costs for an existing FSN or American Family Member / Locally Engaged Staff Administrative staff position:

$98,421 – residential lease
$6,000 – residential utilities
$11,000 – residential furniture pool recurring fee
$40,700 – educational allowance
$21,164 – language incentive pay
$99,135 – PCS Total costs
$2,520 – NFTAC training courses
$1,391 – GOV parking
$2,400 – GOV gasoline
$500 – GOV insurance

$283,231 – Total deducted

v. Additionally, the following must be deducted from the table when examining the recurring yearly costs for an existing FSN staff position:

$12,698 – danger pay
$9,575 – COLA
$21,164 – Post Differential
$2,124 – R & R
$2,500 – Foreign Language Training

$48,061– Total deducted

Mr. SHAYS. Could you just clarify one point? You talked about the service western facilities, and then you said they will also serve European facilities. Are western and European the same?

Mr. GREEN. No. Eurasian—in Frankfurt, sir?

Mr. SHAYS. No. You had just made the mention—it's not a big deal, but I want to just clarify it. You made reference to one of the facilities in the United States that was presently servicing western facilities.

Mr. GREEN. Western Hemisphere facilities, Charleston. The Financial Service Center in Charleston is presently serving Western Hemisphere posts.

Mr. SHAYS. OK. And will add?

Mr. GREEN. And will add additional European posts as we move the Paris personnel.

Mr. SHAYS. Right. I understand. Thank you.

Ms. Dorn, thank you for being here. It is nice to have you working for the administration in such an important role. As a former House employee, it is good to see you here.

Ms. DORN. Thank you, Mr. Chairman. It is a pleasure to be here. I look forward to our discussion this morning, as this is a matter of great interest to the President and to the Office of Management and Budget. We welcome to opportunity to testify on the important topic of right-sizing the U.S. Government's presence overseas.

I want to commend the State Department and the other U.S. Government agencies who are appearing before the committee today for their serious efforts to undertake this topic and to address this problem, as well as the work of the General Accounting Office.

The U.S. Government's presence overseas is indispensable in projecting our policies and values and in promoting and protecting our interests overseas. Having said that, I would also state that our presence overseas is costly, both in terms of dollars and in terms of risks.

As you've pointed out, we currently have more than 60,000 U.S. Government employees at 260 posts overseas. This includes not only the State Department presence, but other U.S. Government agencies, as well as Foreign Service hires. More than 50 U.S. Government agencies and entities are represented in overseas posts. Costs are high. The average cost of having one full-time direct hire American family overseas in a U.S. embassy is about $339,000. There's a wide disparity of cost among agencies who have overseas employees, ranging from a low of about $129,000 to a high of about $665,000. Currently, OMB is surveying what authority is being used to justify overseas presence, as well as numbers and costs. And in many places our embassies are not sufficiently secure.

These considerations put a premium on getting the right number of people doing the right jobs at the right places, as Mr. Green has noted.

The administration is committed to improvement in this area. Last August, the President's management agenda, including right-sizing America's presence abroad, is one of its key initiatives. This will require a long-term effort, cooperation and coordination with multiple agencies, and I would add we welcome the work of the GAO and look forward to their continued contributions to our

knowledge of this area. It also will require that we work with Congress to address our needs and any outstanding requirements that we may have.

OMB is engaged in this effort, and I'd like to outline just a few of the steps that we are undertaking.

For the first time, starting in October of last year, OMB is gathering comprehensive data on the number and functions of staff working abroad. Beyond the State Department who people think of as our presence overseas, we have, as I said, over 50 agencies who have employees overseas.

In conjunction with State, we are working to establish the regional presence in Frankfurt, Germany, which the Under Secretary mentioned. I believe that this can serve as a model for right-sizing in Europe and it can serve as a model for handling regional functions in other parts of the world, as well.

We are undertaking a pilot right-sizing project in the EUR Bureau, which is the largest region in terms of embassy presence and employees. We are also developing a proposal to establish a mechanism to equitably share costs among agencies in construction of new embassies.

Putting more emphasis on the mission planning process—in fact, I think the first of the 2004 rounds of that occurred just yesterday in terms of sitting down with multiple agencies, looking at a single post—in this case I think it was Korea. We're looking at workload requirements by priority. We've reduced the number of priorities that an embassy can have from fifteen to five so that we can actually get down to a serious discussion of what their priorities are and judge what resources are being put against those priorities. And we are also asking for the Ambassador to certify the work of this mission planning process to ensure that the Ambassadors are, indeed, an active part of this.

We are also encouraging agencies to consider the full cost of sending people overseas. Using the A–11 process, OMB is instructing agencies to articulate specifically what the cost and the number of their employees overseas are as we run up to the 2004 budget process.

Mr. Chairman, I can say that the Office of Management and Budget is interested in this project more for the management side than for the budget side. We have requested more than $1 billion in fiscal year 2002 for embassy construction and security improvements. There is no question that we will spend the money, and a substantial sum of it, to secure our embassies and to ensure that the U.S. presence abroad is sufficient. The question is: will the money we spend delivery a U.S. Government presence that is right-sized and secure? I certainly think we can accomplish this.

I look forward to the discussion this morning and to answering any questions that you may have.

Mr. SHAYS. Thank you.

[The prepared statement of Ms. Dorn follows:]

STATEMENT OF NANCY DORN
DEPUTY DIRECTOR
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
BEFORE
THE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND
INTERNATIONAL RELATIONS
MAY 1, 2002

Thank you, Mr. Chairman and members of the Subcommittee, for this opportunity to testify on behalf of Director Daniels and the Office of Management and Budget. The United States Government presence overseas is indispensable in projecting our values and protecting our interests. The US Government's presence overseas is also extensive, costly, and, as recent events remind us, at significant risk.

Currently, there are over 60,000 US Government employees, including 18,000 full-time and part-time direct-hire employees, personal service contractors and foreign nationals representing more than 35 government agencies in approximately 260 posts overseas. The cost of this presence is extremely high. For example, the average annual cost of having one full-time direct-hire American family overseas in a US embassy or mission is $339,100. More importantly, thousands of US Government employees are at risk. The 1998 bombing attacks on our embassies in Nairobi and Dar es Salaam killed more than 220 people, including 12 US Government American employees and family members, and 40 Kenyan and Tanzanian US Government employees. In addition, they injured more than 4,000 Americans, Kenyans and Tanzanians.

These considerations put a premium on getting the right number of people doing the right jobs in the right places. The challenge is to create the incentives and procedures necessary to make that happen so our presence abroad is the right size.

The idea of rightsizing has been around for a while. GAO brought attention to this issue in the mid-1990's. Following the bombings in Nairobi and Dar es Salaam in 1998, the Overseas Presence Advisory Panel (OPAP) assessed America's overseas presence and developed recommendations to make that presence better managed and more effective. Among the recommendations was an interagency review process to determine the size, shape, and goals of United States presence overseas. Unfortunately, few, if any, of the recommendations from these reviews were ever implemented.

The Administration is committed to management improvements. Last August, OMB released the President's Management Agenda. Rightsizing America's presence abroad is one of the important projects on that agenda. We expect that the rightsizing initiative will be a long-term process. It will require significant consultation with all government agencies that have staff abroad. And, of course, the Administration will work closely with the Congress. We are working cooperatively to move from recommendations to concrete steps that will have an impact on how resources are deployed overseas. The Administration is currently moving forward in four areas:

1. We are gathering information about America's presence. Remarkably, there has been no comprehensive or accurate data gathered which deal with the number and functions of staff working abroad.
2. OMB and the State Department are working to establish a regional "rightsized" presence in Frankfurt.

3. OMB and the State Department are undertaking a pilot rightsizing project in the Europe and Eurasia Bureau (EUR).

4. Finally, we are developing a proposal to establish a mechanism for equitably sharing the costs among all agencies of construction of new embassies.

We need to develop a process to make the overseas staffing process more transparent for all agencies. As an example, we found that the Centers for Disease Control and Prevention (CDC) at the Department of Health and Human Services (HHS) has developed a process for tracking and evaluating overseas posts and personnel that seems promising. Unlike other USG agencies, CDC does not establish permanent positions abroad. Rather, CDC assigns employees overseas on limited term appointments. As a result, all positions have a built-in "sunset date." Extension of a position and/or a position incumbent requires management review and a positive determination on both the effectiveness of the program and the individual. Reviews are conducted initially in the individual program office responsible for the overseas position. A determination to renew a position or extend its incumbent must also receive approval from the Director of CDC and the Office of Secretary of Health and Human Services before taking effect.

The average annual cost to the United States Government of an American official at a post ranges from post to post but can cost upwards of several hundred thousand dollars a year, not including salary. There is wide disparity among agencies as to what they report the cost of a new overseas position to be, ranging from the lowest of $129,221 (USAID) to the highest of $665,106 (US Secret Service). In addition, we are surveying existing authorities to place personnel overseas, to make sure that all agencies that have established overseas presence are in fact authorized to do so.

On a more practical level, we have been working with the State Department to assure that a proposed new regional center in Frankfurt, Germany is developed from the outset to serve USG

country-specific and regional needs. This will act as a pilot for future rightsizing methodology. This facility, a former Department of Defense Hospital, known as Creekbed, with a capacity for more than 1200 personnel, is a secure facility with ample space for relocation of Rhein Mein tenants currently on the Rhein Mein AFB, which must be vacated by June 2005; it will allow current USG staff in Frankfurt to consolidate onto one campus; and it will allow US agencies to put in one central location appropriate administrative functions now being performed in several posts around Europe and even beyond. State and OMB have agreed to a series of steps that will analyze all current Frankfurt staff to determine which positions should remain in Frankfurt, and which positions could be moved back to the U.S., survey EUR posts to determine which positions could be regionalized to Frankfurt, and examine new approaches to functions that could be consolidated regionally, including law enforcement, vouchering, procurement, and information technology. In this exercise, we hope to take advantage of what GAO learned about positions at the Paris embassy that might be moved to a regional facility.

That examination leads directly into a more extensive pilot project on rightsizing to examine all posts within the Europe and Eurasia Bureau. That Bureau is the largest regional Bureau in the Department, with more than 5,000 employees, 49 embassies, 23 consulates, and 5 American Presence Posts (APPs). With the help of the methodology that GAO is developing and the cooperation of the State Department, including the revised Mission Performance Plans (MPPs), it will provide the pilot to consider how to conduct rightsizing on a larger scale.

Finally, we are also working with the State Department Overseas Buildings Office (OBO), to develop a cost sharing mechanism to finance the construction of new embassies. If properly developed, the requirement that agencies share embassy construction costs could be a powerful on-going incentive for agencies to rightsize their future presence at new posts. Under the current

system, the State Department seeks an appropriation for the full amount to build a new embassy abroad. We are reviewing proposals that would share these costs among agencies. This will require each agency to determine at the outset whether the overseas presence is worth the capital investment. And with approximately 160 overseas facilities remaining to be made secure over at least the next 10 years, the capital contribution of any agency operating overseas is unquestionably significant.

Mr. Chairman, these are the steps OMB is taking in the near term to move forward on rightsizing. In addition, we are looking at ways to improve the '04 budget process to provide better data on existing and proposed new overseas positions. Working closely with the State Department, we are moving forward in a step-by-step and cooperative fashion, turning recommendations into tangible results and procedures that will lead to more a rational, cost effective, and more secure overseas presence.

Thank you very much.

Mr. SHAYS. The Chair would like to note that Mr. Gilman came in after I asked for any statements. He usually has a statement. I'd welcome him having a statement if he'd like to read it.

Mr. GILMAN. Thank you, Mr. Chairman. I just would like to first of all thank you for calling this important hearing. The International Relations Committee has also taken an active interest in this topic. It's regrettable Department of State seems to have set aside its right-sizing exercise in the light of increased resources for the Government more generally and for foreign affairs, in particular. Hopefully, this hearing will keep the Department focused on this subject.

I'd also note that the security imperative to reduce the footprint of the United States abroad is another reason to continue a right-sizing initiative. Also, Ambassadors must be able to exercise their alleged full authority in their respective posts. We have in the Department of State a Foreign Service with as many senior Foreign Service officers—in other words, flag and general office rank equivalents—as the Department of Defense requires to run a military establishment of our Nation. Something is clearly lacking here.

The Department must not confuse our interest in an active, vigorous, prepared State Department with one that is poorly managed and inappropriately deployed.

Thank you, Mr. Chairman.

Mr. SHAYS. Mr. Gilman, would you like to start with questions, or shall I?

Mr. GILMAN. I will be please to follow your questions.

Mr. SHAYS. Thank you.

Let me just say I get the sense that almost everyone agrees that we have a right-sizing problem. Would you agree with that, Mr. Green and Ms. Dorn?

Mr. GREEN. Yes. Yes, sir, I would.

Ms. DORN. Yes, sir, I do.

Mr. SHAYS. OK. And I think most people agree that it doesn't necessarily mean that we would reduce the number of employees. It means that we want the right size, not just in terms of the overall, but in terms of each responsibility and function. There may be a need to have more in a certain area and a need to have less in other areas. But ultimately we realize that we've got a problem.

Mr. Green, do you hear complaints from our Ambassadors or chiefs of station that they do not have a handle on all the different Government agencies that use their resources? That's a pretty common concern.

Mr. GREEN. Yes, sir, we do. I travel quite extensively in all areas, regional areas, and I have consistently heard from chiefs of mission in essence the difficulty that they have in really getting a handle on not necessarily the people they have, because they can count noses, but they have very little insight into the other agencies' budgets for their particular posts and have, to some degree, little control over—while, as Mr. Gilman says, de jure they have great authority. De facto they have considerably less authority. There is a process by which agencies request to send additional people to post. That is the Ambassador's decision. It is appealable if it doesn't comport with what a particular agency wants. But you can

imagine the difficulty that a chief of mission would have in turning down a request because he doesn't always know or hasn't always had a good sense for what those other agencies' priorities may be at a particular post.

I think the new mission performance plan process that was put into place this year and is much tighter will give a chief of mission a much greater sense of not only what his priorities are, but what are the priorities for the other agencies at his post and what his people are spending their time doing. It's a much more objective report than flows into our budget process.

Mr. SHAYS. In many cases the number of employees working in an embassy, the vast majority, two-thirds to three-quarters of all employees tend to be nationals, not American citizens. They tend to have tenure that goes well beyond 3 years. They may be there 20 or 30 years, frankly.

Mr. GREEN. Yes, sir.

Mr. SHAYS. So they have tremendous institutional knowledge. Of the one-third or 25 percent that are left, the American employees, they are rotated. Of that one-third or one-quarter that's left, about two-thirds of them are not Foreign Service employees. They are agency employees.

So you have a circumstance where an ambassador comes in or a chief of mission comes in and they are basically in charge of an organization in which they, on paper, appear to have very little control. Obviously, they have a lot of control over the nationals, but they don't have the institutional knowledge of the nationals.

This has been an issue that our committee has been looking at for a number of years. Members of the committee have gone to various embassies. It just stares you in the face. What stares me in the face is that we really haven't done anything about it for literally decades. This has been a problem that has been festering.

I'm sorry for such a long introduction, Ms. Dorn, but I'm struck with the fact that the only one who can truly bring some closure to this effort or begin to have real impact is OMB. And I'm interested to know what type of political capital the director and you and others are willing to use to move this forward.

Ms. DORN. Well, Mr. Chairman, we take it very seriously. The President has articulated this as one of his goals in the management agenda, which we are pursuing with vigor. The first step in correcting the ongoing problem—and I think you've outlined it pretty well—is to see what the landscape really looks like, how many agencies we have and how many places all over the world, what the underlying costs are, and how those costs are accounted for.

We are in the process of doing that. We started in October, and I think we—I'd say we are probably 95 percent of the way to at least having an idea of what the ground truth is.

The other issue that you touched upon, which is the policy of the U.S. Government, the priorities for the agencies do cross various agency jurisdictions. I mean, in terms of coordinating the policy priorities for the administration, it involves the State Department, the Treasury Department, the Defense Department, and a whole host of others. OMB does sort of sit at a central role in both the policy and budget, and I think that we can at least help devise a

system by which these considerations are put on the table and decisions can be made by the principals.

One of the things that has struck us in our assessment of the ground truth is that in many cases agencies have established presence overseas without, I'd say, full visibility of the Cabinet official. In many cases, they established a presence overseas some years age and that has been continued, you know, as administrations change and as Ambassadors change. It becomes a status quo thing. Well, "We have X number of employees from the Treasury department because that's what we had last year." You know, that's not really the right answer to this question.

So I would say that we are very serious about getting a full accounting of this, both from a budgetary, a management, and a policy sort of level, and we have actually had a good deal of cooperation from the other agencies, as well as from the State Department. I'm optimistic that in the 2004 budget process that we're going to be able to shed some light on this and make some progress.

Mr. SHAYS. Thank you. What I've done is I've rolled over the time for the Members for 10 minutes for each question. I will be going to Diana Watson for 10 minutes in just a second, and then I will be going to—I guess, Ben, I'm going to go to you after Ms. Watson, and then Ron, and then, Adam, we'll go to you.

Let me ask you, Mr. Green, given all the things on the agenda at the State Department, as important as this may appear to many of us, it can't really rank up all that high in the list of interest. I mean, there's a lot of political capital that would probably have to be used in the dialog with, frankly, a number of different Secretaries who somehow, for some reason, demand that they have the same numbers. Can you give us a sense of where this stands?

Mr. GREEN. Yes, sir. As Ms. Dorn said, this is one of the items among very few, frankly, on the President's management agenda. I think the fact that it is one of a few—and I sit on the President's Management Council. I know the importance that the administration places on those agenda items. We take right-sizing very seriously. We talk about it almost daily. We know it is something that people have tried to fix in the past. It's something that hasn't been fixed. It's something where we need to develop a methodology that we all can agree to. That is one of the reasons that we solicited the support of OMB, because you're very right, the political equities here in town when you start banging heads with another agency, we need an honest broker who can help us do that.

You know, we have oversight committees that look at the State Department and say, "Why haven't you right-sized?" The same is not always true for those committees who look at other agencies. There's no pressure or hasn't been pressure for them to do the same thing. So we need the help from OMB. And, as Ms. Dorn said, we are in the final processes now of defining the world and identifying what we have out there, and then, through the new MPP process, defining what are our goals. And, Mr. Ambassador, what are your post priorities? And then all of that is rolled up by the bureaus, who establish their own internal priorities, and ultimately flows into how many bucks you get at the end of the day for people or buildings or security or whatever.

Mr. SHAYS. I don't have another question, but I just would point out to the Members that the first panel is basically giving us a Government-wide policy position. I think the policy of the Government is pretty clear, but we'll want to delve into it a bit more. And then the second panel is giving us an outside view from the GAO and also from the Overseas presence Advisory panel, which has been referred to. And then we are going to hear from embassy tenants abroad. Particularly, a major use is Treasury, Defense, and Justice.

Given that I seem to be putting the focus on right-sizing and tenants as if somehow they don't provide a valuable function, I just want to state for the record that I think their presence is absolutely essential. I believe that they provide a creativity that you wouldn't necessarily get in the State Department. The State Department has its mission and does it extraordinarily well, but sometimes State can talk in tongues and sometimes you need people who have particular expertise to maybe be a little more direct.

I think the synergy between State and these outside tenants, so to speak, can be quite helpful, but we do want that right-sizing.

Sorry for the long explanations I'm making.

At this time I'd recognize the gentlelady from California, Ms. Watson, for 10 minutes.

Ms. WATSON. Thank you so much, Mr. Chairman, for holding this most essential hearing. I want to thank Ambassador Green and The Honorable Nancy Dorn for coming here and sharing with us your critical thinking on right-sizing.

I don't think the APP approach ought to be based on the Paris model because it is unique. Maybe Paris, Rome, and London are unique among our missions throughout the world.

I must applaud your statement, you written testimony, Ambassador Green, and just emphasize it again and again. We need to look at all of our missions abroad and, rather than putting them on a list—and I served out in Micronesia, and when I went back to give them a proposal in the State Department on the needs at my mission I was pretty much laughed at because they said, "We have 80 on the list ahead of you."

So I simply said, "Is a life in Paris, Rome, London more valuable than a life in Micronesia at the embassy? Put me on the list as No. 81, record me. Let them know I was here. Here's my package and my proposal."

That all boils down to this: what we have to do is look at our missions. And what is that mission abroad? It's right in here. I read your presentation. We must represent the United States. If we close off our embassy because it is inadequate, it is too small, we have nowhere to entertain, we do not interact with the people in the country that we serve in and those people that come to it in a way that is representative of the United States.

There is so much that needs to be done in terms of our relationship with our host nation that I hope you are looking at, because what I found in my experience is that the embassy was closed off away from the people. I opened my residence for an all-day Thanksgiving. I was told there was no money for that. I said, "Did I ask for money." I did it out of my own pocket because what I was trying to establish is a better relationship with the host country.

Why were we there way hidden down in Micronesia? We were there because we had the exclusive denial to use those waters if there should be trouble popping up again in that area. Second World War—all of you know Saipan, Peleliu. Same area. So we need the mission, but at the time we established it it was very useful, then it became usable, and I think now it is useless. That's the feeling I got when I'd go to Washington. They would say to me, "Well, no one can find that embassy." And I would say to them, "The terrorist mentality is that you strike where you have the weakest link." "Well, they'll get caught in customs." I said, "Do you think that they will come through waving, 'I'm here'?" No, they're going to come through the mangrove on a little ship like the rest of the fishermen.

Here's the bottom line, and I'd like some comment. Are we looking at our missions in terms of the relationship between the United States, the country and the region—and I saw the regionalization approach here in your statement. I want to thank you for that. Do we find them useful, or are they useless to us in this current time? If we are fighting terrorism—the terrorists aren't only in Afghanistan. They're all over the globe—should we not look at all of—and you can comment on this. I know it is a financial issue. But shouldn't we look at all of our missions and our presence wherever we are, wherever we send American personnel and hire locally and as to how useful they can be in expressing American values and principles? I think they are our front line in communicating what we believe in. In some way we fail that because I couldn't get additional employees. There are 607 islands, four in the federation, and one person in my embassy to go out and monitor and oversee all the moneys that we shun into there.

So my question to both of you is: are we also, as we look at right-sizing, looking at the role our missions can play, wherever we are, in spreading and inter-relating with the people, regardless of the cost?

You know, I was turned off so many times because there was a cost. They'd just simply say no. I'm trying to pass on to them what the needs really are in terms to improve our relationship.

So I know we are governed by the budget, but are we reevaluating the missions to see how they rank on a scale in terms of their usefulness?

Mr. GREEN. Let me try to answer that. It has——

Ms. WATSON. I know it is rough.

Mr. GREEN [continuing]. A number of different facets to it. But let me assure you that all of our missions are important. Yes, we are budget constrained, but all of our posts overseas are regularly reassessed, and we try to redeploy resources as situations emerge and as new requirements are identified.

Let me just give you one example. In the 1990's, the direct hire positions in the former Soviet block more than doubled from 760 to over 1,700 because of the change in that situation. I mentioned before the MPP process, the mission performance plan process, where Ambassadors highlight their requirements.

Since you were there, we've modified that considerably. It's not nearly as painful an experience as you probably went through. It is much more objective.

Our purpose—and that, of course, from all countries within a particular bureau, that feeds into the bureau, and then they assess the overall bureau needs within the resources we have. But that, again, is a much more direct link to the resources that you might need in Micronesia or anywhere else.

We are very sensitive, very sensitive to the impact of one or two people in a small post as opposed to one or people in a large post. A couple of people in Paris doesn't make a bit of difference to the functioning of that embassy, but one or two people in a small post where you've got a half a dozen Americans makes a tremendous difference.

Part of our success, I hope, in resolving some of those problems, certainly on the personnel side, is the tremendous success that we have had in recruiting since Secretary Powell assumed command of the State Department. We have had greater success than any time since the early 1980's in attracting new Foreign Service officers into the Department. That ability to fill some of those vacancies that exist overseas will partially help solve some of the problem that you mentioned—shortage of people. But also, within the MPP process and the bureau performance plan process, the Deputy Secretary and I—he chairs and I participate every year, and we will be doing it again in July, a review of every bureau's requirements, not only the regional bureaus but also the functional bureaus. The assistant secretary comes before us and justifies their need in both personnel and resources.

Those are for the first time in people's memory—and I have to defer to the people who have been around the State Department for a lot longer than I have—it's the first time that we have had a rigorous process. It's not perfect, and it will get better this year than it was last year, but it is the first time we have had a rigorous process to really challenge and insert into the dialog some of the requirements that you mentioned—small posts, posts where there may be an emerging terrorist threat, posts that have other difficult problems, whether it be HIV/AIDS or drugs or terrorists or what have you. That's where that emphasis will go, and those decisions are made at the Deputy and the Secretary's level.

