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STATE DEPARTMENT

Using Best Practices to Relocate Employees Could Reduce Costs and Improve Service



**National Security and
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In the past few years, the Department of State has begun to examine the applicability of “best practices” used in both the public and private sector to key agency processes. Because the Department, like many private sector and other government organizations, expends considerable resources each year to relocate employees internationally, we examined its process for transferring employees and their household effects to identify best practices that State should consider adopting to reduce costs and improve services.

This report discusses (1) State’s process for transferring employees and their household effects overseas and (2) opportunities for State to apply the best practices that private sector and other government organizations use to complete overseas transfers. We plan to report separately on the processes for providing housing and residential furniture to employees posted overseas. The analysis in this report should be useful to the working groups charged with planning for the reorganization of State, the U.S. Agency for International Development (USAID), the United States Information Agency (USIA), and the Arms Control and Disarmament Agency (ACDA) to the extent that State is to assume responsibility for the international transfer and transportation activities of those agencies.

Background

Over 3,000 State employees, along with their household effects, are transferred to new duty stations each year, of which about 1,000 employees are transferred from Washington, D.C., to foreign locations. State’s direct costs associated with the employee transfer process have typically exceeded \$60 million annually in recent years. Indirect personnel costs are difficult to quantify due in part to the numerous offices and staff involved in the process. Other U.S. agencies operating overseas also routinely transfer large numbers of employees to foreign locations. For example, USAID and USIA alone transfer a total of approximately 1,000 employees annually. Many private sector firms also regularly transfer large numbers of employees overseas.

Results in Brief

Our comparison of State’s process for transferring employees and their household goods overseas to the processes of other public and private sector organizations suggests that State’s procedures are overly

cumbersome and inefficient. State's employee transfer process has remained essentially unchanged for years and involves at least 12 agency bureaus and offices, over 150 support staff, and numerous administrative forms. State employees transferring overseas are confronted with a myriad of steps and handoffs requiring individual transactions with multiple offices. No single office within the Department is held accountable for ensuring the timely and successful transfer of employees and their families. Similarly, employees' household shipments are typically channeled through a maze of offices and contractors, resulting in unnecessary costs.

The Department of State has an opportunity to significantly streamline its employee transfer process, enabling it to provide better services to its employees and to reduce costs. Leading U.S. companies and other organizations have achieved these benefits by implementing a number of "best practices," such as

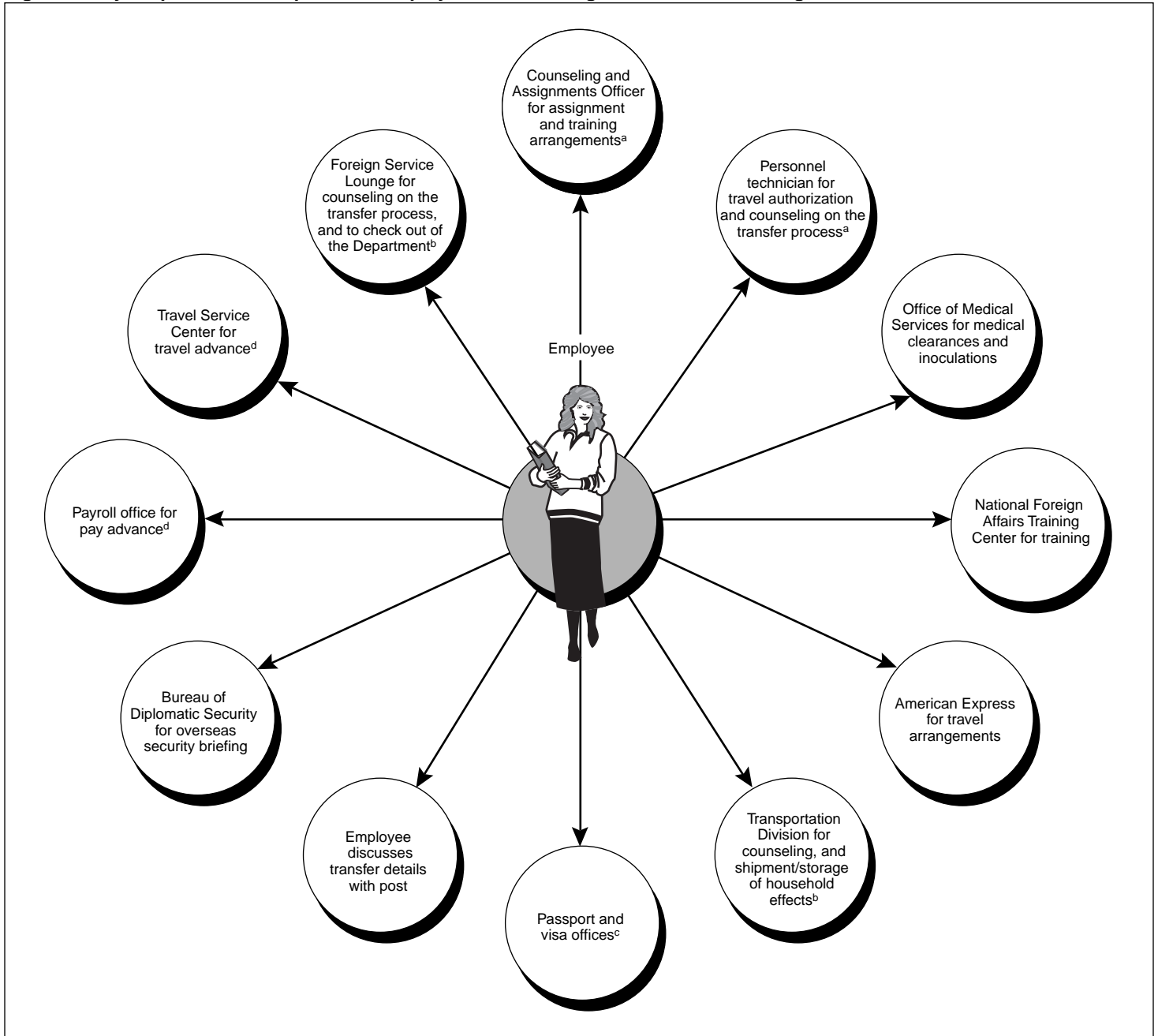
- providing one point of contact for assistance to the employee, a method known as "one-stop shopping;"
- centralizing the administration of transfers under one organizational unit and integrating various functions into that unit;
- developing an integrated information system for tracking and coordinating transfers;
- contracting with one freight forwarder to ship an employee's household effects, rather than using multiple vendors for the various segments of the same move; and
- outsourcing various parts of the transfer process.