Ms. WATSON. I know that there are organizations where the Ambassadors belong and talk among themselves, but what might be a really important function in your department is to call recent Ambassadors who are no longer serving together and talk about our mission in light of September 11th. I think you would get some very helpful insights on what we could do, because yes, we did those plans. We put those goals that we had into writing, sent them back to the State Department, but we were not able to get responses to our request. There was always a budget cap, and so we were always short-handed.

But I think it might be helpful to you to gather a group of us together for a day and let us give you the results of our experience and what we think can be done to strengthen our position abroad.

I started a newspaper while I was there because we had a big cholera outbreak. There was no way to communicate to the people in the rain forest, so we got this little piece together and took it out to their little shanties that they had in front of their homes. There were ways that we could communicate some of the—not

democratic principles, but some of the health care issues to the people that have no radios, televisions, no way to know.

So we could be maybe helpful to our government, to the State Department in terms of building up a stronger and more relevant presence in our missions that I think will go a long way to counter what is going out from the Middle East around the globe. And it is very, very frightening, the feedback we're getting.

In my District and among the various groups there, it is frightening what we're hearing.

I think we could be helpful to you——

Mr. GREEN. Thank you.

Ms. WATSON [continuing]. In giving you kind of a conclusion and summary of what we experienced.

Mr. GREEN. We need all the help we can get.

Ms. WATSON. OK. Thank you.

Mr. GREEN. Thank you.

Ms. WATSON. Thank you, Mr. Chairman.

Mr. SHAYS. Thank you, Ambassador. I bet you were very effective.

Ms. WATSON. We worked at it.

Mr. SHAYS. It's a great opportunity.

Ms. WATSON. Yes.

Mr. SHAYS. Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

I note that the GAO's report suggested in their summary that we might consider establishing a Washington-based inter-agency body to oversee the right-sizing process and ensure coordination. What's your comment with regard to that?

Ms. DORN. Well, Mr. Chairman, I think the President has made this a priority and he has put his Office of Management and Budget on the case. We are engaged, as Under Secretary Green said, because we have both a budgetary and a policy and an inter-agency sort of overview, or that's sort of our perspective on this problem, so we have—we are comfortable with proceeding in that manner right now, and I think we will have some results to show probably later this year.

Mr. GILMAN. And, Ms. Dorn, let me ask you, How successful has OMB been in obtaining useful and complete staffing and cost data from agency's operating overseas?

Ms. DORN. I would say, Mr. Gilman, that we started in October with a data call to all the agencies. We have had to go back to some of them a number of times the clarify the data that they provided. Frankly, a number of the Cabinet-level officials were not fully aware of how many folks that they had in how many places and what duties they were performing. I'd say we're about 95 percent of the way there. We are still working with a couple of the law enforcement agencies and with the Defense Department to further clarify the data they've provided, but I think we are just about there.

Mr. GILMAN. How successful have you been in establishing a Government-wide system to review post staffing?

Ms. DORN. On that one I think we are still working with the State Department, and we are using the data provided by GAO on a mechanism to assess those kinds of questions. Until we get to

that, I wouldn't say that we're going to have much success in this project, but I think we will have some progress to report to you probably later this year.

Mr. GILMAN. When do you anticipate you will be in a position to establish that kind of a system?

Ms. DORN. I think we will have the beginnings of that later this year.

Mr. GILMAN. Do any of the Departments fully recognize a budget for the cost of putting individuals abroad?

Ms. DORN. Agencies have varying degrees of data on how much it costs. Part of the problem here, though, is that if the Treasury Department or the Justice Department sends one of their officials to an embassy in Europe, they pay for certain costs, but other costs are borne by the State Department in terms of security, in terms of sort of the base platform.

One of the things that we are looking to do in the next budget is to provide a method to assess these agencies more fully for the cost of having employees from other agencies at the State Department, probably perspectively in terms of new embassy construction.

We are in the process of building new embassies in about—Grant, how many would you say? About 10?

Mr. GREEN. About 10 a year, 9 or 10 a year.

Ms. DORN. About 9 or 10 a year. As we construct new embassies, I think we will have kind of a clean slate to build from so that we can assess, you know, what agencies other than the State Department should be there, what their relative needs are, what their costs are, and have a more transparent and more accurate way to account for the costs that currently—some of which are now being borne, I think, entirely by the State Department.

Mr. GILMAN. Well, Secretary Green, when they have new agency assignments to the State Department and there are extra costs, how do you pick those up in a budget?

Mr. GREEN. Sir, we have a system currently at post called "ICASS." It's a sharing of administrative costs, for example. Let's say that the State Department is in the best position to do all travel arrangements. Well, people will pay a certain amount, or administrative arrangements. Other agencies will pay a share of that. Very frankly, State Department ends up budgeting about 70 percent of it. The rest is shared among the agencies.

What Ms. Dorn was referring to and which we think will be a great incentive, and it goes back to, very frankly, many agencies not having a very good handle on what it costs, how many people they've got overseas, and what they're doing, but certainly how much it costs is the cost sharing, so that when we build a new embassy and a particular agency says, "I need 15 desks, and they need to be in classified space," which is quite expensive, that agency is going to have to evaluate whether they can support within their budget the cost of those 15 people and the cost of that construction, because our intent is to charge them for that.

Mr. GILMAN. But on occasion you have to pick up additional—the State Department has to pick up the additional cost from those agencies; is that correct?

Mr. GREEN. We do now, but, as best we can, we spread the administrative general support costs across agencies. But what we're

talking about with the new construction, which we have never done before, is actually charging an agency or department for their share of how much space they are going to occupy. We feel that will be—I don't want to say a disincentive, but it at least will make them think very hard about how many people they are going to put at that post, because we are not talking about a few thousand bucks for administrative costs or use of the motor pool or support for travel services, but we're talking about major construction costs.

Mr. GILMAN. So these would be some incentive to put staff in less expensive rather than in expensive locations?

Mr. GREEN. Well, not that as much as look at the number of staff that you were going to put in a location. We have certain criteria in all of our new embassy construction which says it has to meet certain blast restrictions and setback restrictions and so on, and then, when you get into classified space, there are other requirements that we have to adhere to, and that's—so if you pay $100 a square foot in unclassified space, classified space may cost you $200 a square foot, and you need "X" number for the number of folks you want to put there, and so we feel that will——

Mr. GILMAN. Just one last question, Mr. Chairman.

Embassies tend to have small working groups and sometimes too many managers. Does OMB have any thoughts about the proper ratio of managers to non-managers—in other words, span of control in embassies?

Ms. DORN. Mr. Chairman, I don't think we have fully evaluated that yet. We are still in the process of figuring out how many people we have and what they're doing in these embassies. And I think there is an issue here, however, and that is: in a specific embassy you have, you know, 25 State Department employees and you have 15 Treasury employees and you have, you know, four Justice Department employees. You know, we've got to both assess how those missions fit into the overall plan, but we've also got to figure out a management structure that actually works.

I think in the past this has not been identified as a major priority. One of the things that OMB has suggested strongly is that the Ambassador, himself, be involved in approving an embassy structure and plan and be—that the cost of these things be more visible. Instead of the Treasury Department paying sort of the direct personnel costs but none of the infrastructure costs, we are trying to again elevate that so that it is visible and it is also more relevant to the embassies of today. We don't have embassies any more where the State Department is the only employee, nor should it be that way. We have embassies, as you pointed out, Mr. Chairman, that these other agencies have a vital role to play. It's just a question of the proportion and the mission and the currency of that, because, as priorities change and policies and as the world moves forward, you know, this has got to be reviewed on a regular basis and it has got to be kept current.

Mr. GILMAN. Thank you.

Thank you, Mr. Chairman.

Mr. SHAYS. Thank you.

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Secretary Green, how do physical security requirements affect your staffing levels?

Mr. GREEN. Well, each post, of course, has a basic basket of security requirements that are necessary. It certainly, to a great degree, depends on where that post is and what the threat is.

Adding or taking away people from a post on the margins doesn't significantly—doesn't affect the security requirements at that embassy. What does affect requirements more than physical security is the need for classified space. As new agencies—as agencies which require classified space—the law enforcement community, the drug enforcement community, those dealing with terrorism—as they increase the numbers of their people which do require classified space, that runs our costs up. But physical security—guard force, the number of regional security officers and assistant regional security officers and so on that we have at the post—will not vary greatly with small increases or decreases in personnel.

Mr. LEWIS. What's the most serious physical security challenge that you're facing today with missions around the world?

Mr. GREEN. I would say it is location, vulnerability of many of our embassies, residences, office buildings where, in many, many places, whether it is Paris or Belgrade, we are in old buildings right on the street, vulnerable. I think that's our greatest challenge.

As we build new embassies, we are finding, selecting compound areas where we have the appropriate setback, the 100-foot setback, and we are using construction techniques that provide us more protection against blast, as an example. But I think that we are vulnerable in many of our missions.

Mr. LEWIS. Are you finding that most of the host countries are helpful and supportive?

Mr. GREEN. Very cooperative. Yes. I can't think of a single country that doesn't provide adequate police, law enforcement protection, and even when we ask for additional if we have a threat, which we have dozens daily. We often will ask for additional protection, and it is always forthcoming.

Mr. LEWIS. OK. Thank you.

Mr. SHAYS. Thank you. I just want to ask a few more questions just for the record and then we'll get on to our other two panels.

Mr. Green, you made a reference to the fact that the Overseas Presence Advisory Panel did not provide the methodology to right-size, even though they were required to. It seemed like a little needle in there. I was just curious.

Mr. GREEN. No.

Mr. SHAYS. OK. I thought maybe you'd want to just expand.

Mr. GREEN. My understanding was that the original charter for OPAP—and Mr. Kaden can certainly correct that—that the original charter did call for OPAP to make a recommendation on that.

Mr. SHAYS. And was your point in mentioning that it is difficult to know what to do——

Mr. GREEN. Yes. Absolutely. We've many attempts to——

Mr. SHAYS. So your point is basically, even if you feel that was the mandate, it wasn't—you were not seeing it come. You're not being provided that kind of guidance, and so you all are still trying to sort out what kind of methodology you will be using?

Mr. GREEN. Yes, sir. And post-OPAP, as you know, there was an inter-agency group that went out and visited six posts, and they couldn't agree on a methodology.

Mr. SHAYS. Right.

Mr. GREEN. So I only point that out because this is a very difficult problem, but we are going to fix it.

Mr. SHAYS. Well, a good way to start is, obviously, the way you all are doing it. But, Ms. Dorn, I mean, obviously, we need to know—and every department should know, and agency—how many people they have overseas and where they are, and every Ambassador should know who they have in their embassy and what they're doing, and there needs to be a recognition that the President is very clear on this. He has made it very clear the power and responsibilities of the Ambassadors, the chiefs of missions, and he should, as President, expect that his Secretaries are going to respond to that and respect that.

I think it will be helpful. We learned that some Ambassadors have shared that letter with all their employees and some haven't, and I think that will be a good way to begin that process.

I would conclude by saying to you it seems so logical to me that, if you charge the full cost for whatever service is being provided, cost is a great way to know how to allocate resources. I mean, the Soviet system kind of fell apart because they spent money in ways they didn't and shouldn't have spent and under-spent in other areas. When you get cost involved, you begin to say, well, "How much do you really want this."

So it would seem to me—I mean, business is doing this. The nonprofit sector is doing it. They have overhead services they provide, and now they tell their different units within a business, "You will be able to decide whether you want to use these services from us or go outside. If you want the advertising services to be from outside, you can do that. And if you don't want to use the services you don't have to, but if you do use the service you have to pay for it." Great change has happened in that process.

I want to know from you, Ms. Dorn, if you have any handle yet—it is in your statement as to why some costs per person, USAID, $129,000 per employee, up to State, U.S. Secret Service, $665,000. I mean, is there anything that you could share with us now as to say why it would be so different?

Ms. DORN. Well, I think part of it is that these agencies have accounted for things using different requirements. USAID, as you know, has people all over the world. They have pretty well-established sort of rules about what they pay for and may have, I would say, a better sort of enforcement mechanism to judge these costs.

Mr. SHAYS. We may have a best business practices that you can identify and then get the other departments——

Ms. DORN. I think it is more of a standard operation at AID to put people overseas, and so they have a little bit better handle on how much it really costs and what costs are included in that. U.S. Secret Service may, to their defense, have some additional requirements that AID does not have.

Mr. SHAYS. The difference is so significant.

Ms. DORN. Right.

Mr. SHAYS. So significant.

Ms. DORN. It is extremely significant, and I would say that therein lies the problem.

The other comment that I would make, Mr. Chairman, is that I think we are all in agreement that we have a problem and that we have a project underway to bring more clarity and more transparency to what is being done now and why, and even a process to start to prioritize, from a policy perspective, what is important at the different posts and what the composition should be.

When we get to the point where we start to actually assign specific costs to different agencies for their presence overseas, I'm not prepared to say that there won't be some who think that is controversial. I think we've had a little experience with this at OMB in terms of basically making costs more transparent and putting them on the shoulders of those who should be paying for them. I'm not sure that it's going to be all that easy. It is also not going to be a single year kind of project.

So we welcome the help of this committee and the interest of this committee in this endeavor.

Mr. SHAYS. That's a great lead-in to just say that this committee—none of us can be certain whether we'll be back again next year, but I know that if I have any oversight over this issue that we would like you all to come back. We would like to be able to give you a sense that we are going to try to measure how you are doing, but we really, truly want to help you in any way that we can, any suggestions you have on how we can help this effort.

I, for instance, think you should be working with the Budget Committee. They've done their budget resolution in the House. They have staff. They have a macro view. They look at the total picture, as appropriators sometimes segment it, and I think they could be a tremendous ally in this effort. Knowing the chairman of the Budget Committee, I think he would relish getting into this. It could be a huge difference in terms of efficiency and effectiveness.

Ambassador, do you have any questions you want to ask, or comments?

Ms. WATSON. No. I just want to invite the two witnesses to come to my office. We can sit down and I will share—I'm going to send you a letter and make a request, but I think the input would be very helpful as you go about shaping your programs. I want to commend you. I think you are right on target and I think that this review is absolutely essential in the light of what's happening around the globe today.

Thank you very much for your testimony. I look forward to meeting with you and maybe laying out a blueprint.

Mr. GREEN. Thank you very much.

Ms. DORN. Thank you.

Mr. SHAYS. Mr. Gilman, any other comment you'd like to make?

Mr. GILMAN. I'd thank the panelists for taking their time to be with us today. Thank you, Mr. Chairman.

Mr. SHAYS. Thank you.

Is there any comment that you want to make, a brief comment before you leave, anything that you want to put on the record that we should put on the record?

[No response.]

Mr. SHAYS. Thank you both for being here. Thanks so much.

Mr. GREEN. Thank you.

Ms. DORN. Thank you.

Mr. SHAYS. The second panel is comprised of: Mr. Jess T. Ford, Director, International Affairs and Trade Division, U.S. General Accounting Office; and Mr. Lewis B. Kaden, now of Davis Polk & Wardwell, New York, NY, former chairman, Overseas Presence Advisory Panel.

Welcome to both. I'll ask you to stay standing. I'll swear you in while you are up, and if you have anyone else that might be testifying in addition to you that might respond to any questions.

[Witnesses sworn.]

Mr. SHAYS. Note for the record our witnesses have responded, for the record, in the affirmative.

Mr. Ford, we'll start with you. And I'd like you to say whatever you need to say for the record, and if there's any comments you want to make in response to the first panel before we even ask them, you can do that. It might save some time in the process.

Welcome both of you. Mr. Ford, you have the floor.

**STATEMENTS OF JESS T. FORD, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE DIVISION, U.S. GENERAL ACCOUNTING OFFICE; AND LEWIS B. KADEN, DAVIS POLK & WARDWELL, NEW YORK, NY, FORMER CHAIRMAN, OVERSEAS PRESENCE ADVISORY PANEL**

Mr. FORD. Thank you, Mr. Chairman and members of this subcommittee. I'd like to have my full statement entered for the record.

I think some of the comments I'm going to make in my opening statement will address some of the issues that were raised by the earlier panel, and I will be happy to shed any further light, to the extent I am able to do so, on some of the comments that were raised regarding the methodology, since that's one of the main things that we are currently working on. We're calling it a "framework." "Methodology" has a certain meaning in GAO, so we're not quite there calling it a methodology yet, but we are going to try to come up with some suggestions on how we think this process could be moved along.

I'm pleased to be here today to talk about our ongoing work on right-sizing our overseas presence. As noted by OMB earlier, we have about 60,000 U.S.-funded employees overseas. For our purposes, we are defining right-sizing as "aligning the number and location of staff assigned to U.S. embassies with foreign policy priorities, security, and other constraints."

This committee asked us to determine what right-sizing actions might be feasible to reduce costs and security vulnerabilities while retaining effectiveness in meeting foreign policy objectives. To do this, we are developing an analytical framework to help the decisionmakers make more rational staffing decisions.

My testimony will highlight staffing issues that we identified based on a case study that we did at the U.S. embassy in Paris. In addition, I will briefly discuss some of the steps needed to develop a mechanism to move the right-sizing process forward while ensuring greater transparency and accountability over overseas staffing decisions.

Drawing on our prior and ongoing work, we are developing a framework that we believe will provide a foundation for the executive branch to assess staffing at embassies and to determine the right number and mix of staff. Our framework is designed to link staffing levels to three critical elements of overseas operations: physical security, mission priorities and requirements, and operational costs.

The first element includes analyzing the security of embassy buildings, the use of existing secure space, and the vulnerabilities of staff to terrorist attacks. It is important to remember that an estimated 80 percent of U.S. embassies and consulates do not currently fully meet security standards. The amount of secure office space may place constraints on the number of staff that should be assigned.

The second element involves analyzing the placement and composition of staff overseas based on U.S. foreign policy goals and objectives. Our framework focuses on assessing priorities and validating workload requirements.

The third element involves developing and consolidating cost information from all agencies at a particular embassy to permit cost-based decisionmaking.

We believe that after analyzing these three elements, decisionmakers should be then in a position to determine whether right-sizing actions are needed to add staff, reduce staff, or change the staff mix at an embassy overseas.

We have identified some options that we think should be considered in this regard, including relocating some functions back to the United States or to regional centers and out-sourcing certain functions to the private sector, where sufficient support is available.

We believe the basic framework we are developing can be applied worldwide; however, additional work may be needed to refine the elements and to test the framework at embassies at various working environments.

Our work in Paris illustrates how the framework we are developing could affect embassy staffing. Currently, there are about 700 employees from 11 major Federal agencies located at the Paris embassy. I might add this number is only related to the people assigned to the embassy proper. There are about another 190 people who work in other parts of France.

In applying the framework to the embassy, we found that security, workload, and cost issues need to be considered, including the following:

There are serious security concerns in at least one embassy building in Paris, which suggests a need to consider staff reductions unless building security can be improved. This building is located in the heart of a terrorist district—excuse me, tourist district. That was a bad one. [Laughter.]

Although it could be a terrorist District—on main streets with little or no protective buffer zone. Other embassy buildings are also vulnerable. Relocating staff could significantly lessen the number of people at risk.

It is hard to say with any degree of certainty how many staff are needed in Paris. The embassy's goals and Washington's demands are not prioritized, and each agency uses separate criteria for plac-

ing staff in Paris. State Department staff at the embassy reported that non-prioritized workload demands from Washington result in missed opportunities for addressing important policy issues.

We believe that a disciplined and transparent process linking priorities and staffing and a reduction in non-core tasks could suggest opportunities to reduce or relocate staff.

The lack of comprehensive cost data on all agency operations, which we estimate is in excess of $100 million annually in France, and the lack of embassy-wide budget complicate the possibility of making sound, cost-based decisions. Development of these data would help determine the tradeoffs associated with the various alternative approaches for doing business. The U.S. Ambassador to France acknowledged that the lack of cost data is a serious cost for him.

Our work in Paris suggests that there are alternatives that could reduce the number of staff needed at the embassy, particularly for some support functions which represent approximately one-third of the number of personnel assigned there. Among the options we've identified are relocating functions back to the United States—in fact, the State Department has recently announced it is going to send back over 100 people to their Charleston Financial Center—relocating staff to some regionalized positions, posts in Europe which have more-secure facilities available, such as in Frankfurt, and also looking at the potential for out-sourcing some functions, mostly administrative in nature, which we think could be handled by the private sector.

We believe all of these options should be closely examined. We also believe that setting priorities and validating workload requirements could lead to other staffing adjustments.

Mr. Chairman, the development of a framework to assess embassy security, mission, and cost, and to consider alternate ways of doing business is only the first step. Providing greater accountability, transparency, and consistency in agencies' overseas staffing decisions will require much greater discipline within the executive branch. We believe that, for the President's management initiative to be fully successful, the executive branch will need to develop a mechanism to effectively implement a right-sizing framework.

Based on our discussions with experts and agency officials, we have identified four possible options.

One could be establishing a Washington-based inter-agency body to oversee the right-sizing process and ensure coordination among the various parties.

A second option would be establishing an independent commission to consider whether more or fewer staff are needed and to make recommendations.

A third option would be placing the responsibility for approving overseas staffing within the Executive Office of the President.

And a fourth possibility would be requiring embassies to certify that staffing is commensurate with the security risks, embassy priorities, and requirements in cost.

Ultimately, the executive branch must decide which options will help achieve the overall goal of establishing a rational process for assigning staff overseas.

This concludes my comments. I would be happy to answer any questions.

Mr. SHAYS. Thank you very much.

[The prepared statement of Mr. Ford follows:]

United States General Accounting Office

GAO

Testimony

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# OVERSEAS PRESENCE

## Observations on a Rightsizing Framework

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

GAO-02-659T

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our ongoing work on rightsizing the U.S. overseas presence. For our purposes, we define rightsizing as aligning the number and location of staff assigned to U.S. embassies[1] with foreign policy priorities and security and other constraints. To follow up on our November 2001 report on the executive branch's efforts in this area,[2] you asked us to determine what rightsizing actions may be feasible to reduce costs and security vulnerabilities while retaining effectiveness in meeting foreign policy objectives. We reviewed reports, including those of the Accountability Review Boards,[3] the Overseas Presence Advisory Panel (OPAP),[4] and a State Department-led interagency rightsizing committee,[5] and we discussed overseas staffing issues with officials from the State Department, other U.S. agencies operating overseas, and the Office of Management and Budget (OMB), which is currently implementing the president's management initiative to rightsize U.S. embassies. We also performed fieldwork at the U.S. Embassy in Paris. We selected this embassy as a case study because it is a large embassy that has been the subject of substantial rightsizing discussions, including recommendations by the former ambassador to France to reduce the number of staff in

[1]Throughout this statement we refer to rightsizing issues at embassies. However, the rightsizing process is also applicable to diplomatic offices that are located outside the capital cities.

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

[3]Secretary of State Madeline K. Albright and CIA Director George Tenet appointed the Accountability Review Boards to investigate the facts and circumstances surrounding the 1998 embassy bombings in East Africa. Department of State, *Report of the Accountability Review Boards on the Embassy Bombings in Nairobi and Dar Es Salaam* (Washington, D.C.: Jan. 1999).

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

[5]The interagency committee comprised members from the State Department and other key agencies operating overseas, including the Departments of Agriculture, Commerce, Defense, Justice, and the Treasury. Pilot studies were conducted in 2000 at U.S. embassies in Amman, Jordan; Bangkok, Thailand; Mexico City, Mexico; New Delhi, India; Paris, France; and Tbilisi, Georgia, to assess staffing needs and to develop a methodology for assessing staffing at all embassies and consulates.

France by about one-half. We will report on this work in more detail later this year.

Today I will discuss our preliminary observations on a framework for assessing the feasibility of rightsizing the U.S. overseas presence. My testimony will also highlight staffing issues we identified at the U.S. Embassy in Paris. In addition, I will briefly discuss some of the steps needed to implement the framework and the importance of developing a mechanism to move the rightsizing process forward while ensuring greater transparency and accountability in overseas staffing decisions.

## Summary

Drawing on our prior and ongoing work, we are developing a framework that we believe will provide a foundation for the executive branch to assess staffing at embassies and to determine the right number and mix of staff. Our framework is designed to link staffing levels to three critical elements of overseas operations: (1) physical security and real estate, (2) mission priorities and requirements, and (3) operational costs. The first element includes analyzing the security of embassy buildings, the use of existing secure space, and the vulnerabilities of staff to terrorist attack. The amount of secure office space may place constraints on the number of staff that should be assigned. The second element focuses on assessing priorities and workload requirements. The third element involves developing and consolidating cost information from all agencies at a particular embassy to permit cost-based decision-making. After analyzing the three elements, decision makers should then be in a position to determine whether rightsizing actions are needed either to add staff, reduce staff, or change the staff mix at an embassy. Options for reducing staff could include relocating functions to the United States or to regional centers and outsourcing functions. We and officials from State and OMB believe the basic framework we are developing can be applied worldwide. However, additional work is needed to refine the elements and to test the framework at embassies in various working environments.

Our work in Paris illustrates how the framework we are developing could affect embassy staffing. Approximately 700 employees from 11 agencies and their component offices are located in the Paris Embassy primary buildings (see app. II).[6] In applying the framework to this embassy, we

[6]Approximately 190 additional employees are located outside of the embassy in Paris and throughout France.

found security, workload, and cost issues that need to be considered, including the following:

- Serious security concerns in at least one embassy building in Paris suggest the need to consider staff reductions unless building security can be improved. This building is located in the heart of a tourist district, on main streets with little or no protective buffer zone. Other embassy buildings are also vulnerable. Relocating staff could significantly lessen the number of people at risk.
- It is hard to say with any degree of certainty how many staff are needed in Paris. The embassy's goals and Washington's demands are not prioritized and each agency uses separate criteria for placing staff in Paris. State Department staff at the embassy reported that non-prioritized workload demands from Washington result in missed opportunities for addressing important policy issues. We believe that a disciplined and transparent process linking priorities and staffing, and a reduction in non-core tasks, could suggest opportunities to reduce staffing from the current level of 700.
- The lack of comprehensive cost data on all agencies' operations, which we estimate cost more than $100 million annually in France, and the lack of an embassywide budget eliminate the possibility of cost-based decision-making on staffing. Development of these data would help determine the trade-offs associated with various alternative approaches to doing business. The U.S. ambassador to France acknowledged that lack of cost data was a serious problem.

Our work in Paris suggests that there are alternatives that could reduce the number of staff needed at the embassy, particularly for some of the support positions,[7] which represent approximately one-third of the total number of personnel. Options include relocating functions to the United States or to regional centers and outsourcing commercial activities. These options may be applicable to as many as 210 positions in Paris. The work of about 120 staff could be relocated to the United States – State already plans to relocate the work of more than 100 of these. In addition, the work of about 40 other positions could be handled from other locations in

[7]For our purposes, we define support positions as those funded through the International Cooperative Administrative Support Services (ICASS) system, which funds common administrative support, such as travel, mail and messenger, printing, and telephone services. This does not include other functions at the Paris Embassy of a support nature funded through other accounts, such as most security and some information technology services.

Europe, while more than 50 other positions are commercial in nature and provide services that are available in the private sector. We believe these positions should be closely examined.

Mr. Chairman, development of a framework to assess embassy security, mission, and costs and to consider alternative ways of doing business is only the first step. Providing greater accountability, transparency, and consistency in agencies' overseas staffing decisions will require much greater discipline within the executive branch. We believe that for the president's management initiative to be fully successful, the executive branch will need to develop a mechanism to effectively implement a rightsizing framework. Based on our discussions with experts and agency officials, options for such a mechanism could include (1) establishing a Washington-based interagency body to oversee the rightsizing process and ensure coordination among the various parties involved; (2) establishing an independent commission to consider where more or fewer staff are needed and to make recommendations; (3) placing responsibility for approving overseas staffing levels within the Executive Office of the President; or (4) requiring ambassadors to certify that staffing is commensurate with security risks, embassy priorities and requirements, and costs.

## Background

Following the 1998 terrorist attacks on our embassies in Dar es Salaam, Tanzania, and Nairobi, Kenya, several investigative efforts cited the need for embassy rightsizing.

- In January 1999, the Accountability Review Boards recommended that State look into decreasing the size and number of embassies and consulates to reduce employees' vulnerability to attack.
- To follow up on the boards' recommendations, OPAP reported in November 1999 that overseas staffing levels had not been adjusted to reflect changing missions and requirements; thus, some embassies were too large and some were too small. OPAP said rightsizing was an essential component of an overall program to upgrade embassy and consulate capabilities, and it recommended that this be a key strategy to improve security by reducing the number of staff at risk. OPAP also viewed rightsizing as a way to decrease operating costs by as much as $380 million annually if a 10 percent worldwide staffing reduction could be achieved. The panel recommended creating a permanent interagency committee to adopt a methodology to determine the appropriate size and locations for the U.S. overseas presence. It also suggested a series of actions to adjust

overseas presence, including relocating some functions to the United States and to regional centers where feasible.

- In response to OPAP's recommendations, in February 2000, President Clinton directed the secretary of state to lead an interagency effort to (1) develop a methodology for assessing embassy staffing, and (2) recommend adjustments, if necessary, to staffing levels at six pilot study embassies. While the interagency committee did mention some potential areas for staff reductions, our review of its efforts found that the committee was not successful in developing such a methodology. In fact, the committee concluded that it was impractical to develop a standard approach because of differences among embassies; however, we reported that the pilot studies had limited value because they were conducted without focused, written guidelines, and committee members did not spend enough time at each embassy for a thorough evaluation.[8]
- In August 2001, *The President's Management Agenda*[9] identified rightsizing as one of the administration's priorities. In addition, the president's fiscal year 2003 international affairs budget[10] highlighted the importance of making staffing decisions based on mission priorities and costs and directed OMB to analyze agencies' overseas staffing and operating costs.

In addition to citing the importance of examining the U.S. overseas presence at a broad level, rightsizing experts have highlighted the need for reducing the size of specific embassies.

- In November 1999, the chairman of OPAP said that rightsizing embassies and consulates in western Europe could result in significant savings, given their large size. OPAP proposed that flagship posts from the cold war be downsized while some posts in other parts of the world be expanded. A former undersecretary of state agreed that some embassies in western Europe were heavily staffed and that positions could be reallocated to meet critical needs at other embassies.
- A former U.S. ambassador to France – also a member of OPAP – testified in April 2000 that the Paris Embassy was larger than needed and should be

[8]GAO-02-143.

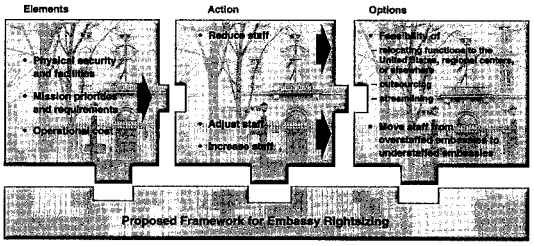
[9]Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002* (Washington, D.C.: Aug. 2001).

[10]Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2003* (Washington, D.C.: Feb. 4, 2002).

## Proposed Rightsizing Framework

a candidate for substantial staff reductions to lessen security vulnerabilities, streamline embassy functions, and decrease costs. Although there is general agreement on the need for rightsizing the U.S. overseas presence, there is no consensus on how to do it. As a first step, we believe it is feasible to create a framework that includes a set of questions to guide decisions on overseas staffing.[11] We identified three critical elements that should be evaluated together as part of this framework: (1) physical security and real estate, (2) mission priorities and requirements, and (3) operational costs. If the evaluation shows problems, such as security risks, decision makers should then consider the feasibility of rightsizing options. Figure 1 further illustrates the elements of our framework that address desired staffing changes.

**Figure 1: Proposed GAO Framework for Embassy Rightsizing**




Source: GAO.

We envision State and other agencies in Washington, D.C., including OMB, using our framework as a guide for making overseas staffing decisions. For example, State and other agencies could use our framework to free up resources at oversized posts, to reallocate limited staffing resources worldwide, and to introduce greater accountability into the staffing process. We can also see ambassadors using this framework to ensure that embassy staffing is in line with security concerns, mission priorities and requirements, and costs to reduce the number of people at risk.

[11]See appendix I for a checklist of suggested questions that we are developing as part of a rightsizing framework.

The following sections describe in more detail the three elements of the framework we are developing, some important questions to consider for each element, and potential rightsizing options to be considered.

## Physical Security and Real Estate

The substantial loss of life caused by the bombings of the U.S. embassies in Africa and the ongoing threats against U.S. diplomatic buildings have heightened concern about the safety of our overseas personnel. The State Department has determined that about 80 percent of embassy and consulate buildings do not fully meet security standards. Although State has a multibillion-dollar plan under way to address security deficiencies around the world, security enhancements cannot bring most existing facilities in line with the desired setback and related blast protection requirements. Recurring threats to embassies and consulates highlight the importance of rightsizing as a tool to reduce the number of embassy employees at risk.

### What Is the Threat and Security Profile of the Embassy?

The Accountability Review Boards recommended that the secretary of state review the security of embassies and consider security in making staffing decisions. We agree that the ability to protect personnel should be a key factor in determining the staffing levels of embassies. State has prepared a threat assessment and security profile for each embassy that can be used when assessing staff levels. While chiefs of mission[12] and the State Department have primary responsibility for assessing overseas security needs and allocating security resources, all agencies should consider the risks associated with maintaining staff overseas.

### What Actions Are Practical to Improve the Security of Facilities?

There are a variety of ways to improve security including constructing new buildings, adding security enhancements to existing buildings, and working with host country law enforcement agencies to increase embassy protection. In addition, space utilization studies may suggest alternatives for locating staff to more secure office buildings or may point to other real estate options, such as leasing commercial office space. If security and facilities reviews suggest that security enhancements, alternative space arrangements, or new secure real estate options are impractical, then decision makers should consider rightsizing actions.

[12]According to the Foreign Service Act of 1980 (P.L. 96-465), "chiefs of mission" are principal officers in charge of diplomatic missions of the United States or of a U.S. office abroad, such as U.S. ambassadors, who are responsible for the direction, coordination, and supervision of all government executive branch employees in a given foreign country (except employees under a military commander).

The Paris Embassy, our case study, illustrates the importance of security and real estate issues in determining overseas staffing levels. The security situation in Paris is not good and suggests the need to consider reducing staff. None of the embassy's office buildings currently meets security standards. One of the buildings is particularly vulnerable and staff face a variety of threats. Space reengineering and security adjustments to embassy buildings may improve security for some embassy staff, but significant vulnerabilities will remain even after planned changes are made. However, it is difficult to assess the full range of options for the embassy in Paris because State does not have a comprehensive plan identifying facilities and real estate requirements. If the State Department decides it is not feasible to build or lease another office building in Paris that would provide better security, then decision makers will need to seriously consider relocating staff to reduce the number of people at risk.

## Mission Priorities and Requirements

The placement and composition of staff overseas must reflect the highest priority goals of U.S. foreign policy. Moreover, *The President's Management Agenda* states that U.S. government overseas staffing levels should be the minimum necessary to serve U.S. foreign policy goals.

### What Are the Priorities of the Embassy?

Currently, there is no clear basis on which to evaluate an embassy's mission and priorities relative to U.S. foreign policy goals. State's current Mission Performance Plan[13] process does not differentiate among the relative importance of U.S. strategic goals. In recent months, State has revised the Mission Performance Plan process to require each embassy to set five top priorities and link staffing and budgetary requirements to fulfilling these priorities. A successful delineation of mission priorities will complement the framework we are developing and support future rightsizing efforts to adjust the composition of embassy staff.

### Are Workload Requirements Validated and Prioritized?

Embassy requirements include influencing policy of other governments, assisting Americans abroad, articulating U.S. policy, handling official visitors, and providing input for various reports and requests from Washington. In 2000, based on a review of six U.S. embassies, the State-led interagency committee found the perception that Washington's requirements for reports and other information requests were not prioritized and placed unrealistic demands on staff. We found this same

[13]Mission Performance Plans are annual embassy plans describing performance goals and objectives.

perception as well among some offices in Paris. We believe that scrutiny of workload could potentially identify work of low priority such as reporting that has outlived its usefulness. Currently, the department monitors and sends incoming requests for reports and inquiries to embassies and consulates, but it rarely refuses requests and leaves prioritization of workload to the respective embassies and consulates. Washington's demands on an embassy need to be evaluated in light of how they affect the number of staff needed to meet the work requirements.

### How Do Agencies Determine Staffing Levels?

*The President's Management Agenda* states that there is no mechanism to assess the overall rationale for and effectiveness of where and how many U.S. employees are deployed. Each agency in Washington has its own criteria for placing staff overseas. Some agencies have more flexibility than others in placing staff overseas, and Congress mandates the presence of others. Thorough staffing criteria are useful for determining and reassessing staffing levels and would allow agencies to better justify the number of overseas staff.

### Could an Agency's Mission Be Pursued in Other Ways?

Some agencies are entirely focused on the host country while others have regional responsibilities or function almost entirely outside the country in which they are located. Some agencies have constant interaction with the public, while others require interaction with their government counterparts. Some agencies collaborate with other agencies to support the embassy's mission, while others act more independently and report directly to Washington. Analyzing where and how agencies conduct their business overseas may lead to possible rightsizing options.

Our work in Paris highlights the complexity of rightsizing the U.S. overseas presence given the lack of clearly stated mission priorities and requirements and demonstrates the need for a more disciplined process. It is difficult to assess whether 700 people are needed at the embassy because the executive branch has not identified its overall priorities and linked them to resources. For example, the current Mission Performance Plan for the Paris Embassy includes 15 of State's 16 strategic goals. Furthermore, the cumulative effect of Washington's demands inhibits some agencies' ability to pursue their core missions in Paris. For example, the economics section reported that Washington-generated requests resulted in missed opportunities for assessing how U.S. private and government interests are affected by the many ongoing changes in the European banking system. We also found that the criteria to locate staff in Paris vary significantly by agency. Some agencies use detailed staffing models but most do not. Nor do they consider embassy priorities or the overall requirements on the embassy in determining where and how many

staff are necessary. In addition, some agencies' missions do not require them to be located in Paris. Given the security vulnerabilities, it makes sense for these agencies to consider rightsizing options.

## Cost of Operations

*The President's Management Agenda* noted that the true costs of sending staff overseas are unknown. Without cost data, decision makers cannot determine whether a correlation exists between costs and the work being performed, nor can they assess the short- and long-term costs associated with feasible business alternatives.

### What Are an Embassy's Operating Costs?

We agree with President Bush that staffing decisions need to include a full range of factors affecting the value of U.S. presence in a particular country, including the costs of maintaining the embassy. Nevertheless, we found there is no mechanism to provide the ambassador and other decision makers with comprehensive data on all agencies' costs of operations at an embassy. This lack of cost data for individual embassies makes linking costs to staffing levels, mission priorities, and desired outcomes impossible. This is a long-standing management weakness that, according to the president, needs to be corrected.

### Are Costs Commensurate With Expected Outcomes?

Once costs are known, it is important to relate them to the embassy's performance. This will allow decision makers to assess the relative cost effectiveness of various program and support functions and to make cost-based decisions when setting mission priorities and staffing levels and when determining the feasibility of alternative business approaches.

Our work in Paris demonstrates that this embassy is operating without fundamental knowledge and use of comprehensive cost data. State officials concurred that it is difficult to fully record the cost of all agencies overseas because of inconsistent accounting and budgeting systems. However, we determined that the cost of an embassy's operations can be documented, despite difficulties in compiling data for the large number of accounts and agencies involved. To collect cost information, we developed a template to capture different categories of operating costs, such as salaries and benefits, and applied the template to each agency at the embassy and at consulates and other sites throughout France (see app. III). We have documented the total cost for all agencies operating in France in fiscal year 2001 to be about $100 million. However, the actual cost is likely higher because some agencies did not report costs associated with staff salaries and benefits and discrepancies exist in the reporting of some operating costs. With comprehensive data, the Paris Embassy could make cost-based decisions when conducting a rightsizing analysis.

## Consideration of Rightsizing Options

Analyses of security, mission, and costs may suggest the assignment of more or fewer staff at an embassy or an adjustment to the overall staff mix. If decision makers decide that it is necessary to reduce staff, rightsizing experts have recommended that embassies consider alternative means of fulfilling mission requirements. Moreover, President Bush has told U.S. ambassadors that "functions that can be performed by personnel in the U.S. or at regional offices overseas should not be performed at a post." In considering options, embassy officials will also have to weigh the security, mission effectiveness, and cost trade-offs. These may include the strategic importance of an embassy or the costs of adopting different management practices.

Our analysis highlights five possible options, but this list is not exhaustive. These options include:

- relocating functions to the United States;
- relocating functions to regional centers;
- relocating functions to other locations under chief of mission authority where relocation back to the United States or to regional centers is not practical;
- purchasing services from the private sector; and
- streamlining outmoded or inefficient business practices.

Each option has the potential to reduce staff in Paris and the associated security vulnerability. Specifically:

- Some functions at the Paris Embassy could be relocated to the United States. State is planning to relocate more than 100 budget and finance positions from the Financial Services Center in Paris to State's financial center in Charleston, South Carolina, by September 2003. In addition, we identified other agencies that perform similar financial functions and could probably be relocated. For example, four Voice of America staff pay correspondent bureaus and freelance reporters around the world and benefit from collocation with State's Financial Services Center. The Voice of America should consider whether this function should also be relocated to Charleston in 2003.
- The Paris Embassy could potentially relocate some functions to the regional logistics center in Antwerp, Belgium, and the planned 23-acre secure regional facility in Frankfurt, Germany, which has the capacity for approximately 1,000 people. For example, the Antwerp facility could handle part of the embassy's extensive warehouse operation, which is currently supported by about 25 people. In addition, some administrative operations at the embassy such as procurement could potentially be

handled out of the Frankfurt facility. Furthermore, staff at agencies with regional missions could also be moved to Frankfurt. These include a National Science Foundation representative who spent approximately 40 percent of his time in 2001 outside of France, four staff who provide budget and finance support to embassies in Africa, and some Secret Service agents who cover eastern Europe, central Asia, and parts of Africa.

- We identified additional positions that may need to be in Paris but may not need to be in the primary embassy buildings where secure space is at a premium. For example, the primary function of the National Aeronautics and Space Administration (NASA) representative is to act as a liaison to European space partners. Accomplishing this work may not require retaining office space at the embassy. The American Battle Monuments Commission already has about 25 staff in separate office space in a suburb of Paris. In addition, a Department of Justice official works in an office at the French Ministry of Justice. However, dispersal of staff raises additional security issues that need to be considered.
- Given Paris' modern transportation and communication links and large private sector service industry, the embassy may be able to purchase services from the private sector, which would reduce the number of full-time staff at risk at the embassy.[14] We identified as many as 50 positions at the embassy that officials in Washington and Paris agreed are commercial in nature, including painters, electricians, plumbers, and supply clerks.
- Streamlining or reengineering outmoded or inefficient functions could help reduce the size of the Paris Embassy. Certain procurement procedures could potentially be streamlined, such as consolidating multiple purchase orders with the same vendor and increasing the use of government credit cards for routine actions. Consolidating inefficient inventory practices at the warehouse could also decrease staff workload. For instance, household appliances and furniture are maintained separately with different warehouse staff responsible for different

[14]With the enactment of the Federal Activities Inventory Reform Act in 1998 (P.L. 105-270), Congress mandated that U.S. government agencies identify activities within each office that are not "inherently governmental," i.e., commercial activities. Competitive sourcing involves using competition to determine whether a commercial activity should be performed by government personnel or contractors. *The President's Management Agenda* states that competition historically has resulted in 20 to 50 percent cost savings for the government.

inventories. Purchasing furniture locally[15] at embassies such as Paris could also reduce staffing and other requirements.

As others have pointed out, advances in technology, increased use of the Internet, and more flights from the United States may reduce the need for full-time permanent staff overseas. Moreover, we have reported in the past about opportunities to streamline embassy functions to improve State's operations and reduce administrative staffing requirements, including options to reduce residential housing and furniture costs.[16]

## Implementing a Rightsizing Framework

Mr. Chairman, although it is only one of the necessary building blocks, the framework we are developing can be the foundation for future rightsizing efforts. However, a number of policy issues and challenges need to be addressed for this process to move forward with any real success. For instance, the executive branch needs to prioritize foreign policy goals and objectives and insist on a link between those goals and staffing levels. Developing comprehensive cost data and linking budgets and staffing decisions are also imperative. To their credit, State and OMB appear to be headed in the right direction on these issues by seeking both cost data and revising embassies' mission performance planning process, which we believe will further support a rightsizing framework.

We plan to do more work to expand and validate our framework. The previous discussion shows that the framework we are developing can be applied to the Paris Embassy. We also believe that the framework can be adjusted so that it is applicable worldwide because the primary elements of security, mission, and costs are the key factors for all embassies. In fact, rightsizing experts told us that our framework was applicable to all embassies. Nevertheless, we have not tested the framework at other embassies, including locations where the options for relocation to regional centers or the purchase of services from the private sector are less feasible.

[15]The State Department currently has a central contract requiring that all overseas posts purchase furniture from the United States and not from local sources. Logistics management officials at State said that the contract is currently under renegotiation and the revised agreement will include local procurement allowances for pilot posts.

[16]U.S. General Accounting Office, *State Department: Options for Reducing Overseas Housing and Furniture Costs*, GAO/NSIAD-98-128 (Washington, D.C.: July 31, 1998).

We believe that the next stage should also focus on developing a mechanism to ensure accountability in implementing a standard framework. Rightsizing experts and officials we spoke with suggested several different options. These options include establishing an interagency body similar to the State-led committee that was formed to implement OPAP's recommendations; creating an independent commission comprising governmental and nongovernmental members; or creating a rightsizing office within the Executive Office of the President. Some State Department officials have suggested that State adopt an ambassadorial certification requirement, which would task ambassadors with periodically certifying in writing that the size of their embassies and consulates are consistent with security, mission, and cost considerations.

Each of these suggestions appears to have some merit but also faces challenges. First, an interagency committee would have to work to achieve coordination among agencies and have leadership that can speak for the entire executive branch. Second, an independent commission, perhaps similar to OPAP, would require members of high stature and independence and a mechanism to link their recommendations to executive branch actions. Third, a separate office in the White House has potential, but it would continually have to compete with other executive branch priorities and might find it difficult to stay abreast of staffing issues at over 250 embassies and consulates. Finally, an ambassadorial certification process is an interesting idea but it is not clear what, if anything, would happen if an ambassador were unwilling to make a certification. Furthermore, ambassadors may be reluctant to take on other agencies' staffing decisions, and in such situations the certification could essentially become a rubber stamp process. Ultimately, the key to any of these options will be a strong bipartisan commitment by the responsible legislative committees and the executive branch.

Mr. Chairman and members of the subcommittee, this concludes my prepared statement. I would be pleased to answer questions you may have.

## Contacts and Acknowledgments

For future contacts regarding this testimony, please call Jess Ford or John Brummet at (202) 512-4128. Individuals making key contributions to this testimony included Lynn Moore, David G. Bernet, Chris Hall, Melissa Pickworth, Kathryn Hartsburg, and Janey Cohen.

# Appendix I: Proposed Rightsizing Framework and Corresponding Questions

| |
|---|
| **PHYSICAL SECURITY AND REAL ESTATE** |
| What are the threat and security profiles? |
| Do office buildings provide adequate security? |
| Is existing secure space being optimally utilized? |
| What actions are practical to improve the security of facilities? |
| Do facilities and security issues put the staff at an unacceptable level of risk or limit mission accomplishment? |
| Will rightsizing reduce security vulnerabilities? |
| **MISSION PRIORITIES AND REQUIREMENTS** |
| What are the staffing and mission of each agency? |
| What is the ratio of support staff to program staff at the embassy? |
| What are the priorities of the embassy? |
| Does each agency's mission reinforce embassy priorities? |
| Are workload requirements validated and prioritized and is the embassy able to balance them with core functions? |
| Are any mission priorities not being addressed? |
| How do agencies determine embassy staffing levels? |
| Could an agency's mission be pursued in other ways? |
| Does an agency have regional responsibilities or is its mission entirely focused on the host country? |
| **COST OF OPERATIONS** |
| What is the embassy's total annual operating cost? |
| What are the operating costs for each agency at the embassy? |
| Are agencies considering the full cost of operations in making staffing decisions? |
| Are costs commensurate with overall embassy importance and with specific embassy outputs? |
| **CONSIDERATION OF RIGHTSIZING OPTIONS** |
| What are the security, mission, and cost implications of relocating certain functions to the United States, regional centers, or to other locations, such as commercial space or host country counterpart agencies? |
| Are there secure regional centers in relatively close proximity to the embassy? |
| Do new technologies offer greater opportunities for operational support from other locations? |
| Do the host country and regional environment have the means for doing business differently, i.e., are there adequate transportation and communications links and a vibrant private sector? |
| To what extent can embassy business activities be purchased from the private sector at a reasonable price? |
| What are the security implications of increasing the use of contractors over direct hires? |
| Can costs associated with embassy products and services be reduced through alternative business approaches? |
| Can functions be reengineered to provide greater efficiencies and reduce requirements for personnel? |
| Are there other rightsizing options evident from the size, structure, and best practices of other bilateral embassies or private corporations? |
| Are there U.S. or host country legal, policy, or procedural obstacles that may impact the feasibility of rightsizing options? |

Source: GAO.