Although we were unable to develop precise cost reduction estimates for implementing these best practices, several organizations indicated that they were able to achieve substantial cost savings by doing so. In addition, our analyses of certain cost data and other information available at State, including some of State's own studies, indicate the potential for achieving similar cost reductions for the Department. For these and other reasons, we believe that the potential cost reductions could total millions of dollars annually.

State's Employee Transfer Process Is Inefficient, Cumbersome, and Costly

State's process for transferring employees overseas is inefficient, cumbersome, and costly. It requires employees to work with personnel in at least 12 bureaus and offices and involves over 150 support staff. There is no integrated data base containing all of the information needed to track and coordinate the employee's transfer, so some data are entered into various systems repeatedly. Initially, an employee transferring abroad must contact several officials in the Bureau of Personnel for guidance and information. There are currently 38 counseling and assignments officers, whose responsibilities entail preparing assignment notifications and coordinating training for the employee being transferred. The counseling and assignments officers maintain close liaisons with State's other Washington bureaus and the overseas posts. In the Assignment Support Division, personnel technicians are assigned to prepare travel orders and personnel actions, provide counseling, and give employees a checklist of 17 steps to complete in the transfer process. In addition, officials in the Bureau of Personnel's Executive Office often work with employees who seek exceptions to departmental policy on matters such as entitlements for shipping household effects. They also provide certain administrative functions, such as adding accounting-related data to the employee's travel order. Figure 1 illustrates the employee contact points for relocating overseas.

Figure 1: Key Steps for State Department Employees Transferring Abroad From Washington, D.C.



^aBureau of Personnel.

^bBureau of Administration.

^cBureau of Consular Affairs.

^dBureau of Finance and Management Policy.

Source: Department of State.

In the Bureau of Administration, the employee being transferred has to contact several additional officials for counseling, guidance, and assistance. The employee is expected to (1) work with a counselor in the Transportation Division to arrange for the storage and/or shipment of household effects and (2) contact the Offices of Overseas Schools and Allowances if questions or related issues arise. The employee may also visit the Employee Service Center's Foreign Service Lounge any time during the process. The Center helps an employee obtain information concerning the move, provides a checklist of 23 steps to complete, and helps register the employee's new location. Other bureaus/offices that an employee typically deals with include the Bureau of Diplomatic Security for security briefings, the Bureau of Finance and Management Policy for pay advances and other payroll issues, the bureau/office/post that is gaining or losing the employee, the Office of Medical Services, and the American Express Travel Office. If in training at the Department's Foreign Service Institute in Arlington, Virginia, the employee also has the option of working with transportation and travel representatives assigned to the mini one-stop processing unit and with a nurse from Medical Services. In addition, employees often work with personnel specialists in the regional bureaus to address administrative matters associated with their transfer, including changes in medical insurance coverage and addresses for tax/benefits purposes.

State has known for years that its process for transferring employees and their households overseas was cumbersome and inefficient. State's most recent attempt to examine the issue took place in 1994 and 1995 as part of its agencywide Strategic Management Initiative.¹ State recognized that the transfer process had numerous problems: it took over 100 steps to complete a transfer, it lacked a single source fully familiar with the system, and it did not have a comprehensive data base for tracking the entire process. A working group recommended a complete overhaul of the transfer system, with a goal of having a simple, one-stop, customer-oriented program. The group's recommendations included (1) establishing customer representatives in State's Bureau of Administration to manage the transfer of employees from start

¹The Secretary of State established the initiative in 1994 to help set the Department's future course and eliminate unnecessary or marginal functions and internal duplication. Its first phase resulted in a series of 1995 reports analyzing key issues, including reengineering of the Foreign Service's transfer process.

(assignment notification) to finish (arrival at post and resolution of claims), (2) outsourcing certain processes, and (3) creating a new transfer data base for all participants in the process.

According to Bureau of Personnel officials, these recommendations were not implemented largely due to State's (1) focus at that time on improving its process for selecting/assigning employees to meet specific overseas post requirements and (2) reluctance to make the substantial organizational changes necessary for a successful reengineering of the process. Although the process remains essentially the same, State's Bureau of Personnel took several steps to improve parts of the system under its domain. These included simplifying some of the forms required for a transfer, centralizing the location of its personnel technicians,² and combining functions previously handled by separate assignments officers and career development officers into one position. The Bureau also began developing a new integrated personnel management system. In addition, the Department established a "mini" travel and transportation assistance unit for employees receiving training at its Foreign Service Institute.

We interviewed four employees that were in the final stages of transferring from Washington, D.C., to an overseas post—the most onerous of all the possible transfer situations, according to the Strategic Management Initiative working group that examined the transfer process. The employees had mixed views concerning the process' efficiency, but frequently described it as cumbersome and time consuming. Specific descriptions of some of the problems with the current process included the following:

- Too many people must be contacted to obtain the necessary forms and complete all the steps. No one person is available to coordinate the various requirements. It is not clear to whom family members could/should turn for help in solving relocation problems if the employee has already reported overseas or is not physically available to assist them.
- Progress through the system is seriously hampered if any delays are encountered, particularly in the process for obtaining a medical clearance. A clearance is required for a travel order, which is a prerequisite for finalizing travel, transportation, and other actions.
- There is no automated tracking system or single data base containing all of the information relevant to the employee's transfer. The main tracking

²Personnel technicians provide counseling, prepare travel orders, and execute other administrative actions related to employee transfers.

system is the employee's personal working file, which is a manual set of various forms, checklists, and contacts.

Appendix I shows in detail the typical steps and complexities involved in State's current transfer process.

Transporting Household Effects

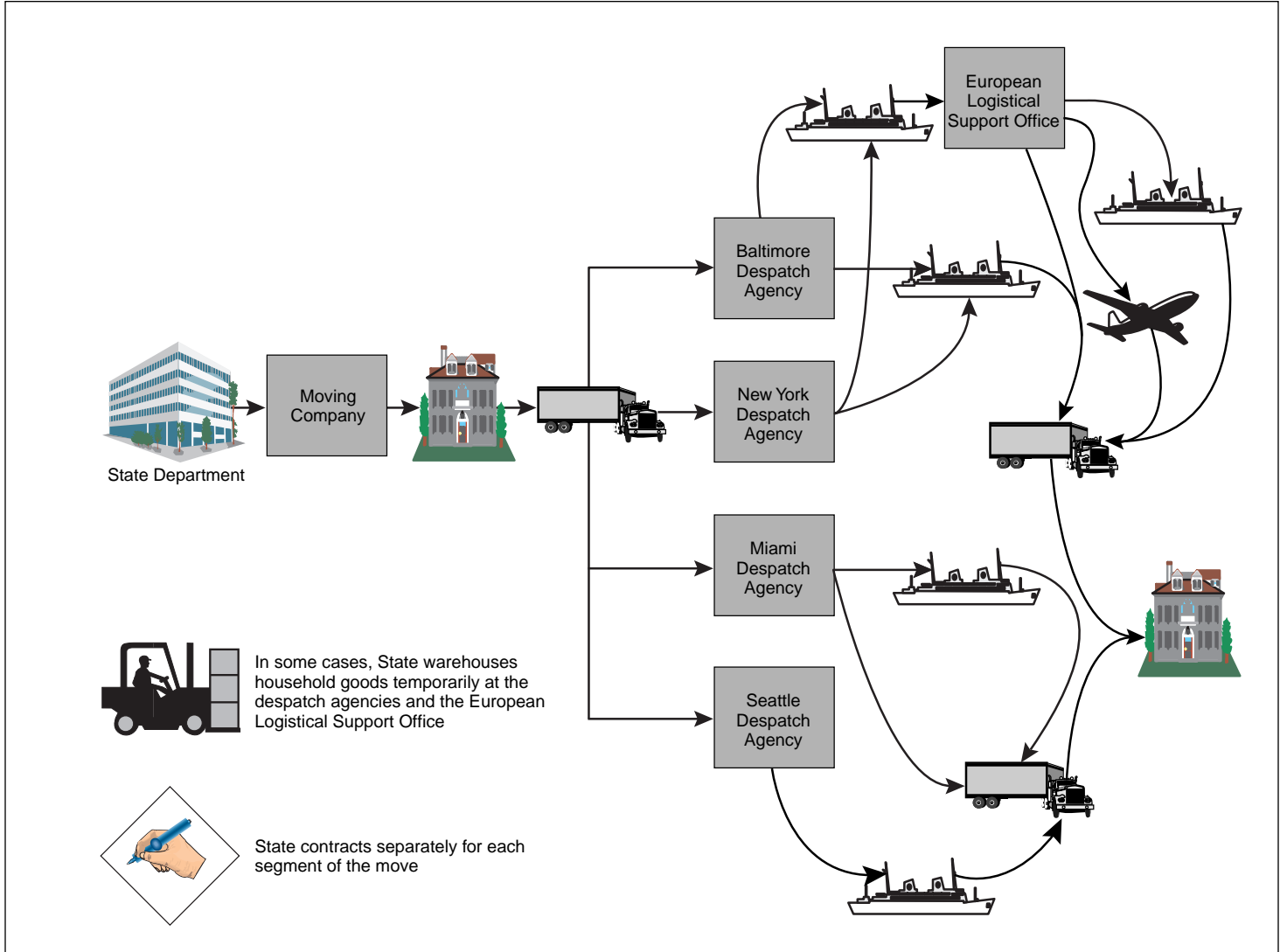
The single most costly element of the overall transfer process is transporting employees' household effects. Of the \$62 million in direct costs related to transferring employees in fiscal year 1996, State spent about \$36 million, or about 60 percent, on moving household effects.³ The indirect costs associated with the process are also high due to the complexity of the process and the numerous personnel involved. For example, State's Transportation Division, which oversees shipments of both household effects and official supplies, employs 69 permanent staff and 38 contractor staff at its 6 locations (Washington, D.C.; 4 regional despatch agencies; and the European Logistical Support Office).⁴

The process that State uses for managing the bulk of its household effects shipments is very complicated, entailing multiple steps and handoffs. No single contractor is responsible for the entire move. For most shipments, State contracts separately for each segment of the move, including packing and crating of the household effects at the employee's residence, trucking to the port, consolidating the effects with other shipments at the port, transporting by ocean or air, separating consolidated shipments at the destination port, trucking to a local contractor for delivery, and unpacking at the destination residence. This multistep approach is known as the "direct procurement method." This method involves various combinations of State's Transportation Division in Washington, D.C.; its four regional despatch agencies; and the European Logistical Support Office, to contract for, coordinate, and monitor each move segment. An additional disadvantage associated with the fragmented nature of this method is that it makes it difficult to document the total actual costs and to exercise accountability and control over the process. Figure 2 illustrates the multiple handoffs required for direct procurement shipments.

³Other key direct cost categories include travel, allowances, and temporary storage of household effects.

⁴The despatch agencies are located in Baltimore, Maryland; Miami, Florida; New York, New York; and Seattle, Washington. The European Logistical Support Office is located in Antwerp, Belgium.

Figure 2: The State Department's Direct Procurement Process



Source: Department of State.

State makes very limited use of “door-to-door” channels to contract with a single freight forwarder for shipping an employee’s household effects—a practice used throughout the private sector and seen as more cost-effective than using multiple vendors for the various segments of the same move. For example, in 1996, State used the door-to-door program for only about 16 percent of the 1,065 shipments from the United States to 38 overseas locations where use of the door-to-door program was feasible.

Application of Best Practices by State Could Significantly Improve Its Operations

Many private sector companies have recently reengineered their processes for international relocation to control the growing costs associated with their international operations and to provide better service to their employees. If State applied industry best practices to its process for transferring people, it could improve the quality of services to its employees and their families, reduce the time required for employees to complete the process, and possibly lower costs by reducing the number of staff and other resources required to administer the program.

A 1995 study by a private consulting firm examined the overseas management policies of 30 corporations and identified several “best practices” that we believe should be considered for application to State’s transfer process. These include (1) centralizing program administration under the responsibility of one unit to have more specialized staff dedicated to the function; (2) providing one-stop shopping to improve employee satisfaction and accountability; (3) developing integrated information systems to eliminate outdated and duplicate systems, track costs, identify the status of key events, and reduce management burdens; and (4) outsourcing. The companies surveyed ranged from small to large, indicating that best practices are applicable regardless of the size of the overseas population.

During our benchmarking exercise, we visited a number of companies that demonstrated how one or more of these best practices has been applied to improve the quality of services provided to their employees and/or to reduce costs. In addition, all of the companies that we visited used the door-to-door method of shipping household effects.