# Appendix II: Staffing Profile of the Paris Embassy (Jan. 2, 2002)

| Agency | Office | Total Staff | Americans | FSNs[a] |
|---|---|---|---|---|
| Department of State | Executive Section | 558[b] | 157 | 401 |
| | Political Section | | | |
| | Economic Section | | | |
| | Environment, Science, and Technology Section | | | |
| | Office of Regional Affairs | | | |
| | Consular Section | | | |
| | Administrative Section | | | |
| | General Services Office | | | |
| | Budget and Fiscal Office | | | |
| | Human Resources Office | | | |
| | Information Management Office | | | |
| | Diplomatic Security Service | | | |
| | Africa Regional Services | | | |
| | African Budget Office | | | |
| | Public Affairs Section | | | |
| | Financial Services Center | | | |
| | U.S. Observer Mission to the United Nations Educational, Scientific and Cultural Organization | | | |
| Department of Defense | Marine Security Guards | 67 | 56 | 11 |
| | Defense Attaché Office | | | |
| | Office of Special Investigations | | | |
| | Office of Defense Cooperation | | | |
| | U.S. Air Force, Research & Development Liaison Office | | | |
| | U.S. Army, Research & Development Standardization Group | | | |
| | U.S. Army Training and Doctrine Command Liaison Office | | | |
| Department of Commerce | Foreign Commercial Service | 23 | 5 | 18 |
| Department of the Treasury | Customs | 19 | 16 | 3 |
| | Internal Revenue Service | | | |
| | Secret Service | | | |
| Department of Justice | Legal Attaché Office | 11 | 10 | 1 |
| | Drug Enforcement Agency | | | |
| Department of Agriculture | Foreign Agricultural Service | 9 | 3 | 6 |
| Social Security Administration | | 5 | 0 | 5 |
| Federal Aviation Administration | | 4 | 3 | 1 |
| Broadcasting Board of Governors | Voice of America | 4 | 2 | 2 |
| National Aeronautics and Space Administration | | 2 | 1 | 1 |
| National Science Foundation | | 2 | 2 | 0 |
| **Total** | | **704** | **255** | **449** |

[a]Foreign Service National.

[b]This total includes approximately 240 staff providing a variety of support services to all agencies.

Source: U.S. Department of State.

# Appendix III: Suggested Template for Collecting Cost Data

GAO consulted and worked with OMB and State to develop the following cost data template applicable to all agencies overseas.

| APPROXIMATE TOTAL OVERSEAS COSTS (Fiscal Year 2001) | | |
|---|---|---|
| **Agency/Office:** _____ | | |
| | **U.S. Embassy** | **Sub-office(s)** |
| **Salaries and Benefits** | | |
| Americans | | |
| Foreign Service Nationals | | |
| **Travel** | | |
| Post Assignment/Relocation Costs | | |
| Field/Business | | |
| **Allowances** | | |
| Hardship Post Differential | | |
| Education | | |
| Language Incentive | | |
| Cost of Living Allowance | | |
| **Housing** | | |
| Rents & General Expenses | | |
| Residential Furniture & Equipment | | |
| **International Cooperative Administrative Support System (ICASS)** | | |
| **Office Furnishing & Equipment** | | |
| **Information Management (outside of ICASS)** | | |
| **Misc. Expenses (supplies, utilities, maintenance)** | | |
| **Transportation** | | |
| **Diplomatic Security/General Security** | | |
| **Representation** | | |
| **Other** | | |
| **Total** | | |

Source: GAO

Mr. SHAYS. Mr. Kaden, I invite you to make your testimony.

Mr. SHAYS. Could you just first inform me—and I should know this, but for the record, how long did your commission work on this project? How long have you been involved in this issue?

Mr. KADEN. The Overseas Presence Advisory Commission began its work early in 1999, around the beginning of 1999, issued its report at the end of that year, and was active in the early stages of implementation through 2000 until the end of the Clinton administration.

Mr. Chairman, I have submitted my statement for the record. Let me make a few observations about this subject.

First, I want to thank you, Mr. Chairman, and this committee for taking an interest in this subject. It is, to those of us who did work on the Overseas Presence Advisory Commission and its report, it is very gratifying to see the issue on the agenda of this committee. I think you can be very helpful.

When I was engaged in that work during 1999 and 2000, I can say that I spent a great deal of time with some of your colleagues, and particularly on this side of the Capitol Mr. Gilman and his committee, Mr. Rogers and his Appropriations Subcommittee were enormously helpful and supportive to us, and those interactions were an important part of whatever effect we had in raising this important issue of concern.

Let me tell you a bit of a story about why right-sizing became so central to OPAP's report and recommendations. When I began—when I undertook that work and began to talk to people on my panel and others at posts around the world, I was immediately struck by one thing. I visited with Admiral Crowe who had been in London and had just concluded the Commission of Inquiry on the East Africa bombings and was a member of my commission, and with Richard Holbrook, who had been in Bonn, and with Ambassador Rohatyn, who was then in Paris, and I said to each of them, "What should I focus on as I begin this panel's work?" and they each said, "right-sizing," in so many words, because their experience in those western European capitals had left them with a question in their minds about why we need 1,200 or 1,300 people in London, 900-plus in Paris, large number in Bonn, when the challenges in other parts of the world seem so great and staffing so limited, and other countries doing a quite effective job in those western european capitals had much smaller staffs.

The combination of mission priorities and security and cost effectiveness raised in the minds of those, among our most distinguished public servants, that question.

I then visited with Admiral Troyer in Beijing, our then Ambassador in Beijing, and Governor Celeste, who was in New Delhi, and they made a pretty effective—and said the same thing, "What should I concentrate on?" And they said right-sizing, but their argument, which was quit effective, was the that challenges in those posts were growing by the day, were poorly served by not only the numbers but the type of skills represented in their posts, and they thought a right-sizing process would lead to stronger staffs with a better mix of skills able to confront the growing challenges in those that the United States faced in achieving its aims in those countries.

I think by the end of our work we had come to the conclusion that right-sizing had to be front and center, but that it was closely related to all the other recommendations about improved technology, better human resources and personnel practices so that you had the right skills and training, better facilities, both residential and for work, a better priority-setting process—that all of those fit into the task of right-sizing.

Now, I think the good news is that, since the beginning of this administration, I, for one, have been encouraged by a couple of things. As I said in my statement, Secretary Powell met with me and Frank Carlucci on the first day in his new office and emphasized his determination to do something in this area of overseas presence reforms.

And the President then put it on his management agenda last August, which I was, frankly, surprised to see and pleased to see.

I think, as Ms. Dorn told you, OMB seems to be taking a lead and digging in to trying to make some progress in this, and that's extremely satisfying.

It won't be easy. I don't really know what to make—I don't think it's all that important to get into it, but I don't know quite what to make about Mr. Green's comment about OPAP not putting forward a methodology, because I think our conclusion was quite clear that past efforts to develop numerical formulas about what a large post or a middle-sized post or a small post should look like were not serving our Nation's interests well; that what you had to do was have an effective inter-agency process with leadership from the White House, which is the only part of our government that can ensure the effective participation of all the other agencies and departments. As distinguished an American and as well-respected around the world as Secretary Powell is, the fact is that by himself, unless he has the President's mandate behind him, he can't ensure the effective participation of the Pentagon, the intelligence agencies, the Justice Department, the Treasury, in agreeing on what proper staffing ought to be in any particular post in the world. It's hard enough in the White House to get those agencies to agree on policy initiatives. That's why we have the process of policy coordination, it's so intricate.

So it requires White House leadership, and that's what we said. It requires an inter-agency process with all the agencies participating, and that's what we recommended. And it requires the active involvement of the chief if mission, the Ambassador, and he or she needs to be charged with setting priorities in an effective way, communicating them with the relative agencies, interacting back with the interagency group in Washington about those priorities, and using those priorities together with security risks and cost effectiveness as the criteria for determining an appropriate staff, which is exactly what the GAO report has recommended, I think entirely consistent with the OPAP recommendation.

Now, to me that's a methodology. That's a procedure. You then have to take it and apply it one by one to the posts. You can start with whatever priority post you want, and we would urge that they start with some of the big European posts where there may be gold in them hills in terms of efficiency and reductions, and start with some of the really challenging posts elsewhere in the world where

probably we are going to need new and different and more resources. And some of those are the large posts like New Delhi and Bangkok and Beijing, but some are the smaller posts in the stands and the caucuses and areas of the world where the challenges, as you well know, Mr. Chairman, to our Nation's interests, both security and otherwise, are tremendous.

So this is not an easy task. I am a bit encouraged by the administration's response, but they're going to need your oversight and your support and your encouragement to make sure they keep at it and keep in touch with you.

And at the end of the day I'm not smart enough to predict whether we'll have fewer people in the aggregate or more, but we'll have different skills and we'll have different numbers in different places, and I think what I can safely say is that some of these other agencies you're going to hear from on the next panel are going to need increasing overseas forces. That's certainly true in the law enforcement community, of the economic community, including Treasury, and some of the commercial-oriented departments like Agriculture and Commerce. I think that will well serve our interests, because that will give us the added expertise and skills that we need to meet the current challenges. You could add to that some of the public health challenges, as well.

So I was very pleased to hear that this committee was taking an interest in it and I commend you for this hearing. Although my charter is long gone and what limited function I had is over, I am always available to help this committee or any other as you pursue these goals.

Mr. SHAYS. Thank you, Mr. Kaden.

[The prepared statement of Mr. Kaden follows:]

**Statement of Lewis B. Kaden**
**Chairman, Overseas Presence Advisory Panel**
**Partner, Davis Polk & Wardwell**
**Before the House Committee on Government Reform,**
**Subcommittee on National Security, Veterans Affairs,**
**and International Relations**
**May 1, 2002**

Mr. Chairman, I would like to begin by thanking the Committee for the opportunity to appear today. These hearings are an important part of the process that I believe will produce a stronger and more efficient U.S. Overseas Presence. As I review in this statement, President Bush and Secretary Powell have taken significant initiatives to improve the capacity of our overseas representatives to perform their important tasks. These actions are consistent with the Overseas Presence Advisory Panel's report. With the support and encouragement of Congress, including the leadership of your Committee, this progress can be reinforced and accelerated.

The charge to the Overseas Presence Advisory Panel was to re-examine every aspect of our overseas presence from a wide variety of perspectives drawn from both private and public sectors. The panel was convened in the aftermath of the East Africa embassy bombings, which provided a terrible reminder of the risks associated with foreign service; and the Panel examined and recommended ways of enhancing security to minimize those risks, and, at the same time, offered ways of ensuring that the unavoidable risks connected with our overseas presence are never undertaken in vain. Ultimately everyone we send overseas should be provided with an understandable mission that is truly in the national interest – and should have the skills, tools, resources and facilities necessary to carry it out as safely and effectively as possible.

The Panel issued its Report in November 1999 – offering an integrated program of recommendations covering areas ranging from security to administrative reforms, from information technology and communications to the role and authority of Ambassadors. The Panel found that our overall presence was "perilously close to systems failure." Right-sizing U.S. posts abroad, including a better match-up of skills with mission priorities, was identified as a critical recommendation. Its findings generally revealed critical deficiencies in facilities and practices. But the Panel also expressed confidence that those deficiencies could be remedied with the implementation of its proposed initiatives.

The Panel found that recent social, economic, political, and technological developments made an on-the-ground presence throughout the world more important than ever to our national interest. Gathering and analyzing information

is more complex than ever; relations with host nations have also become more complex as societies have become more open and pluralistic; more Americans need more help abroad in more places than ever; globalization and the opening of borders to increased trade, commerce and movement of persons require a multi-lateral approach to a wide variety of issues and problems. The terrorist attack last September and events around the world since then highlight the importance of maintaining an effective presence abroad. The 60,000 men and women who represent the United States in more than 250 overseas posts are literally the front line forces of American diplomacy. The OPAP panel concluded that the U.S. must renew its commitment to modernize its overseas presence and also review overseas missions to match new realities and goals.

An essential component of OPAP's recommendations for reform was aimed at right-sizing our overseas presence. The Panel found that, largely because U.S. missions include representatives of many agencies – more than thirty in all at many large posts – no adequate system exists to match the size and composition of the U.S. presence in a given country to the mission's priorities. It also found that no institutional mechanism exists either to assess or to allocate rationally among the agencies represented in a given country the full costs of the U.S. presence. Addressing these structural problems, the Panel proposed the formation of a permanent interagency committee to determine (and adjust on a continuing basis) the size and shape of our overseas presence. The Panel proposed that this interagency body, created by the President and acting under the leadership of the Secretary of State, should formulate and apply an agreed upon set of criteria to determine the appropriate size and composition of our posts. Suggested criteria included the importance of the U.S. presence in a given nation to an array of national interests and goals, along with the costs and limitations associated with the activities of U.S. representatives in that country. The process would call for participation by all agencies with an overseas presence, with substantial contribution from the Ambassadors.

On the subject of right-sizing, the Panel also specifically endorsed the idea of small "advance presence posts" of the sort created in France by Ambassador Felix Rohatyn, an OPAP member, as one low-cost tool that might be used to extend the reach and effectiveness of U.S. presence in host nations. Under the right circumstances, APP's can be a valuable option in the allocation of U.S. resources abroad.

The Panel also proposed that we give Ambassadors more autonomy to adjust the size and composition of posts under their authority in accordance with their missions' priorities. An Ambassador would be encouraged to propose adjustments in the size of agency staffs and objections to the Ambassador's decisions could be taken to the interagency panel. Ambassadors currently have a great deal of apparent authority over the composition of their missions, but its exercise with respect to non-State Department staffing is limited in practice. It

was the Panel's view that reposing more real authority in the Ambassador in conjunction with an interagency process that is effectively managed may in the final analysis be the best way to establish the kind of flexible, agile system in which the size and composition of U.S. representation will reflect shifting interests and changing circumstances.

I would like to emphasize two things about the right-sizing component of the OPAP program. First, while it is true that a reassessment of priorities and resource allocation will lead to a reduction in staffing at some posts, right-sizing is not synonymous with job cuts. In some instances, notably those in which relations with a host country have grown in importance or complexity, right-sizing will require an enlargement of the U.S. presence. Right-sizing is in large measure a matter of matching skills with tasks, and updating the skills needed to match mission priorities. If the interagency process works, it should create a leaner, more effective presence in many posts, with the skills and equipment matched to the major priorities of that mission.

The second point about right-sizing that requires particular emphasis is that right-sizing is not severable from the other components of the OPAP program. The success of any one of the Panel's proposals depends heavily (in some cases entirely) upon the implementation of some or all of the other components. The "right size" of the U.S. presence is its right size for performing a correctly defined mission with the best possible human resources, equipment and facilities.

The intimate connection between right-sizing and security concerns is self-evident. On the one hand, security requires that we send abroad only as many Americans as are truly needed to attain our nation's objectives: right-sizing ensures that no Americans are put at risk unnecessarily. But on the other hand – though perhaps less obviously – our success at protecting our overseas representatives also impacts right-sizing decisions; if we do a better job at diminishing security risks by providing safe facilities and instituting sound security practices, then the right size of our presence may be larger and more effective than it would be in a high risk environment.

Similarly, right-sizing goes hand in hand with the urgent effort to provide our overseas representatives with acceptable physical facilities. Decisions on the size and shape of our presence abroad should not be dictated by our failure to build and maintain the necessary facilities; and the repair and replacement of facilities must be conducted on the basis of a coherent and up-to-date plan for the future of our overseas presence. We need to make prompt decisions on right-sizing in coordination with development of better facilities, and we need to make sure that the mechanisms and resources are in place to give our representatives the facilities they need.

The need for greater expenditures in this area is clear, especially given the deficiencies in secure working conditions, and residential arrangements that currently afflict so many posts. But the Panel also found that institutional change is required if the construction and operation of our overseas facilities is to be efficient and responsive to needs and if costs are to be shared rationally and equitably among agencies. OPAP recommended the creation of a new federally chartered government corporation – the Overseas Facilities Authority – to build, maintain, and manage the buildings that accommodate our overseas representatives. The proposed OFA would be provided with flexibility in the use of financing arrangements and management techniques; and it would charge rent to the agencies using its facilities – thereby ensuring that the costs of those facilities are properly allocated. This new, responsive mechanism is an important feature of the broader effort to right-size and enhance the effectiveness of our overseas presence. The administration has not separated the buildings' organization from the State Department, but in other important respects, it has implemented OPAP's suggested reforms of FBO, and the early signs are good that those reforms are working to improve performance.

The right-sizing project is also inseparable from the Panel's proposed initiatives on human resources, information technology, consular services, and administrative functions. Any successful program to reshape and invigorate our overseas presence must include efforts to recruit and train people for priority tasks and to break down any institutional barriers that keep qualified people from entering foreign service or from occupying positions in which their skills are best utilized in the nation's interest.

In the area of information technology and communications, the Panel found substantial and easily remediable deficiencies. The absence of an internet based interagency mechanism for the sharing of information represents a serious and unnecessary drag on the effectiveness of our overseas representatives. Practicable improvements in information and communications technology greatly increase efficiency and flexibility and broaden the array of options for right-sizing our presence.

A restructuring of administrative functions, partly through the use of improved technology, should also be a component of right-sizing. The Panel's recommendations envision greater efficiency and redistribution of administrative functions – with some functions eliminated, some regionalized, some performed in the U.S., and still others performed by foreign nationals at post. All of these initiatives are themselves right-sizing proposals; and to the extent that they reduce administrative burdens upon our overseas representatives, and thereby improve their efficiency, improvements in administration will also favorably affect the U.S. ability to achieve our objectives with a diminished presence in some locations.

Any restructuring of our overseas presence must also take into account the Panel's findings with respect to consular services. The Panel found the consular services arm of our overseas presence to be seriously overextended and underfunded in many locations. It recommended that the Bureau of Consular Affairs be provided with greater flexibility in managing its resources to meet demand and that the Bureau be allowed to retain and reinvest its revenue in order to match resources to workload. The urgent need for improvements in consular services is also highlighted by the terrorist threats and actions since the OPAP report was issued.

Finally, and perhaps most important, a critical feature of a more efficient and agile overseas presence is an enhanced and refocused role for the Ambassador. For its full benefit to be realized, the interagency process in Washington, for determining the size and composition of our representation, must be complemented by interagency collaboration overseas; and that collaboration must be orchestrated by the Ambassador. Accordingly, it must be made clear that the Ambassador has the authority to build and rebuild interagency teams to accomplish the goals of the mission; and the Mission Performance Plan (the document that defines the goals of each mission) must, under the guidance of the Ambassador, become a genuinely integrated interagency document articulating the objectives to be achieved by the U.S. presence in a given country (along with a country budget representing the associated costs).

Since the issuance of the OPAP Report – indeed in some instances in advance of it – progress has been made in addressing several of the most compelling issues. In August 2001, the State Department reported that extensive security upgrades had been put in place, and that specific steps had been taken to enhance security training. It also reported substantial progress on information technology; an interagency technology committee had developed and was testing a prototype unclassified common platform and a knowledge management system.

The Department has embraced the Panel's recommended human resources reforms and has taken steps to implement them. The department has also revised the format of the Mission Performance Plan. MPP's now articulate clear priorities and are accordingly far more useful tools than they once were in resource allocation and management. Certain specific improvements in line with the Panel's recommendations have also taken place. Many administrative or support functions at European embassies will be regionalized to a new facility in Frankfurt. The functions of the Paris financial service center will be moved to Charleston, South Carolina next year. Some progress has also been made on new facilities desperately needed in posts, such as Beijing, where serious deficiencies were identified in the OPAP report.

The Bush administration has accepted many of the Panel's findings and acted on several of its initiatives. The President's Management Agenda (issued in

August of 2001) placed a high priority on the right-sizing of our overseas presence and undertook to develop a "comprehensive overseas staffing allocation process" along with comprehensive accounting. It also articulated the need to base decisions about facilities on proper staffing determinations, and it undertook to explore ways of increasing efficiency and improving mechanisms for the formation of policy. Since that time, the OMB has begun to pursue a plan to analyze the American presence at a series of groups of embassies, and a strong working relationship has developed between OMB and the State Department in addressing right-sizing issues. The administration has initiated an interagency review process led by the Executive Office of the President to coordinate the assignment of resources overseas, and it has re-emphasized the role and authority of Ambassadors – both in the right-sizing process and in the management of our overseas resources. Secretary Powell demonstrated his interest and commitment to overseas presence reform immediately after he took office by meeting on his first day at the State Department with me and Frank Carlucci, the Chairman of a Council on Foreign Relations Task Force, to discuss the OPAP recommendations and actions he planned to address them.

Finally, while an early interagency study expressed some skepticism about OPAP's rightsizing proposals (particularly the prospect of coming up with generally applicable criteria for rightsizing decisions), the work of the GAO indicates that generally applicable criteria or considerations are available, and that they may be applied rationally to produce real savings and greater efficiency in specific locations.

These developments are all very encouraging. Most important is the recognition by President Bush in his Management Agenda and by Secretary Powell in our first-day meeting, that reforming overseas presence is not just a matter of administrative efficiency; it goes to the heart of America's capacity to achieve its goals and protect its representatives, who undertake these challenging missions throughout the world. It goes almost without saying that much more needs to be done, and our efforts to reshape and revitalize our overseas presence will not be fully successful if we stop short now. Fundamental institutional innovation is not easy, especially where it requires the involvement of many agencies, each with its own agenda and concerns. Solving a broad array of interrelated problems at once requires exceptional leadership and energy. OPAP's report emphasizes – and I think there is broad agreement on this point in the administration and the Congress – that a healthy and effective overseas presence is indispensable to our national interest. Achieving progress in this complex area, as in so many others, requires a partnership between the President and the Congress. For this reason, also, I welcome this committee's interest and attention to these issues.

Mr. SHAYS. Mr. Kaden, your work will result in some very major changes, I think, and the work of GAO. I see a tremendous agreement that we need to do something, and, you know, it truly does stare us in the face. I mean, there's not much room for debate, frankly, so how we do it will be the issue.

The only group I would add in terms of that cooperation, having the President and OMB focused on it, having Congress focused on it, we do need the cooperation of the various departments and agencies. They've got to buy into this, and then they've got to have it filter down to the people that can make it happen.

Mr. Gilman, I'd be happy to start with you.

Mr. GILMAN. Thank you, Mr. Chairman. I want to welcome Mr. Kaden. He appeared before International Relations Committee on several occasions. The testimony is still appropriate. As chairman of the Overseas Presence Advisory Board, you did some outstanding work.

Mr. Kaden, what can be done to strengthen Ambassadorial authority without undermining the independence of other U.S. agencies?

Mr. KADEN. I think there are two things. One is we suggested that the President clarify the executive order setting out the Ambassador's authority and make clear what the chief of mission authority meant and how much it extended to the full range of activities in a particular mission. I think that's important, as well as the tone and the message the President sends.

Our Ambassadors, after all, are the President's representatives, the Nation's representatives. They don't work just for the State Department or for any other department. We mean it when we say they're the chief of mission and the chief of all the personnel in those departments.

The other thing, which goes without saying—and this is a conversation, Mr. Gilman, I think you and I have had before—we need to find and appoint and confirm the very best chiefs of mission we can from both the career service and from outside the career service, because the one thing our panel discovered with great clarity as we visited so many posts is nothing makes as much of a difference in the quality of mission and its ability to achieve the priorities that are set than the quality of its chief. We had in those years—and I'm sure we have today—some terrific chiefs of mission, but we probably also have some that are a little weaker than they ought to be. And so that whole process, which is something that both Congress and the President are involved in, is a very important part, too, of improving our overseas presence.

Mr. GILMAN. Mr. Kaden, what have you found to be the major obstacles to a meaningful right-sizing in our Federal Government?

Mr. KADEN. My own view is—and I haven't spent enough time in Washington to claim to really understand the processes of our government, but my own view is that it is more the inertia of dealing with complex inter-agency issues. Each of the major departments has a clear idea of its own agenda and its own priorities, and on the top level at a high altitude, the department heads that I've talked to have a determination to address these problems. But getting them all down through the ranks to work together on whether it's right-sizing or developing a common technology plat-

form or cooperating on a cost allocation system or developing a better way of building facilities and going through that planning and design process, it's not easy when you have so many agencies and so many conflicting priorities. To me, that's why you need the coordinating leadership, whether it is from OMB or from some other part of the White House.

Mr. GILMAN. Thank you, Mr. Kaden.

Mr. Ford, while we are undergoing an aggressive program to reconstruct and replace some of the embassies around the world, do you think that the right-sizing program can be established and fully in effect in time for staffing decisions to be perfected in the size of the new post?

Mr. FORD. We understand the Department of State, in the new embassy building program, is attempting to have a more disciplined approach in identifying what the actual requirements at the new embassy will be. I think the key issue here is the various agencies that are going to be housed at a new embassy. Validating their requirements is a part of the process that State hasn't yet been able to undertake, and it may be, as Mr. Kaden just said, it may be that OMB is going to have to be the ultimate arbiter in identifying what those requirements are, because that is what is going to drive the size of the embassy. And it is an opportunity before the embassies are built to make sure that we've got the right number of people in these embassies and that they are all properly validated, so I think there is an opportunity there—probably a better opportunity than the ones that have already been established. But I also think that it may be somebody like OMB that's going to have to be the agency that is going to require the validation of those requirements.