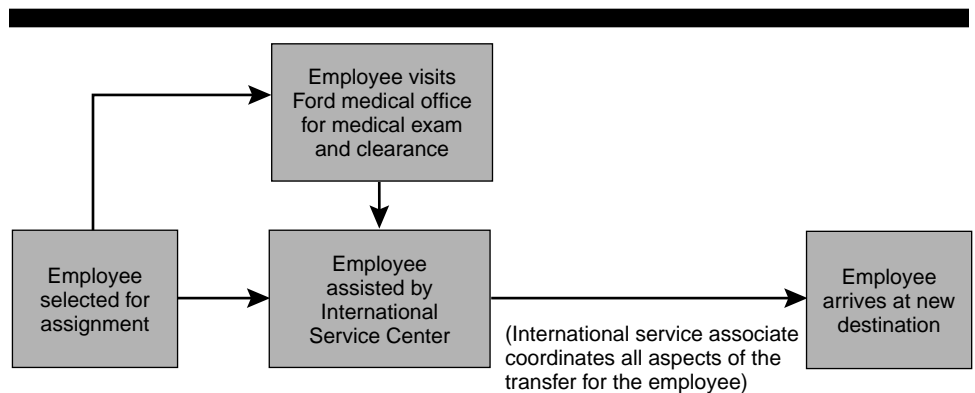
Ford Motor Company’s International Service Center

Ford currently supports a population of about 2,150 international service employees in nearly 50 countries. In 1996, about 400 employees were transferred from the United States to foreign locations, and about 400 were repatriated to the United States. In April 1996, the company began a major reengineering of its international service employee relocation and management function. The key feature of the reengineered process is Ford’s new International Service Center, which completely centralized the company’s process for transferring, managing, and returning international service employees. Before establishing the center, Ford’s management of the process was spread across divisional lines and, according to Ford officials, “it simply did not work very well.” Ford officials believe that the center has (1) significantly improved the quality of services provided to its

international service employees and (2) enabled the company to better support its substantial investments in overseas operations.

Critical to the operations of the International Service Center are the 17 international service associates (counselors) who are organized on a geographical basis. The associates are responsible for coordinating and ensuring that all aspects of an employee's international transfer are completed successfully, including the move out to post, the coordination of activities during the assignment, and the repatriation of the employee. An employee being transferred is assigned to one counselor as his/her focal point for the entire duration of the international assignment. At any one time, each counselor is responsible for supporting about 130 international assignees. Ford also relies heavily on private vendors to execute key components of the process, including Orientation Services for policy briefings and cross-cultural presentations; American Express for travel, passports, and business visas; Coopers and Lybrand (an accounting firm) for tax issues; John Hancock Company for health care orientations and insurance inquiries; and Palmer Moving and Storage for moving and transportation of household effects. Each of these vendors is located in the International Service Center. The only part of the international transfer process that is managed outside the center is the employee's medical clearance. Figure 3 shows the major parts of Ford's process for transferring an employee overseas.

Figure 3: Key Steps for Ford Employees Transferring Overseas



Source: U.S. GAO.

Other Potential Corporate Models

Texaco also clearly demonstrates the benefits of centralizing the management of international transfers. Texaco currently supports about

550 international assignment employees worldwide, and the number of its transfers to and from the United States to foreign locations totaled about 230 in 1996. The majority of Texaco's employees transferred are professional mid-level positions, and the typical overseas assignment is for 3 years. Texaco reengineered both its domestic and international relocation processes beginning in 1994. Texaco's reengineering, which included benchmarking with nine companies, identified several corporate best practices in expatriate management. These included providing centralized management, having geographic expertise among staff, using state-of-the-art technology to support administration, and outsourcing various services. Texaco's reengineering resulted in a centralization of its expatriate management activities into two key offices:

(1) In 1994, the company made a significant change in its operations by outsourcing for the transportation of household effects and related services and centralizing these services in the Texaco Relocation Center. Initially, the vendor only handled domestic transfers but soon took over international services. The vendor's three counselors and two associates had primary responsibility for 674 moves in 1996. Texaco officials said that the quality of the services provided to its employees has substantially improved and costs have been reduced by relying entirely on the vendor for this component of the process. Cost savings were attributed to reductions in corporate overhead and to the ability of the vendor to negotiate lower rates for moving household effects.

(2) In 1995, many of the various internal expatriate support processes that had been decentralized in the corporation's three international divisions were centralized in the Expatriate Service Center. The center, which coordinates payroll, allowances, medical, visa, and related services for persons transferred to and from foreign locations, is staffed with 12 corporate personnel (5 counselors, 2 tax specialists, 2 compensation specialists, 2 secretaries, and 1 center manager). The counselors are organized on a geographic basis, and they track/assist the employees for the entire length of their overseas assignment, including repatriation. A computerized information system was purchased from a consulting firm and adapted to coordinate these various functions. The system is integrated with Texaco's main payroll systems and contains several important data elements, including a checklist for key parts of the transfer process and information on employees' assignments, addresses, emergency contacts, visas, and compensation.

According to Texaco officials, the benefits of centralizing services in the center have included the following:

- Communication with employees and their families has improved.
- Employee downtime has been minimized throughout the process.
- Problems and complaints have diminished.
- Service has been cost-effective.
- Administrative support has focused on value-added work.

Another company that we visited and that asked for anonymity has for years had one point of contact for its employees assigned internationally. This company, which has an international employee assignment work force of about 2,200, transferred about 400 employees to and from the United States in 1996. Historically, most of its international transfers have been in professional and mid- to upper-level management positions. The typical period of assignment overseas has been for 3 years. This company relies on a centralized international assignments unit to manage the transfer of employees. Key to the process are regional counselors in the unit, who provide one focal point for the employee for coordinating all aspects of the transfer. These include a one-on-one discussion of corporate relocation policy, referral to a moving company, and arrangements for a homefinding visit to the next post. To facilitate the process, the unit also purchased an off-the-shelf software system to handle the process' information requirements. According to company officials, this eliminated older obsolete systems, reduced costs and time requirements for administering the program, and created better interface with other corporate systems. Similar to Texaco, the use of enhanced information systems also improved the company's budgeting, accountability, and control over the relocation process.

Appendix II compares State's practices to some of the best practices we identified.

Adopting One-Stop Shopping and Centralized Program Administration

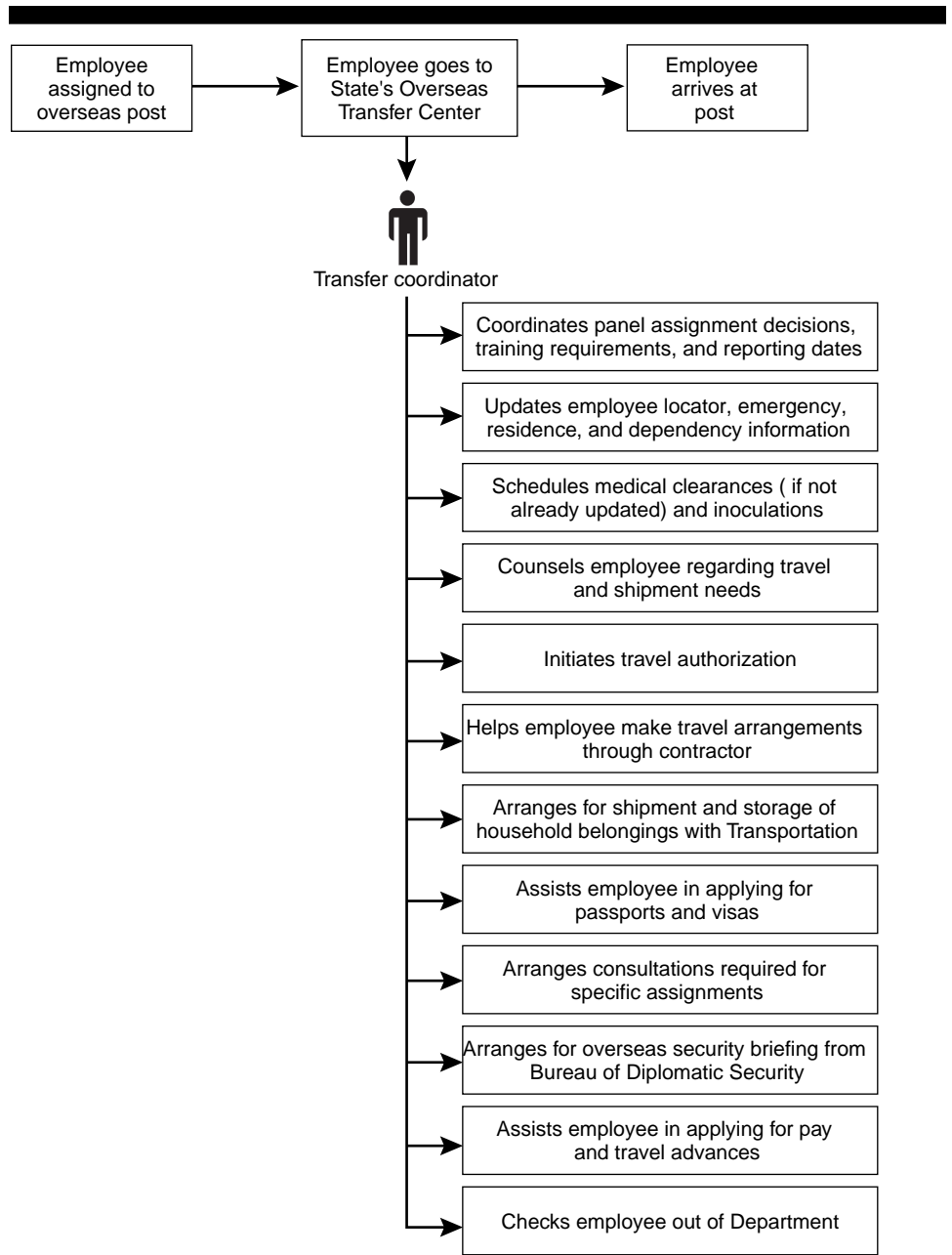
If State implemented one-stop shopping (one focal point for the employee) and centralized program administration, it could achieve benefits such as improved quality of services for employees and their families, reduced time required for employees to complete the process, and possibly lower costs resulting from fewer staff required to administer the program. If State were to develop an integrated information system to support the transfer process, it could significantly enhance counselors' support

capabilities and possibly enable them to efficiently handle a greater number of transfers.

State officials in the Bureau of Personnel were very supportive of the one-stop shopping concept and an integrated information management system to support the process. Officials in State's Bureau of Administration endorsed the development of an integrated system for tracking and coordinating the transfer process. They also endorsed one-stop shopping wherever possible, although they expressed some concern about whether one coordinator/counselor should be given complete responsibility for both the transfer of the employee and the shipment of his/her household effects. They believed that (1) certain functions such as counseling, travel, passport, and visa requirements, could clearly be consolidated into one customer service office and (2) customer service coordinators could help coordinate other transfer activities with designated transportation specialists and medical, security, and assignments officers.

Based on the best practices we identified in the private sector and the views of State officials, figure 4 shows a one-stop shopping process that we believe State could effectively adopt.

Figure 4: Potential Model for One-Stop Shopping at State



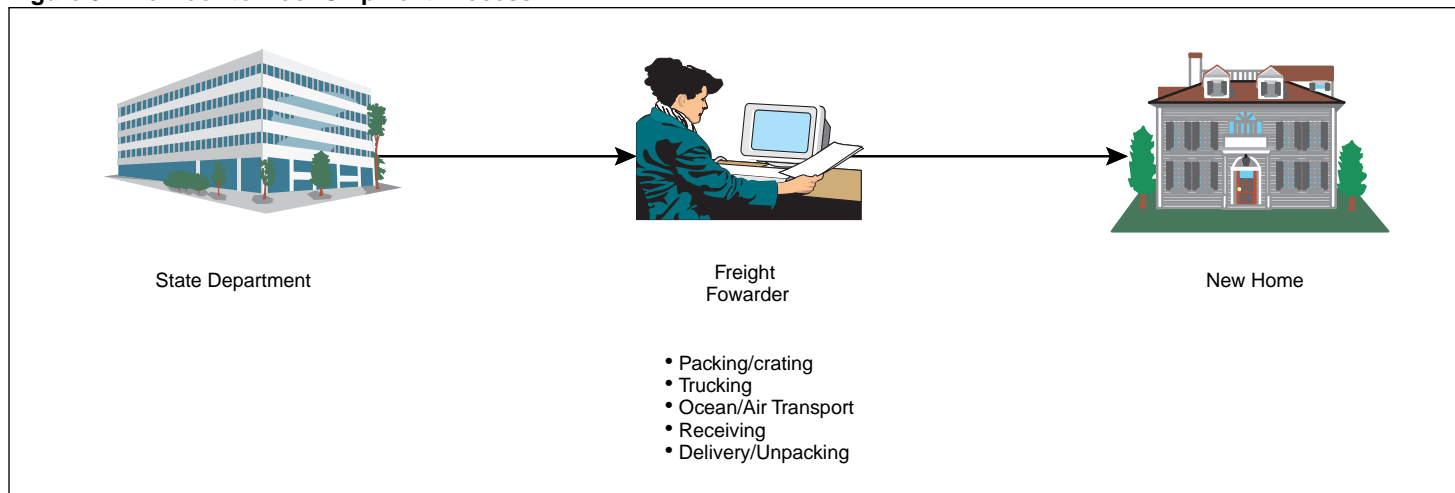
Source: U.S. GAO.