Mr. GILMAN. Realistically, do you think you can accomplish that?

Mr. FORD. I think it is—yes, I do. I think it is possible to do it. I think some agencies have pretty good matrix on validating how many people they need, and I think that it is doable. I think it just takes—it's going to take some time and effort to make sure they ask the right kind of questions.

Mr. GILMAN. And, Mr. Ford, can State enforce the requirements that the Foreign Service officers are supposed to be worldwide available?

Mr. FORD. Yes, sir. They are supposed to be worldwide available. The Department of State has a bidding process which allows employees to put a preference in where they want to be assigned, and the Department makes decisions based largely on that bidding process.

We have found that, particularly with regard to what are called "hardship posts," that it is difficult for the Department to get many of its officers to bid for these positions.

Mr. GILMAN. Well, Mr. Ford, if I might interrupt, how many then are worldwide available today?

Mr. FORD. I believe the current staffing profile for the Department for U.S. direct hires is around 16,000.

Mr. GILMAN. And are all of those 16,000 worldwide available, or do they—are they dependent upon a choice of posts?

Mr. FORD. They are worldwide available as far as the State Department is concerned. I mean, the State Department can direct someone to go to any post in the world.

Mr. GILMAN. Regardless of the choice system?

Mr. FORD. That's correct. They have that authority.

Mr. GILMAN. And just one last question. Is State Department personnel office making an effort to reevaluate overseas jobs in light of advances in technology?

Mr. FORD. I know that they have a number of initiatives, technology initiatives at the Department of State that are designed to find better ways of doing business. There were some discussions earlier about the lack of communications and things of that nature. We believe that those efforts could, if they are married up with the staffing requirement process, lead to assigning the right number of people to the right places.

Mr. GILMAN. Thank you. I want to thank our panelists, Mr. Kaden and Mr. Ford, for being with us.

Thank you, Mr. Chairman.

Mr. SHAYS. Thank you, Mr. Gilman.

Mr. Gilman, I want the record to state that this committee recognizes that your committee has been very active in this when you were chairman of the committee, and that's one reason why we're pursuing it, because of this being brought to our attention by Mr. Gilman.

Candidly, I don't have a lot of questions to ask either of you. I think your statements were pretty clear. You both are a tremendous resource.

Mr. Kaden, still, even though you are not actively pursuing this, you will be an excellent resource for our committee. We appreciate that you took the time to be here.

Mr. Ford, obviously we will be putting you to work continually on this.

I just will say for the record there is going to be no excuse if we don't deal with this issue. It would be just absolutely, given our national security needs and the needs to use resources well, given the need to protect our employees, given budgetary challenges, to not use employees well and effectively and where they are needed just can no longer be tolerated. And given that the President has—and I'm just kind of echoing your remarks, Mr. Kaden—given this is one of his high priorities, the State Department only has—not only, but they're suggesting set five priorities and then work on them. I can't say it will be one of only five, but it is one of a few that will be our priority, and certainly, as it relates to the State Department, our highest priority.

Do either of you have any kind of closing comment that you want to make, any question that we should have asked that we didn't?

[No response.]

Mr. SHAYS. Well, your testimonies both were very helpful. We really appreciate your being here. Thank you very much.

Mr. KADEN. Thank you.

Mr. FORD. Thank you.

Mr. SHAYS. At this time we'll call our third panel: the Honorable Ken Lawson, Assistant Secretary for Enforcement, Department of the Treasury; the Honorable Andrew Hoehn, Deputy Assistant Sec-

retary of Defense for Strategy, Department of Defense; and the Honorable Robert Diegelman, Acting Attorney General for administration, Justice Management Division, Department of Justice.

I'll state, before I swear any of these gentleman in, that the work of all three departments is absolutely essential, and we appreciate their being here and appreciate what they do here at home and obviously overseas, as well.

If you'll stay standing, I'll swear you in, and anyone else that may assist you.

[Witnesses sworn.]

Mr. SHAYS. Note for the record that all three have responded in the affirmative.

Mr. Lawson, were you in the military?

Mr. LAWSON. Yes, sir, I was.

Mr. SHAYS. Well, you waited for me to tell you to be seated. I figured that. [Laughter.]

I'm delighted that all three of you are here. I'd ask you to put the microphone up, make sure it is turned on, and we'll start with you, Mr. Lawson, then Mr. Hoehn, and Mr. Diegelman, we'll end with you.

Thank you.

**STATEMENTS OF KEN LAWSON, ASSISTANT SECRETARY FOR ENFORCEMENT, DEPARTMENT OF THE TREASURY; ANDREW HOEHN, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR STRATEGY, DEPARTMENT OF DEFENSE; AND ROBERT DIEGELMAN, ACTING ATTORNEY GENERAL FOR ADMINISTRATION, JUSTICE MANAGEMENT DIVISION, DEPARTMENT OF JUSTICE**

Mr. LAWSON. Thank you, sir.

Mr. Chairman and distinguished members of the subcommittee, thank you for this opportunity to describe the Department of Treasury's strategy and procedure used to coordinate the placement of overseas personnel with Department of State.

Although I have submitted a written testimony for the record, let me briefly describe some key points.

The Office of Enforcement, along with the Office of International Affairs at main Treasury, and several key bureaus of the Treasury Department have had an international presence for more than 50 years. Each office has a direct strategic, supportive, or crucial enforcement role in implementing U.S. Government policy, yet an ongoing review of positions abroad is vital for security, cost, and policy reasons.

Moreover, this is a timely subject, given our country's ongoing efforts to combat the global scourge of terrorism, both at home and abroad. The demand of our resources abroad are expanding and a need to coordinate the Treasury Department's efforts to protect our homeland with the Department of State and other departments and agencies is essential. Our ability to share information, work directly with foreign counterparts, and the ability to react quickly to changing trends is essential not only for our battle against terrorism, but for other critical missions such as controlling trans-national crime, promoting U.S. interest in foreign markets, and pro-

viding essential technical assistance and training to our counterparts overseas.

As I have mentioned, coordination of our international presence is essential to ensure that the respective missions of the various agencies and departments, including Department of Treasury, are fulfilled, and that the U.S. Government is speaking with a unified, coordinated voice abroad.

Treasury's goals and objectives are fully integrated into the U.S. strategic plan for international affairs and involve these national and international interests: expand exports and open markets; maintain global growth and stability; promote economic development; manage the entry of visitors and immigrants; safeguard the borders of the United States; combat international terrorism, crime, and narcotics trafficking.

The Department of Treasury, in reaching these goals, reports annually to the State Department on the number of staff positions by Treasury components, by embassies and consulates, or proposed changes for the next 3 years, and Treasury follows the inter-agency clearance process to secure the approval of the U.S. Ambassador, chief of mission.

Treasury submits detailed justification for all proposed overseas staffing changes, additions, or subtractions to the chief of mission, with a copy to Department of State. State officials also provide to the chief of mission and to Department of Treasury its views on the necessity of overseas staffing changes proposed by Treasury.

The increasing demands of Treasury regarding homeland security through its financing and international financial markets require a vibrant overseas Treasury presence. It is important to note that this total number of Treasury employees include Americans posted abroad, local hires, foreign nationals, and personal contractors.

Let me give you a breakdown of Treasury's personnel abroad, as reported by OMB as follows:

For departmental offices, including technical assistance, we have a total of 112 persons, and this includes the Office of International Affairs and Treasury. For the Customs Service, it accounts for approximately over 300 persons abroad, and Customs is focused on cargo security and terrorist financing. The Secret Service has a total of 93 persons abroad, where their work focuses upon financial crimes and counterfeiting. The Bureau of Alcohol, Tobacco, and Firearms accounts for five persons abroad, focusing on firearm work and also diversion cases, tobacco and alcohol. The IRS, both civil and criminal divisions, have a total of 58 persons abroad, where the criminal division focuses upon money laundering and tax evasion cases.

I must say the Treasury Department has been very flexible in its allocation of resources. Although we have these people, we recognize when there is no longer a need for a given office, either for enforcement or non-enforcement personnel. The Treasury Department has been willing to relocate those resources to areas where such personnel are needed.

This plan will continue where Treasury operates, since we are dedicated to efficient use of resources abroad. We look forward to

working with the State Department to ensure we do not have resources where the problems do not exist.

Now, just to address the issue of regionalization that was raised earlier, the Department of Treasury law enforcement bureaus, as well as our non-enforcement offices, have traditionally practiced the concept of regionalization in varying degrees, the practice by which a region is covered by a personnel stationed in one overseas post. The concept has proved beneficial in certain locations, but we've recognized that we need to have a presence where the crime is, so we may have a regional office but we may need an office in, say, Spain as opposed to just a regional office in Paris. That's in place of Secret Service.

I'll note, Mr. Chairman, Treasury and its law enforcement bureaus recognize that we must work together with all agencies to ensure the effective use of our foreign assets.

This is the end of my oral testimony. I will be glad to answer any questions, sir.

Mr. SHAYS. Thank you very much, Mr. Lawson. We will have a few questions. We appreciate your statement.

[The prepared statement of Mr. Lawson follows:]

**Testimony of Kenneth Lawson**
**Assistant Secretary**
**Office of Enforcement**
**U.S. Department of the Treasury**
**The Subcommittee on National Security,**
**Veterans Affairs and International Relations**
**"Rightsizing the US Presence Abroad"**
**10:00 AM May 1, 2002**
**The United States House of Representatives**
**Room 2154 Rayburn House Office Building**

Mr. Chairman and distinguished members of the Subcommittee, thank you for this opportunity to describe the Department of the Treasury's strategy and procedures used to coordinate the placement of overseas personnel with the Department of State.

The Office of Enforcement along with the Office of International Affairs, at Main Treasury, and several key bureaus of the Treasury Department, have had an international presence for more than fifty years. Each office has a direct strategic, supportive or crucial enforcement role in implementing US Government policy, yet an ongoing review of positions abroad is vital for security, cost and policy reasons. Moreover, this is a timely subject given our country's ongoing efforts to combat the global scourge of terrorism, both at home and abroad. The demands on our resources abroad are expanding and the need to coordinate the Treasury Department's efforts to protect our homeland with the Department of State and other departments and agencies is essential. Our ability to share information, work directly with foreign counterparts, and the ability to react quickly to changing trends is essential not only for our battle against terrorism but for other critical missions such as controlling transnational criminal behavior, promoting U.S. interests in foreign markets, and providing essential technical assistance and training to our counterparts overseas.

Mr. Chairman, allow me then to address the issues you raised in your invitation letter. I will offer you background on Treasury's overseas presence as well as a brief description of how our efforts and strategies are coordinated with the Department of State.

## BACKGROUND ON OVERSEAS PRESENCE

### *Overseas Presence Advisory Panel*

In November of 1999, the Overseas Presence Advisory Panel in the 21st Century (OPAP) was published. OPAP was established by the Secretary of State, with support from the President and Congress, following the bombings of the U.S. embassies in Nairobi and Dar Es Salaam in August of 1998. OPAP's mission was to consider the future of our nation's overseas representation (other than the military), to appraise its condition, and to develop recommendations on how best to organize and manage our overseas posts.

Few national policy issues impact on so many Americans, so significantly, and so persistently as international criminal enterprises including acts of terrorism, illicit drugs, and financial as well as cyber-crime. The costs of transnational crimes from fraud, intellectual property piracy, industrial theft, and corporate bribery total about $130 billion annually. The cost of illicit drugs supplied from abroad on this nation's social fabric is incalculable. The fear, death and destruction from acts of terrorism is chilling. The UN estimates that the total take from transnational organized crime at a staggering $1.5 trillion a year. We can trace some aspects of all of these crime threats to virtually every country.

***Procedures for Interagency Cooperation***

As mentioned above, coordination of our international presence is essential to ensure that the respective missions of the various agencies and departments, including the Department of the Treasury, are fulfilled and that the U.S. government is speaking with a unified, coordinated voice abroad.

*Strategic Planning*

The Department of the Treasury coordinates its strategic and performance goals and objectives, as required by the Government Performance and Results Act (GPRA), with other Federal agencies including the Departments of State, Defense, Justice, Commerce, and Agriculture which have significant international responsibilities.

Treasury's goals and objectives are fully integrated into the United States Strategic Plan for International Affairs (February 1999) and involve these national and international interests:

- Expand exports and open markets;
- Maintain global growth and stability;
- Promote economic development;
- Protect American citizens abroad;
- Manage the entry of visitors and immigrants;
- Safeguard the borders of the United States;
- Combat international terrorism, crime, and narcotics trafficking;
- Support the establishment and consolidation of democracies; and
- Uphold rights.

Our efforts abroad, therefore, and our strategic placement of personnel are guided by these objectives. Though we have continued to focus on all of these missions, the critical and global nature of the terrorist threat the United States is facing and the seminal role that the Treasury Department and its Bureaus play in these efforts have required that we emphasize our Enforcement efforts abroad with respect to attacking all aspects of terrorism.

*Mission Performance Planning*

Treasury's overseas staffs contribute directly to their respective embassy annual work plans, called Mission Performance Plans (MPPs). Treasury officials here in Washington receive and review these plans and provide the State Department, other Federal agencies, and the embassies with recommendations on program performance and resource levels.

*Embassy Construction*

Treasury officials meet routinely with State Department program and overseas buildings operations staff to ensure that Treasury presence at posts where major construction is planned is appropriate and sized right to accomplish Treasury's missions.

*Reporting on Treasury Presence Overseas*

The Department of the Treasury reports annually to the State Department on the number of staff positions, by Treasury component (bureau, office), by embassy/consulate, with proposed changes for the next three years.

*Chief of Mission and Agency Approval: Treasury Presence Overseas*

The Department of the Treasury follows the interagency clearance process to secure the approval of the U.S. Ambassador (officially called the Chief of Mission). Treasury submits detailed justification for all proposed overseas staffing changes, additions or subtractions, to the Chief of Mission, with a copy to the Department of State. State officials also provide to the Chief of Mission and to the Department of the Treasury, its views on the necessity of overseas staffing changes proposed by Treasury.

**TREASURY OVERSEAS PRESENCE**

The increasing demands on the Treasury regarding homeland security, terrorist financing, and international financial markets requires a vibrant overseas Treasury presence. It is important to note that this total includes Americans posted abroad, local hires, foreign national and personal contractors. The breakdown of Treasury personnel abroad as reported to OMB is as follows:

- Departmental Offices, including technical assistance, personnel total 112 persons;
- The Customs Service accounts for a total of 369 persons abroad;
- The U.S. Secret Service has a total of 93 persons abroad;
- The Bureaus of Alcohol, Tobacco, and Firearms accounts for 5 persons abroad
- The Internal Revenue Service, both civil and criminal divisions, has 58 persons abroad; and
- The Office of Comptroller of Currency (OCC) has 4 bank examiners stationed in London.

***Challenges After September 11th: Actions and Increased Workload Internationally***

After the horrific attacks of September 11, 2001, the nation focused its attention on the global terrorist threat presented by al-Qaida and other related groups. For the Treasury Department this meant increasing security at the borders and in cyberspace, devising aggressive efforts to better screen outbound and inbound passengers and cargo, and attacking terrorist financing at the operational and systemic level.

*Terrorist Financing*

As you are aware, Mr. Chairman, on September 24, 2001, President Bush stated, "We will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding." The President directed the Department of the Treasury to lead the nation's war against terrorist financing -- to identify, disrupt, and dismantle global terrorist financing networks.

Treasury, in close partnership with the State Department, the Defense Department, the Department of Justice, the Federal Bureau of Investigation, the intelligence community, and many other parts of the federal government, has been dealing with terrorist financing on multiple levels since September 11th. We have concentrated much of our efforts and resources on identifying, tracing, and blocking terrorist-related assets. In this endeavor, we have collected the financial expertise, information, and authorities that are unique to the Treasury Department to attack terrorist financing on all fronts. We have also engaged the world, in bilateral and multilateral fora, to ensure international cooperation in our anti-terrorist campaign. All of these efforts have required continued international cooperation and coordination at the operational, financial, and structural levels. Allow me to highlight briefly the efforts the Treasury Department has taken to date to tackle the global problem of terrorist financing.

In furtherance of this mandate, the President issued Executive Order (E.O.) 13224 on September 24, 2001, which grants the Secretary of the Treasury, in consultation with the Attorney General and the Secretary of State, the authority to block the assets of individuals who support or finance terrorist groups. To date, the United States has designated 202 entities and individuals as terrorists or terrorist supporters under this Executive Order and frozen approximately $34 million in assets. Internationally, 161 countries/jurisdictions have blocking orders in force and over $70 million in terrorist assets have been blocked internationally. A portion of the amount linked to the Taliban has recently been unblocked for use by the new Afghan Interim Authority.

The international scope of this effort is exemplified best in two recent designations. On April 19, 2002, the G-7 Finance Ministers jointly designated 9 individuals and 1 entity as terrorists or supporters related to al-Qaida. This was the first joint list created and affected multilaterally. Prior to that designation, the United States and the Kingdom of Saudi Arabia took a historic step on March 11, 2002, by jointly designating the Bosnian and Somali branches of the Saudi-based charity, al Haramain.

These blocking actions internationally are complemented by our work to ensure that the international financial system is not corrupted by those who would use funds to support terrorist groups. We have worked closely with the U.N. Counter-terrorism Committee, the G-7, G-8, G-20, regional groups like the European Union, the Asia Pacific Economic Community (APEC), and the Association of Southeast Asian Nations (ASEAN) (as well as the international financial institutions and regional banks) to confront the systemic and regulatory issues to secure the international financial system and to promote changes in nation's laws to facilitate the battle against terrorist financing.

The prime example of this work comes from our leadership in the Financial Action Task Force (FATF) on Money Laundering, which is now committed to the fight against terrorist financing. At the October 2001 Special Plenary in Washington, D.C., FATF issued 8 Special Recommendations regarding terrorist financing that are quickly becoming the international standard by which countries should address terrorist financing. In addition, the leadership of the Financial Crimes Enforcement Network (FinCEN) in the Egmont Group of Financial Intelligence Units (FIUs) to create expedited ways of sharing information has important in following the money trail.

The work on these fronts is complemented by the Treasury's commitment to provide training and technical assistance to our counterparts abroad in law enforcement and finance ministries and central banks to ensure that they have the means to attack terrorist financing. This is an important component of our long-term strategy since we must help countries meet the demands of the international community and give them the tools to combat terrorist financing in a way that will benefit the entire global community.

*Expanded Efforts Internationally*

As noted, our fight against terrorist financing is a global effort. As a result, we have engaged in increased activities abroad that are critical to our mission.

Operation Green Quest

October 25, 2001, Treasury created Operation Green Quest ("Green Quest"), a new multi-agency financial enforcement initiative intended "to augment existing counter-terrorist efforts by bringing the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding." In conjunction with OFAC, Green Quest is aimed at identifying, freezing and seizing the accounts and assets of terrorist organizations that pose a threat to the United States and to all nations of the world. This task force is led by the Customs Service, and includes the Internal Revenue Service, the Secret Service, the Bureau of Alcohol Tobacco and Firearms (ATF), Treasury's Office of Foreign Asset Control (OFAC), Financial Crimes Enforcement Network (FinCEN), the Postal Inspection Service, the Federal Bureau of Investigation (FBI), the Department of Justice, and the Naval Criminal Investigative Service (NCIS). Green Quest brings together the extensive financial expertise of the

Treasury Bureaus along with the exceptional experience of our partner agencies and departments to focus on terrorist financing.

Green Quest has complemented the work of OFAC in identifying terrorist networks at home and abroad, and it has served as an investigative arm in aid of blocking actions. Green Quest's work has led to 12 arrests, 6 indictments, the seizure of nearly $4.4 million, and bulk cash seizures-cash smuggling-of over $12.5 million.

Much of the work being conducted by Green Quest, along with the FBI and other government agencies, has concentrated on international collaboration. Green Quest agents have traveled abroad to follow leads, exploit documents recovered, and provide assistance to foreign governments. In this effort, Green Quest has made full use of overseas Customs Attachés and other international assets to investigate suspect networks and to gather information for its own use and the use of OFAC. Green Quest's work, in combination with the work of OFAC, serves as a seminal part of our international enforcement efforts.

Office of Foreign Asset Control (OFAC)

The President's September 23rd Executive Order greatly expanded the ability of OFAC to block the assets of all property and interests in property, in the United States or within the possession or control of a U.S. person, of foreign individuals and entities determined by the President to have engaged in, threatened or supported grave acts of terrorism against the United States or U.S. nationals. The powers derived from this Executive Order have formed the heart of the U.S. efforts to block terrorist-related assets domestically and internationally. As a result of the need to effect blocking efforts internationally, OFAC has engaged in numerous overseas missions to discuss relevant compliance issues with allies abroad. For example, OFAC currently has an analyst serving in Riyadh to help with the ongoing cooperation on the financial front with the Kingdom of Saudi Arabia.

Task Force on Terrorist Financing

After September 11th, the Treasury established a task force to work with countries and monitor their efforts to track and block terrorists' financial assets. This task force is composed of international economists and financial analysts from International Affairs and Enforcement's Office of Foreign Asset Control. Treasury enlisted support from ministries of finance and central banks around the world to assist efforts to immobilize and/or confiscate the financial assets of terrorist organizations and deny such organizations use of the international banking system.

Certain countries crucial to this effort have expressed the desire to cooperate more fully with the United States, but they do not possess the investigative apparatus to identify financial assets belonging to terrorist organizations, nor do they have the legal framework necessary to freeze the bank accounts of these organizations. As a result, $3 million in Emergency Response Funds were made available to Treasury's Office of International Affairs to assist foreign governments, primarily their finance ministries and central banks, in combating terrorist financing. Most of the current funding is being used to train

staff of foreign governments (anti-terrorism, financial investigations, money laundering) in country, using short -term advisors. Treasury has already placed a resident advisor in Kabul, Afghanistan to monitor aid donations and expenditures by the Afghan Finance Ministry.

*Economic and Financial Analysis Overseas*

Treasury financial attaches play a critical role in the development of US international economic policy by deepening our understanding of macroeconomic and financial market developments and policies and their potential implications for U.S. national interests. Financial attaches develop extensive contacts with finance ministries, foreign regulatory authorities, central banks, and financial market participants that offer a unique view of market developments in their respective countries. This unique perspective lends itself to a more thorough understanding of potential policy implications and a more rapid translation of new U.S. policy on the ground, a critical capability given today's rapidly changing market conditions.

***Financial Crime is Global***

The Treasury is using its assets abroad to deal not only with terrorist financing and terrorism generally but also to deal with transnational crime, which often forms a nexus with terrorist groups. The following is a synopsis of the work being done abroad and the overarching strategies of the Treasury Bureaus charged with protecting the U.S. financial system and trade.

*United States Secret Service*

As you know, Mr. Chairman, the Secret Service's investigative roots began with its creation in 1865 to suppress counterfeiting. In addition to the demands of the Secret Service's protective mission, the Secret Service continues to provide the nation with a very productive and efficient investigative program. The thrust of the Secret Service's investigative efforts and authority is to protect our currency and financial and banking systems from criminal acts or from attacks used as tools component of our homeland security. The financial infrastructure and confidence in that infrastructure is critical. Furthermore, as the association between terrorist activities/funding and transnational identity fraud, financial institution fraud and counterfeiting becomes more apparent, the role of the Secret Service's investigative resources and expertise will have long reaching benefits that will directly impact homeland security on all fronts.

The Secret Service is extremely active in cooperative investigations with foreign law enforcement authorities regarding the counterfeiting of U.S. currency, and has extraterritorial jurisdiction to prosecute foreign counterfeiters in the United States under Title 18 USC 470. The Service is the sole U.S. law enforcement agency responsible for protecting our nation's currency. There is no concurrent or overlapping jurisdiction regarding U.S. currency in this area. Our 18 current Foreign Post of Duty with 46

authorized agents and 93 total authorized positions, and our presence at INTERPOL, have established liaison and enhanced coordination of investigative efforts with foreign law enforcement, and as a result the Secret Service has been increasingly successful in suppressing the counterfeiting of U.S. currency overseas and protecting our nation's financial systems.

Where permanent assignments are not available, the Secret Service relies on temporary overseas assignments to satisfy the requests for participation in overseas financial crimes and counterfeit task forces. Within the last two years alone, our work through temporary assignments in Lagos, Bucharest and Frankfurt has resulted in the opening of permanent offices. The temporary duty concept allows us to conduct a survey in a specific area to determine if the cost of opening a field office in that country is warranted.

A Recurring Temporary Assignment (RTA) allows for the establishment of relationships within the law enforcement and embassy communities. This is especially important if the Service realizes a need to commit assets on a long-term basis (2+ years), be it by long-term RTA or establishment of a permanent Foreign Post of Duty (FPD). The relationships that were established during the cooperative period serve to forge the framework for embassy and host governmental approval for the formal establishment of an office.