Expanding Door-to-Door Shipments

If State applied industry practices to its process for transporting employee household effects, it could further streamline the transfer process, reduce overhead, and exercise better accountability and control. The direct procurement method that State currently uses for transporting most of its shipments was designed at a time when State was one of a few organizations operating on a worldwide basis. Now that numerous private and public organizations operate globally, a broad range of companies to transport household effects internationally is available. Private industry, many foreign governments, and other organizations generally use some form of the less complicated and usually cheaper door-to-door approach for shipping overseas, including transportation to developing countries. None of the companies or governments that we visited used processes similar to the one State uses for direct procurement shipments.

Unlike the multistep direct procurement approach, the door-to-door method entails contracting with one commercial forwarder for all transportation and related services required to move an employee's household effects from their origin to their final destination. The forwarder acts as a broker, arranging and paying for each of the move segments. The General Services Administration makes available to U.S. executive branch civilian agencies international household goods tender (offers) of service agreements for door-to-door shipments to and from certain overseas locations. Figure 5 depicts the limited number of handoffs that are required for door-to-door shipments. It is important to note that many of the same activities that occur using the direct procurement method are included in the door-to-door approach—the difference being that when using door-to-door, the commercial forwarder, rather than the State Department, is responsible for all steps.

Figure 5: The Door-to-Door Shipment Process



Source: Department of State.

We believe that State could also reduce the costs of shipping household effects overseas by expanding its use of the door-to-door approach. Because of the fragmented nature of State's current transportation process and deficiencies in State's financial management system, we were not able to document the direct cost reductions that State could achieve by expanding its door-to-door program. However, in recent years, a number of State Department Office of Inspector General reviews found that, although using the direct procurement method could have lower costs in some instances, the door-to-door method is usually less expensive and could result in "significant" savings over time.⁵

Our work further shows that even if the direct costs associated with direct procurement and door-to-door shipments are essentially the same, the overall costs of using the direct procurement method are higher because of substantially greater personnel and other indirect costs associated with this system. Because of the multiple handoffs involving the Transportation Division, the various dispatch agencies, and the European Logistical

⁵In 1992, the Inspector General first recommended that State use the door-to-door method. State agreed to implement a program on a test basis beginning in 1992. In 1993, another Inspector General review established that the door-to-door method was less costly and recommended that State expand its use to include, wherever feasible, shipments from overseas posts back to the United States and shipments from post to post. A follow-up review in 1995 found that State's use of the door-to-door method for 225 shipments between December 1992 and March 1994 to both developed and developing countries had resulted in \$376,687 in direct cost savings, or an average shipment savings of \$1,674.

Support Office, these costs range from about \$600 to about \$1,600 per shipment, based on estimates developed by State's Logistics Reengineering Project team.⁶ In contrast, the indirect costs for transportation management salaries, facilities expenses, and other charges associated with the much simpler door-to-door method are only about \$400 per shipment and could be even lower if State were to expand its use.

In addition, as State further reengineers its process for obtaining goods and services, the costs associated with direct procurement shipments are likely to rise even higher. State's logistics reengineering program involves, among other initiatives, expanded use of local purchase and direct-from-vendor delivery for supplies and equipment needed at overseas posts. These changes mean that fewer supplies and other items will flow through State's transportation infrastructure and there will be fewer opportunities to consolidate such shipments with household effects—one of the primary benefits of the direct procurement approach. Reduced consolidation equates to higher direct costs, but the increases do not end there. As State comes to rely less on its own Transportation Division resources such as the despatch agencies for moving supplies and other items overseas, the per shipment indirect costs associated with the direct procurement approach will increase accordingly.

Although the cost considerations are considerable, State has not significantly expanded its use of the door-to-door program since implementing it on a test basis in 1992. In 1996, State used the door-to-door program for only about 16 percent of the 1,094 shipments to locations where use of the door-to-door program was feasible and in only 2 percent of the shipments back to the United States. According to State transportation officials, reasons for not expanding the program further have included (1) concerns that door-to-door opportunities may be limited, particularly in remote locations around the world; (2) lack of Transportation Division authority over posts' choice of shipping methods; and (3) apprehension about possible opposition from the U.S. moving industry because of concerns about some firms losing business as a result of changes in State's practices.

A recent increase in the number of overseas locations for which the General Services Administration offers international tenders of service could facilitate the expansion of State's door-to-door program. Until recently, the General Services Administration had made such agreements

⁶This team, comprised of civil and Foreign Service logistics managers in the Department, recently completed the design for an entirely new "reengineered" process for obtaining the goods and services needed to support State's worldwide mission.

available for shipments from the United States to 40 overseas locations. It had also offered the tenders for shipments from these same 40 locations back to the United States. In May 1997, the General Services Administration increased the number of door-to-door routes to more than 150 cities worldwide. We believe that the expanded use of these routes by State for its shipments from the United States will encourage the overseas posts to adopt similar cost-saving practices. While changes in State's practices might affect the U.S. moving industry, the potential benefits to the government are significant.

Expanding its door-to-door program would also enable State to consider limiting the number of freight forwarders used for shipping household effects, thereby maximizing its leverage with individual companies by offering a greater volume of business for specific vendors. Most of the private sector companies we visited, the World Bank, and the U.S. Customs Service used this strategy, limiting to between one and three the number of freight forwarders used for international household effects shipments. In addition, we found that the British government contracts with only one freight forwarder to ship diplomatic effects worldwide, and the Canadian government relies on two freight forwarders. New Zealand also uses a global contract with one freight forwarder and, according to a 1996 Australian Department of Foreign Affairs and Trade report on options for streamlining its process for moving international household effects, both Canada and New Zealand have reduced costs by using this approach. The Director of the office responsible for relocations at Customs said that limiting the number of freight forwarders has enabled him to hold the vendors to a much higher standard of performance. Also, Ford officials said that limiting the number of freight forwarders has reduced costs and improved controls over shipments.

We believe that State could expand the use of the door-to-door method on a route-specific basis, taking overall costs, accountability and control, and quality of service into consideration. Overall cost comparisons would need to consider both direct and indirect costs, including personnel and other indirect costs in the Transportation Division, the regional despatch agencies, and the European Logistical Support Office. Since State's Logistics Reengineering Project team has already developed much of the necessary data on indirect costs, it would be a logical choice for making such comparisons. Also, since the continued implementation of the Logistics Reengineering Project has an impact on the indirect costs associated with household effects shipments, the team would be well positioned to factor such variables into the analysis.

Outsourcing Options

Another best practice that may have application in certain areas of State's transfer process is outsourcing. The private consulting firm that recently surveyed the expatriate management practices of 30 companies identified outsourcing as a "best practice." The study noted that (1) some functions are better candidates than others for outsourcing and (2) decisions concerning outsourcing need not only to weigh its cost-effectiveness but also to consider other factors such as the level of service available, the extent certain skills can only be provided in-house, and the amount of internal control required. During our benchmarking exercise, we also found that private firms typically outsource parts of the transfer process. For example, one company used vendors for compensation functions, overseas destination services, tax services, immigration services, and shipping. That company also examined the possibility of outsourcing its entire relocation function but decided against it because of cost considerations and uncertainty that the relocation service provider could perform as well as the company's own employees. Another company had completely outsourced its domestic/international transportation function, saving substantial sums based on reduced shipping/moving rates and lower corporate staff requirements.

Historically, various State studies have also recognized outsourcing as an option but little action has materialized. For example, in 1995 the Strategic Management Initiative special study group reviewing the transfer process recommended that the Department establish customer service representatives using private contractors for the bulk of the work. However, the study did not examine the cost-effectiveness of the option. The Department did not endorse the group's recommendation. Another team examined operations of State's medical office, which is a key step in the transfer process.⁷ That team concluded that as much as \$1.5 million could be saved in annual salary costs by outsourcing the Department's medical examination program with a private health contractor. The Secretary of State at that time subsequently endorsed the use of private firms or other agencies to handle such services, if justified by rigorous cost analysis.

In response to the Secretary's endorsement, the Office of Medical Services assembled a working group in 1996 to study the issue further. The group developed information that showed that (1) over 4,700 medical examinations were conducted in the Department in fiscal year 1994, (2) the average cost of an examination was \$890 in the same year, and

⁷To get a medical clearance, employees typically visit State's medical office twice for initial tests and followup. Additional tests in the unit or externally may be required. Overall, it may take 3-5 weeks to complete the process.

(3) costs became higher in subsequent years because the clinic was moved to larger and more expensive space. Moreover, the analyses noted that the Department's average examination cost of \$890 was substantially higher than the rate of \$450 per examination that State had negotiated with George Washington University in Washington, D.C. Although this analyses stated it was clear that medical exams could be obtained at a lower cost elsewhere, no action was taken on the working group's study.

Outsourcing all or portions of the transportation process for household effects also offers potential benefits. An obvious advantage of outsourcing is that it offers a "surge capability" during peak moving periods—in State's case, during the summer months—without having to devote unneeded resources to the transportation function during nonpeak periods. Some private companies operating internationally expect the contractors that are providing the door-to-door transportation services also to provide other services such as relocation policy counseling—a function that State currently performs in-house using a combination of more than 20 permanent employees and contractor staff. Depending on the volume involved, some of these contractors locate their counselors on-site. The World Bank ships the household effects of its approximately 1,000 employees who relocate each year using an in-house transportation staff comprised of only 2 permanent Bank employees. The three moving companies that the Bank uses for international relocations have counselors located on-site at the Bank. Contracts have been competitively bid to get the best value.

We also found during our review that move management companies provide an even wider range of services than do traditional moving companies, such as claims management, voucher processing, destination services, and accounting services. In one case, the relocation company provided the extra services at no additional charge. In some cases, the companies charged a per shipment fee. These fees should be factored into cost comparisons involving various outsourcing options, along with any related overhead savings.

Lump Sum Option

Another option that some companies employ to streamline the transfer process is to provide lump sum advances to employees to cover specific categories or all of an employee's relocation expenses. The advantage of this approach is that it eliminates the requirement for employees to itemize or document expenses and thus reduces overhead associated with processing vouchers and other monitoring and compliance activities. An

interagency working group addressing travel reengineering as part of the Joint Financial Management Improvement Program recommended that federal agencies have the option of using such an approach to provide subsistence assistance for temporary quarters associated with relocations. State is currently exploring a variation of this option. The Strategic Management Initiative working group that examined State's transfer system mentioned the "radical" alternative of providing a lump sum for an employee's entire relocation, where the employee would then arrange for moving his/her household effects and family members. Although the working group said that this method would involve "significant FTE (full-time equivalent) and dollar savings," it also recognized that it would work well for relocations only to some of the countries where State operates.

Potential Cost Reductions

Applying best practices to State's transfer process could result in significant cost reductions. The total that could be achieved is dependent on a number of factors, including (1) the personnel and other resources State chooses to redeploy as they are freed up in connection with a more streamlined transfer process; (2) the number of routes where the door-to-door method of shipping household effects is found to provide the best combination of overall cost-effectiveness, accountability and control, and quality of service; (3) the extent to which changes resulting from State's Logistics Reengineering Project affect household effect shipment costs; and (4) the parts of the transfer process State decides to outsource.

Although these and other variables preclude making precise projections, we believe that the potential cost reductions could total millions of dollars annually, based on (1) our limited analysis of the indirect costs associated with certain portions of State's current process, (2) documented direct cost savings resulting from use of the door-to-door method on a pilot basis, (3) the experiences of companies and organizations that we visited as part of our benchmarking exercise, and (4) State's own studies. One organization with which we benchmarked saved millions of dollars by applying best practices to its transfer process—an operation smaller in scope than State's. Also, as noted earlier, State's own analysis indicated that as much as \$1.5 million could be saved by outsourcing one element of the transfer process alone.

Potential Benefits for Other Agencies

A successful reengineering of State's transfer process based on adoption of best practices and other options could also have significant benefits for

other foreign affairs agencies. For example, the Strategic Management Initiative study group that examined State's transfer process in 1994 noted that both USAID and USIA had transfer processes that were similar to State's.