The continued "dollarization" of foreign economies has resulted in an increase in the number of countries that utilize the U.S. dollar as the base of their financial operating system. The darker side of the "dollarization" process has already been observed in the countries that are contiguous with Colombia, as the counterfeiters have spread across the borders and into those nations. The Secret Service's presence in that area of the world has primarily been one confined to providing anti-counterfeiting training and staffing RTA (e.g., Bogotá). We believe that this effort has been successful in maintaining a controlling hand over rising levels of problems to date, but that a greater effort will be required in the near future as other nations "dollarize". In addition to the regional expansion of counterfeit-related activities, there are international counterfeiting concerns affiliated with "dollarization," as can be seen in Spain with a rise in the importation of counterfeit U.S. currency from South America.

It must be stated that the new Foreign Post of Duty would bring to bear Secret Service assets to contend with other core USSS investigative responsibilities. Today, electronic payment systems are the new lifeblood of international business, and they too are subject to compromise and counterfeiting, more frequently through the use of computers and computer technology. The Secret Service anticipates additional investigative and enforcement responsibilities in the area of alternative money or electronic cash, also referred to as e-cash. The Financial Crimes Division attempts to forecast vulnerabilities in these emerging payment systems that will be exploited by criminal elements, such as al Qaida, on a global scale. The Service, through its current complement of Foreign Posts of Duty, continues to interface with financial industries and law enforcement, domestically and abroad, in pursuit of our criminal enforcement responsibilities and our proactive risk analysis based programs.

These financial crimes can range in complexity and severity from a fraudulent credit card transaction at a retail store located anywhere in the world, to a bank fraud scheme spanning three continents, to an intrusion into a computer system perpetrated by a suspect thousands of miles away, to an intricate system of terrorists laundering fraudulently obtained assets that will be utilized to fund terrorist attacks globally. Secret Service personnel assigned overseas continue to work with foreign law enforcement to develop strategies to combat the attacks against their financial institutions.

It must be stated that as the global economy continues to expand, so must this agency's approach and global presence. Based upon these facts, the Secret Service is proposing to increase our current complement of 18 Foreign Posts of Duty. Due to the nature of the process by which Foreign Posts of Duty are formally approved and established, it is difficult to firmly present the names of the specific locales at which the Secret Service wishes to open new offices within this document relative to international anti-counterfeiting efforts.

The Secret Service seeks to continue its strategic global expansion toward the goals of extending its core investigative reach and presenting bilaterally coordinated timely responses in the arena of transnational crime, with a primary focus on international counterfeiting. An adjunct goal that is realized from this expansion abroad is better fulfillment of the agency's protective responsibilities.

This expansion effort follows a time-tested approach that the Secret Service has sought to adhere to when addressing global criminal concerns by expanding its overseas presence, as is outlined in the President's 1998 International Crime Control Strategy. The combination of an infusion of investigative training to regional law enforcement populations and strategic placement of Recurring Temporary investigative Assignments is a fiscally responsible manner by which to assess whether regionally specific concerns will require a short or long-term (2+ years) control commitment. The insertion of International Investigative Seminars training and the strategic placement of Recurring Temporary Assignments Task Forces afford the Secret Service a period of time during which to observe regional situations on several fronts, to include local law enforcement capabilities and existing levels of criminal activities. The level of host country assistance provided directly impacts the success rates of Recurring Temporary Assignments. In the field of international counterfeiting, the Secret Service would seek to work hand-in-hand with its host country vetted International Anti-Counterfeiting Forces (IACF)

The Secret Service's Office of Investigations believes that this three-tiered approach to combating crimes against the United States' financial system is a fiscally responsible approach, and the Department of Treasury's Office of Enforcement has viewed it favorably. There are significant benefits to be derived from the realization of the three-tiered approach. For example, the expansion of our International Investigative Seminars will facilitate the Service's educational and training campaign amongst foreign law enforcement authorities, which allows for a realistic assessment of criminal trends and resource allocation needs.

The use of Recurring Temporary Assignments has been very successful in the arena of financial crimes (e.g. the City of London Initiative and the Lagos, Nigeria Task Force) and counterfeiting (Bogotá, Colombia and Sofia, Bulgaria). RTA led to the decisions to enhance the agent pool at the London Resident Office by one (1) additional agent, formally establish the Lagos Resident Office, enhance the agent pool at the Bogotá Resident Office by one (1) additional agent and pursue the formal establishment of the Bucharest, Romania Resident Office. The Service is able to remain fiscally non-committal while addressing global criminal concerns. In addition, the domestic investigative mission reaps the benefits of increased investigative intelligence collection. The Foreign Posts of Duty have a chance to evaluate potential candidates for future service at their posts. The agency benefits from these relationships not only during the performance of its investigative mission but also during the performance of its protective mission abroad.[1]

The Secret Service's permanent presence in key posts abroad allow for improved coordination in the area of counterfeiting, fraud, security and intelligence as well as the ability of the U.S. government to assist our foreign counterparts in building their own legal and enforcement mechanisms to confront these issues themselves. As the nature of crime, including terrorism and terrorist financing, becomes more international in nature, it will be essential for the Secret Service to work closely with key counterparts abroad to achieve its mission. Whether it is the threat of counterfeiting related to "dollarization" or the threat of cyber attacks on our financial system, the Secret Service's strategic presence abroad is essential. This need for an expanded global presence will be coordinated closely with the State Department to ensure that the Secret Service's mission can be completed.

*U.S. Customs Service*

The role of the U.S. Customs Service in protecting our homeland has become more acute since September 11th. As a result, Customs is seeking to increase its international presence in a targeted way in order to support its key enforcement missions, such as investigating terrorist financing and preventing the illegal export of weapons of mass destruction (WMD).

The Customs Service is seeking to establish or enhance its presence in key financial and shipping centers around the world. The strategic aims of this increased international

[1] A determination is made during the Recurring Temporary Assignments period concerning the level of commitment this Service should make to a regional concern. If it is believed that the problem has been brought under control, or even eradicated, the resources will be either sustained at a reasonable level or discontinued and reapportioned to other global trouble spots. If the problem is seen as being formidable enough to have a permanent Secret Service presence in place, as was the case in Lagos, Bogotá and Bucharest, then formal steps will be taken to establish an office based upon the relationships that have already been fostered.

presence would be to deny and disrupt financial support for terrorist organizations and to identify and intercept terrorist materials moving within the international cargo stream. An enhanced overseas presence would directly support Operation Green Quest and Operation Shield America, which is the innovative program established by Customs to track and prevent the shipment of the implements of weapons of mass destruction (MDWs). Moreover, an enhanced presence in Mexico and Canada would support Customs' border security initiatives with each country, which is critical for establishing smart border security and homeland defense.

Furthermore, the Customs Service has been tasked and funded by Congress to increase its efforts overseas to support initiatives in Forced Child Labor, Intellectual Property Rights, and the Northern Border.

As part of Customs' strategic plan, the additional investigators and analysts overseas would be primarily investigating financial matters that relate to Customs violations and matters linked to terrorist activities or organizations. Such violations would include money laundering, export violations (including munitions list items, WMD, and their delivery systems and dual-use technology), commercial fraud, smuggling, and any other illegal activity within the import/export arena that is utilized in support of international terrorism.

Additional investigators, inspectors and analysts would also support Customs' foreign efforts to identify and interdict the materials that terrorist organizations and rogue states require to accomplish their aims. With the assistance of our foreign counterparts, overseas personnel would evaluate cargo traffic, analyze cargo manifests, review export documentation, monitor transshipped items, and assist in prescreening cargo/containers.

Customs' overseas presence is essential to its mission on all fronts to protect the United States, especially with respect to terrorism-related matters.

Customs' Overseas Expansion Priorities

Customs is actively seeking to establish or enhance its presence in key international financial centers in addition to those overseas ports that are responsible for the majority of container cargo that enters the commerce of the United States and to fulfill the congressionally-mandated responsibilities in FCL, IPR, and Northern Border Initiative.

*Bureau of Alcohol, Tobacco and Firearms*

The Bureau of Alcohol, Tobacco, and Firearms (ATF) plays an important role in the regulation of firearms and explosives as well as tobacco and alcohol. Though its overseas presence is not significant in numbers, the ATF's mission and presence bears mentioning because of its fundamental importance to overall U.S. security.

Overseas Mission and Staffing Analysis

The ATF is the premier agency in the United States entrusted with enforcing federal firearm and explosive laws. In this capacity, ATF has developed a high level of practical and technical expertise in crime gun tracing and analysis, ballistics identification, and post–blast investigations. The U.S. Department of State has thus recognized and utilized ATF expertise abroad on numerous occasions.

Through its regulatory and enforcement authorities derived from the Gun Control Act of 1968, the National Firearms Act, the Arms Export Control Act, and the Explosives Control Act, ATF seeks to neutralize the illicit movement of firearms, explosives, and ammunition, and to deny their access to international narcotics dealers, terrorists, and other violent criminals. ATF's International Traffic in Arms (ITAR) initiative was formalized as a Bureau-wide program in 1974 and is an aggressive enforcement effort designed to combat the illegal movement of U.S.-sourced firearms, explosives, and ammunition in international traffic. Through enforcement and compliance of the statutes mandated by law, ATF seeks to neutralize the trafficking of these commodities from the United States, which are used throughout the world to commit acts of terrorism and political violence, to subvert restrictions imposed by other nations on their residents, and to further narcotics-related activities and violent crime.[2]

The success of the ITAR program depends heavily on ATF's ability to post personnel in overseas assignments. Working alongside the host government, ATF personnel assist in the identification of recovered crime guns that have a nexus to the U.S. and then trace these weapons in order to identify the organizations responsible for the illicit trafficking of arms. Joint investigations further assist in the sharing of intelligence between agencies and the development of leads, both in foreign and domestic cases. The ability to be located in foreign posts to coordinate efforts that affect this progress ultimately leads to stemming the flow of firearms in international traffic.

Overseas Mission and Current Presence

ATF initially established country offices in Colombia, Mexico, and Canada because these

[2] The ATF Alcohol and Tobacco Diversion Program focuses on the illegal distribution of alcohol and cigarettes in the United States and other countries. Organized criminal groups purchase cigarettes and alcohol either, without paying taxes, or in low tax jurisdictions, and divert or smuggle these commodities into high tax jurisdictions. These groups then illegally distribute the alcohol or cigarettes depriving countries of substantial amounts of excise and income taxes and often launder the proceeds to promote the smuggling activity or to finance other criminal activities. Additionally, criminal groups smuggle alcohol or cigarettes into the United States depriving the United States of tax revenue. In the past several years, ATF has successfully prosecuted alcohol and tobacco diversion schemes involving U.S-produced alcohol and cigarettes, which were diverted to Canada, Russia, Georgia, Belgium, Mexico and several other countries. Additionally, ATF contraband cigarette trafficking investigations in conjunction with the FBI have established that certain Middle Eastern terrorist groups have used the proceed of illegal cigarette trafficking to finance their activities. The assignment of ATF personnel overseas will enable ATF to continue to combat international alcohol and tobacco-related crime.

countries were identified as having been severely impacted by the illegal trafficking of U.S.-sourced firearms. On site, the agents are able to provide investigative and technical assistance with regards to this problem, however, they also regularly deliver training to the host government in firearms identification, tracing procedures, trafficking investigation techniques, and other related topics.

As a result of civil unrest and insurgent activity, both Colombia and Mexico have experienced a significant increase in explosives incidents in the past year. The ATF agents posted in these countries have been frequently used to provide technical assistance to the Embassy, and especially the host government, in explosives identification and in post-blast investigative procedures.

Additionally, the ATF personnel in the Canada Country Office have concentrated much of their efforts assisting the Canadian Government in combating the diversion or smuggling of U.S.-produced alcohol and cigarettes into Canada. The taxes on alcohol and cigarettes are generally considerably higher in Canada than in the United States. Consequently, during the 1990s, the Canadian Government lost billions of dollars in tax revenues, much of which was earmarked to finance the Canadian National Health system. Moreover, alcohol and tobacco smuggling and the organized criminal groups associated with this activity became a major Canadian criminal concern. Recently, ATF enforcement efforts have helped control this problem.

In 1990, ATF established its first overseas post at the U.S. Embassy in Bogotá, Colombia. The Colombia Country Office (CCO) is currently staffed by a Country Attaché (CA) and an Assistant Country Attaché (ACA). There is also one Foreign Service National (FSN) and a shared Administrative Assistant (contract employee who also works for Customs.)

In 1992, our Mexico Country Office (MCO) was established at the U.S. Embassy in Mexico City, Mexico. The MCO is currently staffed by one CA, one ACA, and two FSNs. In 1997, ATF established a permanent office at the U.S. Embassy in Ottawa, Canada. Current staffing consists of a CA and Administrative Assistant (contract through State) in Ottawa, and an ACA at the Consulate in Vancouver. There is also one vacancy for a contracted Administrative Assistant in Vancouver. An NSDD-38 request has been forwarded to State at the request of the Royal Canadian Mounted Police (RCMP) and with the support of the U.S. Ambassador for an additional FTE (Inspector) to be located at RCMP Headquarters.

Review of Overseas Operations and Staffing Levels

ATF receives weekly activity reports and extensive annual reports from each of the country offices. These reports detail the mission, efforts, accomplishments, and planned action by each Country Office and are reviewed by the highest level of ATF management. In addition to this internal oversight, there is regular communication between the Deputy Chiefs of Mission and ATF personnel regarding the continued productivity of the liaison mission.

Future Staffing Needs

ATF has a minimal staff abroad, and current manpower and other resource considerations only allow for overseas assignments by ATF in countries capable of supporting full-time positions.

*Internal Revenue Service – Criminal Investigations Division*

The Internal Revenue Service- Criminal Investigation Division (IRS-CI) is charged with enforcing the nation's tax laws and has been playing a critical role in Operation Green Quest as it lends its expertise in the tax arena, especially with respect to charities, to the counter-terrorist financing fight. Based upon an assessment conducted in 2001 of its workload overseas, IRS-CI is considering two changes in the number and placement of its agents assigned overseas.

Changes to Overseas Presence Based on Trends

The assessment in 2001 determined that the workload in the Europe/Africa Region, which includes the Middle East and the former Soviet Union Bloc countries, was too substantial for one CI Attaché to handle. In the 5 years since the initial placement of a CI Attaché in Frankfurt, Germany, the number of requests for assistance involving countries located in this region had increased approximately 400%. In addition, the Attaché has been spending substantial more time assisting in training initiatives being conducted in this region, including the ILEA in Hungary and Botswana. Since the completion of the assessment, IRS-CI resources needed in this area have further increased significantly as a result of CI's focus on terrorist financing. Using the criteria recommended by the "Rightsizing" Working Group, it was determined that the best location to add a second Attaché to be responsible for the Europe/Africa Region is London, England. The factors that weighed in this decision are as follows:

- Requests for Assistance by CI special agents to the United Kingdom in 2001 are approximately 40 percent for the region.
- Requests for Assistance by CI special agents to the United Kingdom in 2001 are approximately three times higher than any other country in the region.
- These statistics are primary the result of London's being the financial capital of Europe.
- Contacts with representatives of the United Kingdom's Law Enforcement Agencies determined that there was a very strong desire to work with IRS-CI on joint initiatives.
- Contacts with US Law Enforcement personnel assigned to the London Embassy determined that placement of an IRS-CI Attaché at that embassy would not result in an overlapping of missions, and endorsed our presence at the embassy.
- London provides excellent transportation links with both the other countries in the region and the US.

The second change the 2001 Worldwide Assessment recommended was moving the CI Attaché that is responsible for the Caribbean Basin Region from the US Embassy in Mexico City to an Embassy in the Caribbean. In March 2000, CI placed a second Attaché in Mexico City. This placement of the second Attaché afforded the opportunity for one Attaché to be primarily responsible for the countries located in the Caribbean basin. This dedication of resources to the Caribbean has resulted in a tremendous growth in the workload as new and better relationships have been developed with the law enforcement agencies of the 22 countries located in the area. Specifically, the number of requests for assistance involving countries in this region has increased by over 400 percent during the period 2000 to 2002. We expect that the workload will continue to increase as additional Tax Exchange Agreements are signed and go into effect over the next two years and as countries in the region continue to strengthen the anti-money laundering regimes.

However, the past two years have demonstrated that to have the CI Attaché operate from Mexico City to handle the Caribbean is not cost-effective and wastes a significant amount of time in traveling back and forth to the region (all travel must be made through Miami from Mexico City to go to the region). As a result of this recommendation, CI has just initiated a follow-up assessment to determine the best site in the Caribbean Basin to relocate the Attaché. Results of this assessment should be available by the end of FY 2002.

IRS-CI, like the other Treasury Bureaus, has reassessed trends related to its jurisdictional responsibilities and demands abroad and is adapting its overseas requirements accordingly. This flexible approach allows Treasury and the State Department to work closely to ensure that the Bureaus' missions are fulfilled.

*Internal Revenue Service – Civil Division*

The Internal Revenue Service (IRS) works closely with its foreign counterparts on tax treaties and other tax-related matters. The IRS currently has 46 positions in 7 regional offices overseas, including Berlin, London, Mexico City, Paris, Rome, Singapore, and Tokyo. IRS has reduced its overseas presence significantly from 1985 when it had 83 positions in 15 regional offices overseas. IRS tax attaches and staff interact with foreign governments on tax treaty and other tax issues and with business and tax practitioner communities. Under bilateral tax treaties, tax attaches are delegated signature authority for certain tax treaty exchange of information programs between governments. These overseas tax offices also identify emerging tax and tax compliance issues. Moreover, these offices also provide customer service to U.S. citizens residing abroad and to foreign individuals who have a tax liability to the US. In addition, IRS provides direct assistance to selected foreign governments to help improve their own tax administration. This past year, IRS had 4 personal services contractor (PSC) staff in Trinidad and Tobago and in Tanzania providing technical assistance.

*Office of the Comptroller of the Currency*

Because of its important role in bank regulation, the Office of the Comptroller of the Currency (OCC) has 4 bank examiners assigned to the U.S. Embassy in London. This is a critical presence because London is a major banking and commercial center.

*Regional Development Banks, US Executive Directors and Their Offices*

The Office of International Affairs currently is responsible for 10 positions at regional development banks as follows: 2 positions at the European Bank for Reconstruction and Development in London, 3 positions at the African Development Bank in Abidjan, and 5 positions at the Asian Development Bank in Manila. The Secretary of the Treasury is the U.S. Governor on the Board of Governors at these three regional development banks.

Day-to-day policy, fiduciary and administrative oversight is delegated to the banks' Board of Directors. As a member of the Board of Directors, the U.S. Executive Director (a Presidential appointee with Senate confirmation) represents the U.S. Government. The Asian Development Bank and European Bank for Reconstruction and Development and the US Executive Director position are currently vacant and an alternate is currently representing the United States. Treasury professional staffs are assigned to the U.S. Executive Director offices as advisors and assistants. Costs of the U.S. Executive Director, Alternate Executive Director (Asian Development Bank) and technical advisors/assistants are paid either directly or reimbursed by the regional development banks. Treasury also reimburses the State Department for two support staff at the US Embassy, Manila.

*Treasury Financial Attaches*

Treasury financial attaches play a critical role in the development of US international economic policy. Financial attaches develop extensive contacts with finance ministries, foreign regulatory authorities, central banks, and financial market participants that offer a unique view of market developments. This unique perspective lends itself to a more thorough understanding of potential policy implications and a more rapid translation of new U.S. policy on the ground, a critical capability given today's rapidly changing market conditions.

The Office of International Affairs currently has 6 financial attaches and 13 analytical/ support staff, including foreign nationals, at U.S. embassies in Tokyo, Moscow, Mexico City, and Rome (Southeast Europe region), at the U.S. Mission to the Organization for Economic Cooperation and Development (OECD) in Paris, and at the U.S. Consulate General, Frankfurt (European Union region). The U.S. Ambassador and the State Department have approved Treasury opening a financial attaché office in Beijing, China. Opening this new post is subject to resource allocation. International Affairs has recently proposed to close its financial attaché office in Mexico City and open an office in Buenos Aires.

Over the past decade, International Affairs has scaled back its overseas presence. In 1990, International Affairs had 12 financial attaches and 25 analytical/support staff at 12 U.S. embassies/missions overseas. Treasury financial attaches collect, report, interpret and forecast macroeconomic and financial developments and policies on assigned foreign countries. Department of Treasury personnel assigned abroad report on foreign economic, financial and monetary matters, to help keep U.S. government decision-makers fully informed on such matters. In addition, International Affairs is a user of economic and financial information supplied by all U.S. embassies and consulates.

*Treasury Technical Assistance*

The Office of International Affairs provides technical assistance to foreign countries in five core areas: budget policy and management; financial institutions policy and regulation; government debt issuance and management; enforcement policy and administration; and tax policy and administration. The placement of Treasury advisors is closely coordinated through several offices and bureaus at the State Department, including the Regional Coordinator for Assistance to Countries of the former Soviet Union, Eastern and Central Europe, the Bureau of International Narcotics and Law, the newly created Counter Terrorism Office and the relevant regional bureaus. Treasury's Office of Technical Assistance also coordinates work and assignments with Treasury's Office of Enforcement.

Treasury currently has 45 long term or resident advisors, primarily personal services contractors, and 35 support staff in 22 countries. In addition, short term, or intermittent, advisors are provided to foreign countries on temporary duty assignments, for highly specialized assistance. The level and scope of all assistance efforts are negotiated with host countries and advisors work at host government, primarily finance ministry, facilities and thus do not require Embassy office space.

Funding for technical assistance comes primarily from the Freedom Support and Support for Eastern European Democracy (SEED) Acts, augmented by additional AID program funds and a direct Congressional appropriation to Treasury, knowns as the Treasury International Affairs Technical Assistance (TIATA) program. Treasury has closed assistance efforts as foreign countries have instituted structural and economic reform. For example, Treasury has completed assistance efforts in the Czech Republic, Slovakia, Poland, Latvia, and Lithuania and no longer has advisors stationed in these countries. In addition, projects under the US-Saudi Arabia Joint Economic Commission, that was fully financed by Saudi Arabia, were closed in 2000, after 25 years of successful assistance efforts in Saudi Arabia, eliminating the need to station over 40 U.S. employees in Riyadh and Jeddah.

The Treasury Department has been flexible in its allocation of resources abroad. Where needs no longer exist, for either enforcement or non-enforcement personnel, the Treasury has been willing to reallocate those resources to areas where such personnel are needed. This will continue to be the way the Treasury operates since we are dedicated to the efficient use of resources abroad. We look forward to continued cooperation with the State Department on this front.

**REGIONALIZATION**

The Department of the Treasury's law enforcement bureaus, as well as the non-enforcement offices, have traditionally practiced the concept of regionalization in varying degrees – the practice by which a region is covered by personnel stationed in one overseas post. The concept has proved beneficial in certain locations or regions of the world given the assessed needs and trends related to our overseas.

As noted above, Mr. Chairman, Treasury and its law enforcement bureaus have on occasion closed a foreign office and moved to other countries when they felt the opportunity to do so would produce a more effective and efficient work product. We are committed to this approach by assessing the needs abroad.

In the post September 11th world, we are required to reassess our needs – to deal most specifically with the terrorist threat on several levels as well as to confront the increasing threat of transnational criminal behavior. We will continue to work closely with the State Department, as well as our other sister agencies and departments, to ensure that the U.S. government's resources are used effectively and efficiently abroad.

**CONCLUSION**

Mr. Chairman, this concludes my formal testimony. I would be pleased to answer any questions that you, or members of the Committee, may have regarding Treasury's procedures, goals and mission abroad.

Mr. SHAYS. I would want to say for the record that when I have gone overseas to deal with this issue and issues dealing with, for instance, questions dealing on financial matters and how we track down people who have fled this country or dealing with terrorist issues, dealing with Defense issues, we have found all of your people very helpful, very informed, very talented, and I'm grateful to have been able to utilize and have those opportunities to meet with them and to learn so much from them.

Mr. Hoehn.

Mr. HOEHN. Thank you, Mr. Chairman, for the opportunity to appear before this committee on behalf of Secretary of Defense Rumsfeld.

As you know, our Defense responsibilities span the globe, and the Secretary of Defense has developed a strategy to meet the many challenges we face. That strategy was outlined in the quadrennial Defense review report that he submitted to Congress last September.

The ongoing war on terrorism is the first real test of this strategy, and we need your support to ensure success in this war. A strong and effective overseas posture is critical to support our Defense strategy, including the support we provide to U.S. diplomatic missions overseas.

There are three basic components to our representation at and support to the diplomatic missions. These are: our security assistance offices, which operate in support of the State Department; our Defense attache offices; and the U.S. Marine Corps security details.

Although there is no single criterion or methodology by which to determine our support to diplomatic missions, indeed most support is country-specific, as has been discussed earlier today. The Department of Defense has applied the discipline of right-sizing, as emphasized by the president's management agenda, to satisfy our changing requirements.

For example, personnel assigned to our security assistance offices have decreased by roughly 25 percent over the past 10 years. At the same time, on the basis of advice provided from our regional commanders, we have established 35 new offices to meet changing requirements. Our security assistance personnel today are capped at roughly 630 people.

Similarly, our Defense attache personnel are capped at approximately 1,000 people, and have been significantly realigned in recent years to meet changing requirements. We have closed some 29 stations and reduced another 35 offices. At the same time, we have established 20 new attache offices and expanded 20 other stations. I believe this is very much in line with the recommendations that were offered on the prior panel.

Finally, our most visible presence at U.S. embassies and posts are the 1,135 Marines with the Marine Security Guard Battalion. The assignment of Marine security details is under continuous review and is accomplished in close coordination with the State Department.

I have identified more details on how we determine our staffing levels in order to right-size our presence overseas in my written statement, which I have provided for the record. I am available to you for your questions.

Thank you, sir.

Mr. SHAYS. Thank you very much.

[The prepared statement of Mr. Hoehn follows:]

TESTIMONY OF ANDREW HOEHN
DEPUTY ASSISTANT SECRETARY OF DEFENSE (STRATEGY)
BEFORE
THE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND
INTERNATIONAL RELATIONS
MAY 1, 2002

INTRODUCTION

Good afternoon Mr. Chairman and other distinguished members of this Subcommittee. I would like to thank the Subcommittee for this opportunity to testify on behalf of Secretary Rumsfeld and the Department of Defense.

The United States has interests, responsibilities, and commitments that span the globe. Protecting these interests requires vigorous commitment and support. It demands effective diplomacy, a strong economy and a watchful and ready defense. When our interests are challenged, we must possess the strength to provide for our defense. When our interests are protected, America and its friends succeed. U.S. military strength is essential to achieving these goals, as it assures friends and allies of an unwavering U.S. commitment to common interests and gives pause to those who would threaten U.S. interests.

The international security environment, however, poses a series of challenges with which we must contend. A fundamental feature of the global security environment is uncertainty: we cannot identify precisely *who* might threaten us, our allies or our friends, or specifically *when* we might be threatened, we can focus on *how* potential adversaries might threaten us – and develop

capabilities to deter and defeat those adversaries. We face potential coercion, aggression, and other instability in regions critical to U.S. interests, and we may face adversaries that would seek to deny U.S. access to strategic resources or to key regions in times of crisis. We must prepare to contend with these uncertainties so as to guard against the worst effects of surprise.

The attacks of September 11th, 2001 illustrate this point. We were confronted by a terrorist network with global reach and capabilities to cause unprecedented loss of life and enormous damage. We are now engaged in a war on terrorism that will encompass our interests and energies across the globe.

Addressing the range of security challenges, particularly the ongoing war on terrorism, requires an activist strategy, which the Secretary of Defense identified in the Quadrennial Defense Review Report, and the creative integration of all instruments of government and the nation. DoD's wide-ranging forward posture is a critical component of U.S. defense strategy because it helps to assure friends and allies, deter aggression and coercion, dissuade potential adversaries from pursuing threatening ambitions and programs, and enable us to defeat adversaries when necessary.

An important element of DoD overseas posture is the support we provide to U.S. diplomatic missions overseas. DoD presence is not simply a matter of accomplishing the DoD mission, but providing the necessary level of support to the Department of State and other federal agencies' missions abroad. Determining the required number of DoD personnel at U.S. posts and stations cannot be derived from a single criterion. The number of personnel required to

support the range of DoD and USG programs at any given U.S. mission is country specific – it is a function of the level of support required to DoD policymakers, the regional combatant commander, and of course the Chief of Mission.

There are three basic components of DoD's "overseas presence" in U.S. embassies: security assistance offices (overseen by the Defense Security Cooperation Agency – DSCA), defense attaché offices (overseen by Defense Intelligence Agency), and United States Marine Corps security details. DoD is constantly reevaluating requirements for staffing in U.S. embassies based upon a range of factors, including changes in the security environment, needs of an Ambassador, and broader DoD requirements. The discipline of "right sizing," which is the focus of this committee, has been integral to satisfying a host of changing requirements with significantly fewer people over time.

**Defense Security Cooperation Agency (DSCA)**

The Foreign Assistance Act of 1961 authorizes the President to assign U.S. military personnel overseas to manage security assistance programs that provide military equipment, training, and services to eligible countries. Such personnel are assigned to Security Assistance Organizations (SAOs) within U.S. Embassies. SAO personnel serve under the direction and supervision of the Chief of the U.S. Diplomatic Mission (COM). The regional combatant commanders command the SAOs in all matters that are not functions of the COM. DSCA provides the SAO with the funding and policy guidance required for program management.

The combatant commander submits an initial staffing proposal for a new SAO to the COM in accordance with processes outlined in National Security Decision Directive 38 (NSDD 38). The COM must approve all staffing increases, decreases, and significant changes in the

SAO's mission or organization. DSCA and the combatant commanders continually review country security assistance program requirements and conduct regular manpower surveys. The results are coordinated with the COMs.

Over the past ten years, DSCA and the combatant commanders have decreased SAO staffing by 25% worldwide. SAO staffing is capped at the current worldwide total of approximately 630. At the same time, more than thirty-five new offices were established by realigning existing positions. All of those changes were coordinated by the combatant commanders with the respective COMs.

In connection with Operation Enduring Freedom, DSCA and the combatant commanders have worked closely with COMs in Central Asia, the Caucasus, and the Middle East to provide staffing to support new security assistance country programs in those regions. Several new SAOs that were planned to open in FY03-04 will now be established in FY02. We expect a significant increase in the workload at many of these SAOs as a result of the President's pending request to Congress for supplemental FY02 Foreign Military Financing funds.

**Defense Attaché System (Defense Intelligence Agency)**

The Defense Attaché System (DAS) is a multi-mission intelligence and diplomatic organization that operates in 134 locations, managing and supporting a variety of Department of Defense and USG missions. There are approximately DoD Directive C-5105.32 assigns the DAS with the following missions: obtain and report political-military information;

diplomatically represent the Secretary of Defense, Joint Chiefs of Staff, and the Military Services; and serve as primary political-military adviser to the Chief of Mission.

As a national and department-level program, USDAOs manage a wide range of non-intelligence representational missions on behalf of the regional commands (CJCS Instruction 3310.01A applies). For example, approximately one-half of USDAOs manage security assistance programs in-country for the Chief of Mission under policy and fiscal guidance received from the Defense Security Cooperation Agency and the regional military commander.

Due to their highly diverse missions, USDAOs are task organized; there is no system-wide standardization for staffing. Each USDAO reflects a unique mix of Military Services, grade, and specialization. Staffing at USDAOs reflects many influences, including U.S. political-military and information objectives in each resident country, U.S. Military Service symmetry to host-country military establishment (Service selection), local operating environment (i.e., might require additional administrative, security, and/or linguistic support), and additional demands of regional coverage/support requirements, if any.

DIA tries to staff newly programmed Defense Attaché Offices with a minimum of three personnel (one officer, two enlisted/ support). Typically found in smaller posts with relatively minimal DoD interests, this staffing profile reflects lessons learned and staffing assessments conducted following multiple openings in the former Soviet Union with fewer personnel. However, staffing profiles are flexible to accommodate a range of DoD policy objectives.

DIA continually reviews DAS manpower allocations, balancing intelligence priorities against diplomatic representational missions. During a decade plus of relatively scarce resources, planners prioritized DAOs worldwide based on relative criticality of the country to DoD and DAO functions in support of policymakers, regional commands, and other national/ Defense agencies. For example, during the period 1987-97, DIA significantly realigned DAS staffing against changing post-cold war requirements. The highest priority requirements were achieved by DAO manpower reduction at 35 DAOs and closure of 13-low priority stations; 29 new DAOs opened and another 20 stations expanded during the same period.

Since 11 September, DIA has augmented USDAOs in the Middle East and central Asia with additional personnel to undertake both increased diplomatic and reporting missions. USDAOs have facilitated and expedited access for Defense officials to a wide range of host government counterparts, essential to manage expanded Department objectives in the region. Regional USDAOs have played a major role in enabling basing and overflight rights for U.S. forces. Information reporting has expanded beyond traditional objectives to provide focused support to the ongoing war on terrorism. Overall, the surge in USDAO mission has been accomplished by temporary realignments to the current DAS program, selected reserve mobilization, and some private contractor support. DIA is now assessing post-11 September deployments in light of anticipated near and mid-term requirements and will adjust DAS mission and manning accordingly.

**Marine Security Guard Program**

Perhaps the most visible sign of DoD presence at US Embassies and posts abroad are the 1135 Marines of the Marine Security Guard Battalion. The Marine Security Guard program emanated from the Foreign Service Act of 1946 which authorized the Secretary of Defense, upon the request of the Secretary of State, to assign enlisted Marines to serve as custodians under the supervision of the senior diplomatic officer at US missions abroad.

There are Marine Security Guard Detachments at 131 State Department posts in 117 countries. The Marine Security detachments provide internal security services at designated U.S. diplomatic and consular facilities to prevent the compromise of classified information and equipment vital to the national security of the United States. The secondary mission, as recent history reminds us, is to provide protection for U.S. citizens and Government property located within designated U.S. diplomatic and consular premises. Detachments are prepared to execute plans for the protection of the mission and its personnel *as directed by the chief of mission.*

A Memorandum of Agreement between the U.S. Department of State and the United States Marine Corps (most recent signed on 9 January 2001) guides the relationship between the DoD and DoS elements. The Bureau of Diplomatic Security chairs a working group for the purpose of planning for activating and deactivating Detachments. Participants include representatives of the Marine Corps; the Office of the Comptroller, Department of Defense; the Center for Security Evaluation; and the Department of State's Bureau of Financial Management Policy, Office of Overseas Building Operations, and respective regional bureaus. The Secretary of State has the final authority regarding detachment activation's, within the constraints of the Marine Corps' established personnel and funding limits.

The United State Marine Corps is in support of the Department of State and does not assign Marine Security Guards beyond the requirements of the Memorandum of Agreement. All detachments and their component posts are jointly reviewed by the Regional Security Officer and the USMC company commander to ensure that the needs of the mission are still being met and that there are sufficient Marines Security Guards allocated to perform required duties.

While the Department of Defense is asked with overseeing the fight against terrorism and needs to staff up accordingly, the Department is committed to work within the Administration on USG overseas personnel requirements.

Mr. SHAYS. Mr. Diegelman.

Mr. DIEGELMAN. Thank you, Mr. Chairman. First of all, thank you very much for the invitation to testify, but then also thank you for holding a hearing on this critical topic. One of the benefits of going last with three panels like this is first of all you get an opportunity to hear everybody else's testimony, but also you get the opportunity to avoid some of the hard questions that people get to throw at you. So I'm going to—I have submitted a detailed statement for the record, but I do want to point out a couple key items that I think—I'm not going to repeat what you've heard, because I believe there's a lot of consensus among all of the witnesses, but I do want to point out some differences in approach and even some suggestions to where you can possibly go next, or where all of us can go next.

First of all, in terms of the Department of Justice, we have a limited but growing presence abroad. If the world changed in 1989 with the Berlin Wall coming down, it also changed in 1998 with the attack on our embassies in Africa. It also very, very significantly changed for the Department of Justice and I believe for everybody else on September 11th of last year.

The Department of Justice has a very limited but growing presence abroad. Ending with fiscal year 2001, Justice had only about 1,675 full-time and part-time employees and foreign nationals in 79 countries, which is a very, you know, very minimal presence, if I might say so. In 2002, with the appropriation for 2002 and also the counter-terrorism stuff, we're going to increase by an additional 75 employees, and most of those employees and additions will be in the FBI and the Criminal Division.

Justice is a large, complex agency with almost 39-some agencies within it. Out of them, only five of them actually are represented abroad—the obvious ones, the FBI, the DEA, the INS, the Criminal Division, and also the Civil Division, but the Civil Division really has a very minor presence. It has only three employees in London.

Traditionally, violations of U.S. criminal laws have been addressed by law enforcement and prosecution resources here exclusively in the United States. The last 20 years have seen a very dramatic impact on the globalization of crime, both with technology and the nature of the drug problem and the terrorism problem. We have ever-increasing threats to U.S. citizens, assets, and interests at home and abroad posed by international terrorism, organized crime, narcotics trafficking, money laundering, and all manner of trans-national criminal activity. It has created a very critical need to place law enforcement agents and attorneys, in some cases criminal prosecutors, in specific locations abroad.

Since September 11th the Department of Justice has very actively been working more closely with law enforcement in countries all around the world, some 79 different countries.

The overseas Presence Advisory Panel that Mr. Kaden testified was the first attempt in 1998 to look at the issue of right-sizing in a very considered and thoughtful way, and I think his testimony also reflects that. Immediately after the issuance of their report, the then Attorney General of the United States, Janet Reno, and the Secretary of State both agreed that they would take the law enforcement presence abroad and just use it as a possible test case

to come up with some way of determining how a law enforcement presence should be sized in each of our locations.

We set up an inter-agency task force involving our colleagues from both Treasury and also the Department of State, and then we did undertake a pilot study that took us to U.S. missions in Paris, Mexico City, and Bangkok.

I was a member of that working group, so I know both what was on the ground and the considerations that all of us entered into, and we did produce an approach in the law enforcement area that I think is worthy of this panel's consideration and also GAO, OMB, and the Department of State.

We spent a lot of time in Paris, a very large mission. I would simply say that we learned a lot by actually talking to the people. We stayed on the site a week. We had a panel of about six members.

Let me just very quickly tell you about Justice abroad one more time. Really, our focus is mainly four targets: counter-terrorism, narcotics trafficking, international crime, and immigration.

We have placed our people where the problems are, where the issues are. Our goals and purposes in putting people abroad really supports the U.S. strategic plan for international affairs, the two major law enforcement goals.

I'll give you an example. The Federal Bureau of Investigation today carries out a mandate of more than 50 statutes which provide extra-territorial reach, many of them providing exclusive jurisdiction to the FBI. Over half of these have been passed since 1980. They address violence, international airports, foreign murder of U.S. nationals, international parental kidnapping, violence against maritime navigation, copyright and intellectual property fraud, telemarketing fraud, use of weapons of mass destruction, terrorism, and air piracy.

Obviously, we have a very heavy agenda for being abroad, and it completely matches up with, from our perspective, the U.S. strategic plan for international affairs.

Let me just very quickly recap what the working group did. We have been very actively involved with State and Treasury.

We came to a simple conclusion. It's not easy to come up with a way to right-size, but we do think it is doable. We do think that there are criteria that should be taken into consideration, that it should not be a numerical formula, that in reality there ought to be a range of criteria that can be applied by an inter-agency team, and basically my testimony does tick all this off. I'll be glad to supply a little bit more detail for the record if you'd like it, but we see basically eight criteria that should be used in evaluating the law enforcement presence abroad:

No. 1, the trans-national crime threat that is present at the site;

No. 2, the non-crime-control policy interest for being in there. Very frequently the crime issue impacts in any country on the development of democratic institutions and a free market economy.

No. 3, the host nation law enforcement capability.

Four, the host nation's commitment. Do they want us there or not? And how big do they want us there?

No. 5, the geographic regions served by the mission.

No. 6, the role performed by U.S. law enforcement personnel.

No. 7, the resource and security constraints.

And, No. 8, the possibility of overlapping missions with anyone else that is presently at the site.

I can give you a more-detailed summary of the eight criteria. I will point out that we applied these in three major large missions—Bangkok, Mexico City, and Paris. We also out-briefed the chief of mission in each one of the sites, and the reaction to it was very positive and they thought usable.

I'll make some final observations. One, we do believe that this is doable. Justice is more than willing to participate in an inter-agency effort to take the next step. We just made a major staff commitment the last time around, but we're willing to make the same type of commitment.

The word of caution we would add is that none of us should be looking for silver bullets or easy answers to this. It is not just simply a three-factor analysis; it is a multi-varied analysis that you have to do. When I say that, the drivers should not just simply be cost and security. The driver's really have to focus on operational necessity and mission effectiveness at the missionsite.

We believe that if you take the June 21st report that we issued as a working group as a starting point and build around it an inter-agency group, you can take it the next step.

The key features of taking it the next step are actually turning those eight concepts into some operational questions that could be used by an assessment team. We would underscore that we have to avoid the one-size-fits-all approach and we believe that there should be an inter-agency—strong inter-agency participation and this should be transparent. This should not be a situation where one group or the other just lays out the formula for everybody to play by. We've got to work it out together. We think it is workable, and I think we are off to a good start.

I will be glad to answer any questions you might have, Mr. Chairman.

[The prepared statement of Mr. Diegelman follows:]

# Department of Justice

STATEMENT

OF

ROBERT F. DIEGELMAN
ACTING ASSISTANT ATTORNEY GENERAL FOR ADMINISTRATION
DEPARTMENT OF JUSTICE

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY
VETERAN AFFAIRS AND INTERNATIONAL RELATIONS
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

CONCERNING

RIGHTSIZING THE UNITED STATES PRESENCE ABROAD

PRESENTED ON

MAY 1, 2002

Good morning Mr. Chairman, I would like to thank the Subcommittee for this opportunity to address the issue of "Rightsizing the U.S. Presence Abroad."

The Department of Justice has a limited, but growing presence abroad. Ending with fiscal year 2001, Justice had about 1675 full-time employees and foreign nationals in 79 countries overseas. We have since received authority to add 75 employees due to the counter-terrorism supplemental. These additional positions are mostly for the FBI. Deputy Director Dorn in her testimony indicated there are 60,000 U.S. Government full-time and part-time employees, personal service contractors and foreign nationals representing more than 35 Government agencies currently overseas. Five Justice components have presence overseas -- the Drug Enforcement Administration, the Immigration and Naturalization Service, the Federal Bureau of Investigation, the Criminal Division, and the Civil Division. The Civil Division has only three employees overseas. Our activities focus mainly on deterrence and prosecution of criminal activity and now, especially, on counter-terrorism.

Traditionally, violations of U.S. criminal laws have been addressed by law enforcement and prosecution resources located almost exclusively within the United States. The nature of criminal activity has changed dramatically however. Ever increasing threats to U.S. citizens, assets and interest at home and abroad, posed by international terrorism, organized crime, narcotics trafficking, money laundering and all manner of transnational criminal activity have created a critical need to place law enforcement agents, and in some cases, criminal prosecutors in specific locations abroad. Since September 11, the Department of Justice has been working more closely than ever with law enforcement authorities from countries around the world. There

is no substitute for face to face interaction in developing and implementing formal and informal methods of cooperation in requesting and providing critical evidence and information to support the prevention of criminal acts, criminal prosecutions, and when judicial assistance is needed, to locate the return international fugitives. The Department of Justice is committed to responding to the urgent need to assist U.S. and foreign law enforcement in the investigation of worldwide terrorism and international criminal activity in the most effective and efficient manner possible.

Overseas Presence Advisory Panel and "Rightsizing"

The Department of Justice was an active participant in the Overseas Presence Advisory Panel (OPAP), established to address U.S. security concerns and examine overall mission effectiveness following the 1998 terrorist bombings of U.S. embassies in East Africa. One of the areas of concern involved the rapidly changing nature and mission of law enforcement that required an increased presence overseas to address terrorism and international crime. The Departments of State, Justice, and Treasury formed an interagency law enforcement working group as an adjunct to the OPAP report to develop a plan that addressed the concept of "rightsizing" as it applied to federal law enforcement presence overseas. Pilot studies were conducted at U.S. missions in Paris, Mexico City, and Bangkok. Based on these site visits, a report was issued setting out eight criteria as the basis of a methodology or formula through which staffing needs could be addressed.

I was a member of the law enforcement working group and participated in the site visit to Paris. We were especially interested in Paris because it acted as a regional center for presence at 26 other countries. The focus of OPAP and of the interagency working group was not to find a single, definitive answer for all staffing situations, but rather to develop coordination through a methodology by which the subject could be more effectively addressed. The effort to "rightsize" staffing at our missions and around the world to reflect strategic priorities, immediate needs, security concerns and existing resources is a difficult task. In addressing this issue as it relates to the needs of law enforcement to place some additional Department of Justice personnel overseas, the Department of Justice is taking into account the criteria developed by the interagency working group, and is keenly aware of the importance of close coordination with the Congress, OMB, the Chief of Mission, and the Department of State, federal law enforcement agencies and other entities.

Current Staffing Abroad

The Department of Justice is currently staffing and funding positions in approximately 196 posts overseas. Justice activities overseas target mainly four priorities: 1) Counter-Terrorism, 2) Narcotics Trafficking, 3) International Crime and; 4) Immigration. For FY 2002, we estimate our strength overseas to be about 1750 employees including foreign nationals. We follow the approval process outlined in NSDD – 38, wherein, the approval of the Chief of Mission (COM) is an essential ingredient in overseas staffing process.

Placement of Personnel Overseas

Within the Department of Justice, the need for representation abroad is determined by the nature, scope, complexity, and urgency of the international crime threats to U.S. citizens and interests, taking into account bilateral, regional and multilateral law enforcement relationships. Since September 11, Department of Justice personnel currently stationed abroad have played a significant role in working with their foreign counterparts to address U.S. interests in the investigation of worldwide terrorism and transnational crime. At times, the acute nature of the threat of terrorism requires temporary posting (TDY) of Department personnel abroad for short periods of time. Any assignment of Department of Justice personnel abroad of one year or more requires formal approval and Justice follows the prescribed process to obtain such approval including approval by Chief of Mission under NSDD -- 38, OMB concurrence and final Congressional authorization.

Goals and Purposes and Their Relation to the U.S. Strategic Plan for International Affairs

Justice Department personnel are stationed abroad primarily to advance and coordinate U.S. interests in addressing international crime, and to assist in any way possible to prevent, disrupt, and defeat terrorist operations before they occur. It is our goal to enhance U.S. capabilities in dealing with terrorism and all forms of transnational crime, and to strengthen bilateral and multilateral law enforcement relationships and cooperation with foreign governments. The Federal Bureau of Investigation, for example, carries out the mandate of more

than 50 statutes which provide for extra-territorial reach, many of them providing explicit jurisdiction to the FBI. Over half of these statutes were passed after 1980. They address violence at international airports; foreign murder of U.S. Nationals; international parental kidnaping; violence against maritime navigation; copyright and intellectual property rights; telemarketing fraud; use of weapons of mass destruction; terrorism; and air piracy, as examples.

It is important to note that we operate principally through liaison with counterpart law enforcement and the host country's legal establishment. As a matter of sovereignty and comity, the FBI, for example, does not exercise police powers in foreign nations.

The goals of the Department of Justice reflect the priorities and strategies set out in the United States Strategic Plan for International Affairs. Two law enforcement goals under that plan are to minimize the impact of international crime on the United States and its citizens, and to reduce the entry of illegal drugs into the United States. The strategies under these goals include: obtaining commitments from other governments to combat transnational crime; negotiating mutual legal assistance treaties and other agreements in order to develop international communication and cooperation to combat international crime; cooperating with foreign law enforcement and judicial authorities to support U.S. law enforcement objectives abroad; and limiting the production of illegal drugs and preventing their importation into the United States.

Coordination with the Chief of Mission

The Chief of Mission to a foreign country has the responsibility for the direction, coordination and supervision of all government executive branch employees in that country (except for employees under the command of the U.S. area military commander). As the State Department has pointed out on many occasions, the COMs have the primary responsibility for deciding U.S. Government staffing, and are in the best position to make these decisions. A critical part of the Department of Justice's decision process involves direct discussions with the COM at the Embassy regarding the need for each position, the presence of U.S. law enforcement agencies at post, how the duties and responsibilities of DOJ personnel may enhance the Mission Performance Plan (MPP), and ways in which the positions can be effectively integrated into the country team and coordinated with the management and support structure of the mission. On a number of occasions, the discussions regarding overseas positions have been initiated at the request of the COM, citing a critical need for DOJ presence in the country.

The process of assessing the need to place Department of Justice personnel abroad includes discussion with various segments of the Department of State as well as other agencies. The volume of requests for assistance and for the return of fugitives, the status of bilateral extradition and mutual legal assistance treaties, the nature of criminal activity in the country, threat assessments and policy concerns are a few of the issues discussed. Regular contact with the relevant bureaus of the Department of State is maintained.

For the last two years, the Justice Management Division (JMD) has participated at the State Department Headquarters level in the review of the MPPs from major posts, especially those with a law enforcement presence. I have just assigned staff to represent our interest in the FY04 MPP planning process. Our participation focuses on the effective reflection of our law enforcement priorities in the MPP and encouraging the active participation of COM with our personnel at post in the formulation of the MPPs.

Methodology for "Rightsizing" Overseas Presence

GAO concluded in its November 2001 report that the "rightsizing" pilot studies conducted by the State Department did not provide a strong basis upon which the administration can pursue "rightsizing" as they did not result in a methodology or blueprint for rightsizing around the world.

The GAO report references that a separate interagency law enforcement pilot study on "rightsizing" law enforcement personnel overseas was conducted. I was part of that study team. The law enforcement group identified several criteria that should be considered in determining the size and composition of law enforcement staff overseas. These included: 1) the transnational crime threat, 2) non-crime control policy interest, 3) host-nation law enforcement capability, 4) host nation commitment, 5) the geographic region served by the Mission, 6) the role performed by U.S. law enforcement personnel, 7) resource and security constrains, and 8) overlapping missions. I have attached a summary of the eight criteria. The GAO report does not comment on

the validity of the criteria to rightsizing overseas post, except to say that State officials are unclear as to how the law enforcement working group report will eventually effect staffing levels or rightsizing efforts.

We believe the eight criteria serve well as a guide to any Chiefs of Mission on the presence and size of the mission's law enforcement compliment, especially in formulating the post's MPP.

The President has announced that the rightsizing of embassies and consulates as an initiative in the President's Management Agenda. I believe the criteria set out in the June 21, 2001, Report on "Rightsizing" Law Enforcement Presence Overseas is a good start and should be considered as part of any methodology to "rightsize" overseas presence. The criteria are flexible. It addresses the key issues of mission, security and cost, and it reiterates that there is no substitute in face to face contact with our foreign law enforcement counterparts – especially in light of the events of September 11.

Facilities and Support Services

Regarding facilities and administrative services needed to support the staff at the mission, the Department of Justice coordinates closely with the Department of State the distribution of costs under the International Cooperative Administrative Support Service (ICASS) program. The Department carefully considers cost factors under ICASS and commits to pay its

proportionate share of the administrative expenses. Placing our personnel overseas is expensive. For FY 2002, the average cost per agent runs about $317,000, based on an FBI/DEA/INS cost data. Our average cost for existing attorney positions overseas is slightly higher – $352,000. Available resources are a significant factor that must be weighed against strategic priorities, immediate needs, and security concerns.

Conclusion

There has been much discussion about "security" and that a decision on "rightsizing" posts overseas be based to a large degree on cost of new construction or building rehabilitation schedules. We are cautious about any impression (or "any rightsizing formula" that may leave the impression) that the cost or the capacity of the buildings, rather than an agency's mission may drive the size of the staff at post. We are concerned that a "rightsizing" methodology may surface which will consider the cost and availability of space paramount in any effort to "rightsize" posts overseas and that mission/operational necessity may become a lower consideration.

We understand the priority of the construction program overseas upon which State is embarking, especially where embassy/personnel security is of foremost concern. We accept that secure space is an essential factor in making rightsizing decisions. The Department of Justice supports the security upgrades envisioned by State. We participate in devising some of the security recommendations and the funding plan that support them. However, we caution that the

emphasis on cost and construction of the secure space does not become the ultimate driver of the "size" of our presence at overseas posts. Carrying out the President's, the Attorney General's and the Congressional mandate is our principal driver in determining what, where, when and how the Department of Justice should be staffed to carry out our mission.

The Department of Justice supports the President's directive to his COMs asking them to participate fully in determining the staffing size at post. We believe the current NSDD-- 38 process serves that purpose, especially if it is used in advance of an agency's official fiscal year budget request to the President. We support close and continuing coordination between the COM and the law enforcement components present at post. We support State's efforts to include us in the Mission Performance Planning process. We will continue to participate at all levels in the formulation of the MPPs when we are invited We encourage early submission of NSDD--38 request for new positions so these can guide the development of the MPP to reflect better the increase or decrease at post. Early submission allows the COM more timely input to the fiscal year budget formulation and better supports the overall agency budget request submitted to the President and Congress.

We recommend to avoid the trap that "one size fits all"; that one methodology or formula for "rightsizing" can be applied to all.

The law enforcement group developed eight criteria that any post could use as a guide in determining the size of law enforcement presence at post. The criteria are flexible enough for each agency to apply as it sees pertinent to its mission. The law enforcement group tested the

"criteria" at three large posts and they are considered helpful to the COM and to agencies personnel in formulating their MPP. The next step should be the operationalization of the eight criteria into a standard systematic process for assessing the appropriate law enforcement presence at any mission.

The criteria are a guide. They are not chiseled in stone. They are a planning tool, and a way to advise on how a rightsizing methodology can be applied and continuously refreshed.

We recommend that any formula for rightsizing avoid the "one size fits all" notion. For example, the "geographic area coverage" criteria proposed by the law enforcement group will be helpful in any decision to "regionalize" presence at certain posts or deciding whether some activities could be better performed in the United States or in a location in the United States close to the international area covered, e.g. Miami as covering the Caribbean and parts of Latin America. But such decisions remains subject to operational requirements of each agency.

We had recommended early on in the "rightsizing" process that there be strong interagency participation in "rightsizing" decisions. We recommended an interagency group with membership from the major agencies with presence overseas to serve on an advisory committee to Department of State. Whatever formula is eventually adopted, we recommend that the application of such formula be constantly reviewed through an interagency review committee.

Lastly, we are much in support of the effort to upgrade the information services of the Department of State at its posts overseas. We support the Interagency Technology Group that the CIO of State has established and continues to use to advise him on the overseas it upgrades. We recommend that this effort begin planning for the resource requirements necessary for all the overseas presence agencies to start deployment of the upgrades after the two pilots (Mexico and New Delhi) are completed. Any "rightsizing" effort overseas will much depend on technology to support necessary the level of effort that may have been displaced by decreases or no increases in staff resources.

The Department of Justice would welcome the opportunity to continue to work with the OMB, the GAO, the Department of State, and other departments and agencies of the Government on ways to increase coordination in addressing the difficult issues of staffing U.S. missions around the world. We would urge that law enforcement play an active rule in the development and implementation of any "rightsizing" methodology, given the overall importance the United States assigns to security, law enforcement, narcotics control and counter-terrorism, and certain unique aspects to the role of U.S. law enforcement stationed abroad.

Thank you for your interest in this extremely important issue and your support of our overseas presence. I welcome any questions you may have.

Mr. SHAYS. I thank you all very much. Mr. Diegelman, I think you took advantage of being last and did a nice service to the committee in kind of summarizing some points. I appreciate the testimony of all three of you. It is very helpful.

You, Mr. Diegelman, seemed to make it very clear that the Attorney General would be cooperative and the Department will be cooperative in this effort. I'd like to know, Mr. Hoehn and Mr. Lawson, what kind of cooperation we can expect from Treasury and Defense in this effort to right-sizing our missions.

Mr. LAWSON. I think there's no question, sir, that the Department of Defense will be cooperative in this effort. I think Mr. Diegelman's points are quite accurate, particularly on the issue of the inter-agency approach and the idea that, although no one-size-fits-all, we do need to work out criteria by which to right-size, and that this inter-agency approach must be transparent to all parties as we're working through it. There is no question that the Department of Defense will be committed to that.

Mr. SHAYS. Thank you. Mr. Lawson.

Mr. LAWSON. I must say the same. As you know, Secretary O'Neill served on OPAP prior to his service as Secretary of Treasury, and he agrees with right-sizing, but not necessarily downsizing. Due to the problems that exist with trans-national crime, we may need a clear presence from Secret Service that——

Mr. SHAYS. I'm going to make it very clear that we don't even need to go any further in this issue. Right-sizing means right-sizing. It may be up, it may be down, it may be staying the same. We all agree on that.

Mr. LAWSON. All right, sir.

Mr. SHAYS. So you don't need to be concerned that when you go back we'll have assumed that you said we can down size.

Mr. LAWSON. Yes, sir.

Mr. SHAYS. You won't get in any trouble that way, sir.

Mr. SHAYS. All right, sir. Short answer—we're willing to cooperate.

Mr. SHAYS. Willing would be very helpful, and hopefully even eager.

Let me ask you, though, what are the practical challenges? I mean, as I meet—when I go to every mission I sometimes meet with Treasury, but I almost always meet with people from the Justice, Department of Defense. Let me say the Defense Department has some of the best contacts in country with important nationals, and it has been a tremendous asset for me to have the Department of Defense introduce me to people who I need to meet with in my work. I appreciate that. But what are the practical challenges that a chief of mission has, an ambassador has in knowing about the work in each of your different departments?

I would think, for instance, with Justice there are just some things that Justice doesn't even, you know, go out of its way. It's basically on a need-to-know basis. So tell me how we sort out the practical application of the chief of mission knowing what you all are doing.

Do you want to start, Mr. Diegelman?

Mr. DIEGELMAN. Yes. I'll tell you my personal observation. My personal observations are that an awful lot of it really turns

around the mission performance plan, and when I say that I think over the last couple of years——

Mr. SHAYS. Mission of the embassy or the mission of the various departments?

Mr. DIEGELMAN. The mission, that's for the embassy.

Mr. SHAYS. Right.

Mr. DIEGELMAN. Each embassy does produce an MPP in the spring, a mission performance plan. I think one of the concerns that we have had in the past is that very frequently it seems to be a chief of mission to Washington discussion and not an on-sight discussion.

The mission performance plan really should involve all of the players that are onsite at a mission in its development and determination or priorities. That is a way in which the chief of mission or the Deputy Chief of Mission could actually reach out to the law enforcement presence that is there in that embassy or there in an annex to that embassy and actually involve them in the planning and the determination of priorities.

No question about it, very frequently some of the work that we're involved in, particularly in the FBI, is basically undercover investigative work and we're not going to lay everything out on the table, but surely any chief of mission ought to know how many people are present in his mission, how many—just what they're doing, generally, and how they support the priorities of that mission.

I think the answers can be found in the MPP, and also all the agencies, including us, playing according to national security directive, decision directive 38, in terms of making sure that the chiefs of missions know what assets we're putting into the mission.

Mr. SHAYS. Thank you.

Mr. Lawson.

Mr. LAWSON. Sir, I think that one thing has been helpful has been meetings with law enforcement bureaus at these embassies. These meetings are held by the Deputy Chiefs of Mission to ensure there is no conflict in terms of cases or investigations.

I find from Treasury law enforcement bureaus and also working with the FBI that, by virtue of having these discussions on a weekly basis, this assures us no conflict and ensures that everyone understands what missions are to be accomplished and that we're working together.

Mr. SHAYS. Thank you.

Mr. Hoehn.

Mr. HOEHN. Yes, sir. Regarding challenges, the first that I would observe is that, in two of our functions—that of our Defense attache, our attache is, in fact, the military advisor to the chief of mission, and so there is a very close relationship there in terms of the function that the attache performs and that of the chief of mission.

Second, our security assistance offices are actually working on behalf of the State Department at the missions, and so again there is a very close relationship. And, as I mentioned, the role of the Marine security details at each of the missions is done in very close collaboration with the State Department.

But that leaves unsaid the issue that we highlight in our own strategy, and that's one of uncertainty. And so when we look in our requirements and then when we look downstream at some of these

requirements, it is often difficult to project exactly what those needs will be. None of us I think could have imagined even a year ago the requirements that we face now in central Asia and particularly in Afghanistan.

And so, I think as we look at this right-sizing initiative and as we address these challenges, we will have to build sufficient flexibility into our approach here so that we can meet changing needs not just over time but sometimes in time to face the requirements that we confront.

Mr. SHAYS. Having the right number of people in the right place is obviously the key objective. It is a little disconcerting to read such disparity in terms of per person, per employee, per government employees' cost. I'm wondering if you can shed any light on such high costs for Secret Service.

Mr. LAWSON. I'll be glad to, sir.

Mr. SHAYS. OK.

Mr. LAWSON. The figure that was given to you was extremely high and perhaps——

Mr. SHAYS. A little louder.

Mr. LAWSON. I'm sorry. The figure that was given to you was not correct. That figure was based on a study conducted by OMB where Secret Service provided a worst-case scenario, and it was based on having an agent in a new office in the most expensive foreign embassies—Hong Kong and Rome. And, by virtue of going on the high end, that's where we got $665,000. But trying to be completely candid with OMB in thinking about a worst-case scenario, I think that gives the wrong picture as to how much it costs to have a Secret Service agent.

Mr. SHAYS. If I hadn't asked that question, you would have found a way to bring it in, wouldn't you, for the record, because this is an important point.

Mr. LAWSON. It is. Yes, sir, because——

Mr. SHAYS. So would you have found a way?

Mr. LAWSON. At the very end when you say, "Is there anything you would like to say," I'd have something to say, sir.

Mr. SHAYS. OK.

Mr. LAWSON. And I also have charts to provide.

Mr. SHAYS. OK.

Mr. LAWSON. All right?

Mr. SHAYS. Well, they'll all be in the record.

Mr. LAWSON. All right, sir. Just bottom line, it does not cost that much money for a Secret Service agent to do his job at a foreign embassy. The correct figure, sir, is around $400,000, and we're looking at, say, other costs than just salary and benefits, sir. But for all our bureaus it does vary, depending on where your location is and also the mission. So to develop a correct figure for our bureaus we need to look at one location across the board—let's say Mexico City. Look at it for ATF, Customs, Secret Service, and then develop a number. But the number you heard earlier is incorrect.

Mr. SHAYS. OK. The number 400,000 still is a pretty penny for an individual that you just mentioned, a more realistic cost. Just shed some light as to why it would be that number, that amount.

Mr. LAWSON. Well, sir, what was calculated by Secret Service, we're not just looking at the individual's salary.

Mr. SHAYS. Right.

Mr. LAWSON. We're also looking at perhaps for equipment, furniture, housing costs. If this person is bringing a——

Mr. SHAYS. What would be unique, though, to Secret Service that would be above and beyond housing—you know, I'm assuming the housing would be the same whatever employee we had—Defense, the Treasury, State Department, as well. So what would be an additional cost for the Secret Service? They still seem to be at the higher end.

Mr. LAWSON. That figure, again, is based on placing a Secret Service agent with a family of four in, say, Rome or Hong Kong, a high-end location versus a low-end location. But, to answer your question directly, there would be no difference in cost for a Secret Service agent or for a Defense employee for just salary and benefits, sir.

Mr. SHAYS. You know, let me just—my counsel has pointed out that the per average cost of all employees is about 339. I get the feeling that this number—we need to nail this number down a bit more, obviously, in terms of comparing the same requirements and so on.

Mr. LAWSON. Yes, sir.

Mr. SHAYS. Is there a difference in—let me back up and say when you all feel there is a need to add to a mission—excuse me, I don't want to confuse mission and mission. When you feel there is a need to add employees to overseas, what process do each of your departments follow?

Mr. LAWSON. We comply with the NSDD 38, through State, coordinate for our bureaus through the Under Secretary of Treasury to ensure that everyone is on the same sheet of music, sir, and then there is an evaluation of cost and need to ensure that we are not placing a person in a location when there's not a true need.

And let me say this for Secret Service. Secret Service has closed locations, such as closing its Ottawa office once it realized there was no longer a law enforcement need there, and transferred it to Ronset, where there was a need, where they found counterfeiting occurring and prevalent pattern as opposed to Ottawa, sir.

Mr. SHAYS. Let me just go down the line here.

Mr. HOEHN. Yes, sir. Similarly, we adhere to the procedures identified in NSDD 38. In this instance, we have an internal review process within the Department of Defense for the three different functions that I outlined, but ultimately the chief of mission has the approval authority for any increases or decreases to the size of our presence, and so we have both an internal review process, but then we work that very carefully with the chief of mission.

Mr. DIEGELMAN. I can just basically second what has already been said. We follow the NSDD approach, NSDD 38 requirements, but also internally we do our own internal assessment why there's a need in that particular site, and that particularly looks at either investigative leads that we have, caseloads that we have, contacts that we have with foreign governments.

The FBI is mainly leading the charge on this right now, particularly in the wake of September 11th, where we actually are getting investigative leads related to terrorism, investigations that can only really be handled onsite. So we do an evaluation of how many

leads, how many cases, the level of cooperation of law enforcement agencies before even kicking off the NSDD 38.

Mr. SHAYS. Do overseas positions receive Ambassadorial approval prior to the staffing decision and before the budget allocations are made?

Mr. DIEGELMAN. My answer to that is yes for the Justice Department. It's supposed to be that way. Now, that doesn't mean that always happens, but my answer to that is yes.

Mr. SHAYS. All right. I think that's probably a more accurate description, "It's supposed to happen." I'm not sure it does happen.

Mr. Hoehn.

Mr. HOEHN. I would agree it is supposed to happen that way. I can't attest to you here that it always happens.

Mr. SHAYS. Mr. Lawson.

Mr. LAWSON. I have to agree, too, sir.

Mr. SHAYS. You know, I think this issue is pretty clear-cut for us. I care most about the fact that you can convey that there will be cooperation from your superiors, and I think that's going to be absolutely essential. I do recognize that each agency, each department has its separate missions. We want to have that work in tandem with the focus of the mission, but the bottom line is that sometimes the focus of the Ambassador may not be the focus of each of your mandates, and your mandates are clearly directed by the President, by the Secretaries, and also by Congress. You have certain missions to fulfill, certain objectives, certain things that you have to get done. But I think it is clear to you all, it is clear to the committee that there can be better coordination, there can be better cooperation.

I think the thing that I find the most troubling—"troubling" is not the right word, but the area where I would find it difficult if I were an ambassador or chief of a mission, in general, that I have more than half my employees are nationals. They probably respond to the wishes of the embassy closely because those jobs are fairly well paid and we have excellent employees working for our embassies that are nationals. But they have long-term knowledge that supersedes almost any employee, American employee, because of the rotations that we have. That would be a challenge.

It would also be a challenge, I think, for an ambassador to step in, know the resources he has available—or she—to its own Foreign Service employees, and then to see an agency come in with, you know, significant resources that are dedicated for carrying out the functions of that particular effort.

I think that we've got to find a way to somehow understand the kinds of resources each agency and each department is dedicating. And I don't want to have it be—I wouldn't want it to be a dumbing down, like everything had to be the average, because somebody didn't have enough money nobody gets enough money. That's not what I'm suggesting. But it does represent a challenge for, I think, morale, I think for making sure that the embassy is doing what is required.

I would love for us in this process to know the true cost. First of all, I'd like you all to be able to tell me, if I instantly asked—I might even ask you—how many employees you have around the world to the number. And it seems to me we should be able to

know it. It shouldn't take days or weeks. It should be just something we know. That seems fairly clear.

But it seems to me that every agency and department should have a clear sense of what they're spending in each mission around the world, and to be able to justify it, and then we should be able to have an open and candid conversation as to why does Treasury devote this much per employee versus what Defense would or versus what Justice would and so on.

I don't have any additional comments.

Is there anything you want on the record?

Mr. COSTA. Yes.

Mr. SHAYS. We're going to allow the professional staff to ask two questions, and then I'm going to let you all close up.

Yes, sir?

Mr. COSTA. Thank you, Mr. Chairman.

Previous panels mentioned putting a rent charge on new buildings or existing buildings, and I'm wondering what your departments feel about the rent option, and if it were enacted how would that affect your operations overseas?

Mr. LAWSON. With treasury?

Mr. COSTA. We'll go down the line.

Mr. LAWSON. We'll pay our fair share, but we would like to have some type of notice so we include that in our base so we can budget for it.

Mr. COSTA. Thank you.

Mr. HOEHN. I think it is our view that we'll work within the administration on this initiative of capital cost sharing, but I would highlight that there are some important issues that would need to be resolved, not least of which would be the congressional oversight of different agency budgets, so we would now see in this instance, where the capital costs for new construction might be spread among all of our agency budgets, as opposed to contained in any single agency budget, and that might prove to be a very difficult issue for you.

Mr. SHAYS. I'm sorry. I should understand that but it's just going through me. Are you saying you would spread out the cost? Wouldn't it be better to have it be allocated per department? What am I missing here? Explain it to me.

Mr. HOEHN. As I understand it, if the costs were allocated on a pro rata basis in terms of——

Mr. SHAYS. Right.

Mr. HOEHN. Then that would be reflected in each of our budgets.

Mr. SHAYS. Correct.

Mr. HOEHN. And therefore, when oversight is given here in Congress, you would have a number of different committees looking at different agency budgets that would have that pro rata share.

Mr. SHAYS. Correct.

Mr. HOEHN. As opposed to seeing the entire capital cost for the investment in the State Department's budget, which is the case today.

Mr. SHAYS. All right. The value, though, of doing it per department is that you would begin to—you all would say, "Well, this is worth it to me and this isn't." You would begin to know how you

would want to allocate your resources to maximize your particular mission. And so I hope I'm not misunderstanding you.

I think your concern is—let me ask you to make sure I'm understanding. It's your concern that when you go through the appropriation process one committee might have one standard of dealing with what you should be allowed to spend overseas versus what another committee would have when Defense goes before the Defense Appropriations Subcommittee versus Treasury going before its subcommittee, it's your concern that there would be a failure to recognize differences in cost?

Mr. HOEHN. That's correct, sir.

Mr. SHAYS. Yes. I understand that. I do.

Mr. Diegelman, did you want to——

Mr. DIEGELMAN. The only thing that I could add is that, you know, I agree with my colleagues. We will clearly pay our fair share. But I think real consideration has to be given to the comment that I made earlier in my testimony in that cost should not be the driving feature of whether we open or place somebody in a particular mission or not. In today's world, we happen to be a growth industry. The change in our own presence abroad since 1991 has been dramatic. The FBI in 1991 had 17 legal attaches. It now has 46. And these legal attaches are very small organizations, generally three people, just the assistant legal attache, the legal attache, the administrative officer. We're talking about three and four people in a mission in critical locations like Kabul and Abu Dhabi and Kuala Lumpur as we engage in the war against terrorism. We shouldn't have to make the decision to put three people or not three people in a particular site because the rent charge is too high.

Mr. SHAYS. You know what? Can I say, though, if you follow that logic you could apply it to anything in government. I would like to read the answer to your question differently, and then I'd like you to tell me if you agree.

Mr. DIEGELMAN. Yes.

Mr. SHAYS. That Congress has to recognize that you have a significant mission and should be willing to pay the cost, but we shouldn't disguise the cost or not know what it is costing.

Mr. DIEGELMAN. I agree with your statement.

Mr. SHAYS. OK.

Mr. DIEGELMAN. It is a fair and accurate statement of what I said.

Mr. SHAYS. OK.

One last question?

Mr. COSTA. Actually, a question about reviewing staff abroad. It's a question of how often do you review positions to see if they're still necessary. For example, the CDC has a sunset provision on all of its staff overseas. What sort of review process do you have to gauge whether those staff are still needed?

Mr. LAWSON. Sure. Our bureaus—the Treasury, Secret Service, Customs review regularly whether or not they need staffing in a given office. As I said before, Secret Service has reviewed the Ottawa office and realized it no longer needed that office to accomplish its mission; therefore, it closed that office and it opened another office because they found criminal activity had transferred to

Toronto. So our bureaus regularly review the need for an office in a given foreign embassy.

Mr. COSTA. How often does that occur?

Mr. LAWSON. Yearly. I cannot say that every law enforcement bureau does it yearly, but I can tell you that Secret Service does and Customs does.

Mr. HOEHN. Similarly, our requirements are reviewed annually, and, as I noted in my remarks, we have made a number of changes over recent years. I can't say that every function in every post is reviewed annually, but we do have an annual review process that's underway in which these determinations are being made. And in some instances, because of some very rapidly developing requirements, we've had to expedite some of the changes that we had in place, that we had planned for upcoming years, and move them into this year, particularly some changes in central Asia that are now in place.

Mr. DIEGELMAN. We also have an annual review process basically as part of our budget formulation process, but then also we normally do not permanently station anybody abroad. We normally do it in 1 or 2-year terms, tours of duty, and then reexamine that at the end of that term to decide whether we're going to keep those people in that location.

Mr. COSTA. OK. Thank you.

Thank you, Mr. Chairman.

Mr. SHAYS. Thank you.

Gentlemen, do you have anything that you feel needs to be part of the record? I'd truly welcome it, any closing comments.

Mr. LAWSON. No, sir.

Mr. HOEHN. No, thank you, sir.

Mr. DIEGELMAN. Just to thank you once again for holding the hearing. I think it is a critical issue, and we are very actively interested in staying about.

Mr. SHAYS. Well, thank you. I feel that OMB and the President has the cooperation of your departments, and that's appreciated, and certainly we appreciate your cooperation and look forward to a continued dialog.

I'll state again for the record, the work that our embassies do is actually vital. It's clear it is more important than ever. The work that is done by both employees of the State Department and employees of other departments and agencies of our Government is absolutely vital, as well, and we just want to make sure that we have the right size in every case, and that may, in fact, mean that we have more in some and less than others, but we will all benefit.

So I thank you very much. At this time the hearing is closed. I thank our reporter. Thank you.

[Whereupon, at 12:34 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

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