Our more recent work at USAID as part of this review indicates that USAID's transfer system continues to be complex and cumbersome. A significantly improved State process could serve as a model for agencies such as USAID. On the other hand, an even more significant challenge and opportunity for improvement will be afforded State based on current plans to consolidate the operations of the Department and other foreign affairs agencies. Specifically, the executive branch is developing plans to (1) consolidate the operations of USIA and ACDA into the State Department and (2) integrate certain administrative functions of USAID and State. When that occurs, a streamlined transfer process could produce much greater benefits. However, several issues will have to be addressed, including whether (1) staff resources in each agency can/should be consolidated to support one transfer process, (2) outsourcing would help manage a significantly larger volume of transfer activity, and (3) any of the agencies' in-place or planned information systems can effectively meet process requirements. Officials in State's Bureau of Administration also noted that State, USIA, and USAID have very similar transportation systems and integrating them would be relatively painless. We believe that this possibility provides substantial opportunities for even greater cost savings through a consolidation of transportation functions and the broader application of door-to-door shipments.

Conclusions

In today's budget environment, State can no longer afford to operate costly and outdated systems. State's complicated approach to transferring its employees—developed when the agency was one of the few organizations supporting worldwide operations—remains an unnecessarily complicated maze of costly handoffs and mini-operations without a lead person in charge or accountable for the entire process. Now that many organizations have global operations based on reengineered and modern processes, State has an opportunity to rethink its transfer process. Several corporations have made significant changes in the way they do business in order to remain competitive and to control the costs associated with their international operations. By applying best practices to their employee transfer processes, firms have reaped several benefits including cost reductions, better accountability and control, consistent application of corporate policy across division lines, and improved services to their employees. Implementing best practices as a fundamental

part of modernizing its transfer operations would enable State to do the same. A modernized State transfer process would also enable State to more efficiently integrate the operations of other foreign affairs agencies and serve as a model to non-foreign-affairs agencies supporting significant numbers of employees overseas.

Recommendations

We recommend that the Secretary of State establish a special team under the direction of the Under Secretary for Management to design an implementation strategy for improving management of the Department's employee transfer process. The strategy should take into account the transfer activities of ACDA, USAID, and USIA. The team should be composed of staff from each of the key bureaus and offices currently involved in the process. Its mandate should include the following:

- Identify the most appropriate organizational structure, location, and staffing arrangements for centralizing management of the transfer function, ensuring accountability and control over the entire process, and providing one-stop shopping for the employee.
- Develop an integrated information management system to handle the reengineered transfer process, based on off-the-shelf technologies or information resource management initiatives already under way in the Department, if possible.
- Develop a plan for outsourcing those parts of the transfer process where analyses show that outsourcing would provide better, more cost-effective service than performing the function in-house. Key parts of the process that should be examined include medical and move management services.
- Develop cost, time, and quality performance measures for managing the process and measuring the impact of reengineering efforts.

We also recommend that the Secretary of State direct the Transportation Division to substantially expand the use of door-to-door shipments of household effects.

Agency Comments and Our Evaluation

In commenting on a draft of this report, State acknowledged that its transfer process needs improvement, that "one-stop shopping" should be the touchstone for such improvement, and that the use of door-to-door shipments should be expanded. However, it did not agree to implement any of our recommendations. State gave several reasons for not taking action, including its (1) limited capacity to take on the issue given the magnitude of agency consolidation, logistics and medical services

reengineering, and information technology efforts already underway; (2) concerns that the Department's transfer requirements are different from those of the private sector; (3) questions about whether Ford Motor Company would be a good model; and (4) efforts to significantly expand the number of door-to-door shipments since 1994.

We do not believe that State's reasons for delaying action or for not supporting our recommendations are persuasive. In our view, reengineering the transfer process would improve services, reduce costs, and represent a logical extension of the Department's ongoing efforts to reengineer its logistics system. Additionally, it is important that State's reengineering studies consider whether outsourcing is the best way to provide certain services.

We also do not share State's concerns that the best practices of the private sector may not be applicable because of differing requirements. Employee transfer requirements are much the same in the public and private sector, essentially focusing on ensuring that employees and their families are successfully transferred to their new overseas assignments. State's concerns are also inconsistent with the reengineering methodology generally used in government and the private sector and adopted by its own logistics reengineering team, which relied heavily on the best practices of the private sector. State's questions about whether Ford Motor Company would be a good model appear to be based on the Department's misinterpretation of information in our draft report. State believed that our draft report had implied that Ford's international relocation program costs hundreds of millions of dollars annually. That is not the case—in fact, Ford officials believe that the company's new International Service Center, which has adopted one-stop shopping, outsourcing, and other industry best practices, has significantly improved the quality of services to its employees and enabled the company to more efficiently support its entire investment in overseas operations.

State claimed that it had significantly increased its use of door-to-door shipments. A closer examination of State's shipping data indicates that the Department has misinterpreted its own data. Despite its claims of significantly greater use of door-to-door shipments, only about 10 percent of the shipments in 1996 that were eligible for the door-to-door method were actually channeled by the Department through that process.

In summary, we continue to urge State to act on our recommendations.

State's detailed comments, along with our analyses, are included in their entirety in appendix III.

Matter for Congressional Consideration

Because the Department of State has not indicated support for our recommendations intended to improve the quality and efficiency of its transfer and shipping process, Congress may wish to direct State to implement them.

Scope and Methodology

Recognizing that pressure exists to reduce the budget for conducting foreign affairs activities, we undertook to identify potential cost savings for the Department of State. To review and map State's current process for transferring employees, we obtained prior studies, including the Department's 1995 Strategic Management Initiative reports and 1991-95 audits by its Inspector General. We also interviewed appropriate officials at State's headquarters in Washington, D.C. We developed flow charts of generic transfer and shipping processes and developed related cost data to the extent practical.

To identify best practices in the private sector and other organizations, we researched literature and consulted with various experts in the area. The Employee Relocation Council—a professional association of several thousand corporations, government agencies, and other organizations concerned with relocation issues—helped us pinpoint several companies that had a large number of overseas employees and that were considered leaders in the international relocation field and/or had recently reengineered their international employee relocation processes.

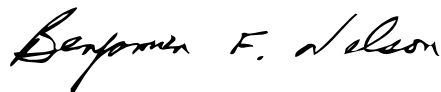
To compare best practices in the private sector and State transfer processes, we visited six companies identified during our review to develop detailed information on these processes and their reengineering efforts. We selected these companies based on the number of employees transferred, typical time frames for an overseas assignment, and actions taken to control costs of international operations. One of the companies we visited was also a participant in a study of best practices in expatriate personnel management in 30 private corporations, conducted by a private consulting company in 1995. We also visited the embassies of the United Kingdom and Canada in Washington, D.C., and met with representatives of the Australian National Audit Office to obtain an understanding of how other national governments transfer their employees to overseas locations. In addition, we developed information on USAID's and the World Bank's transfer processes. We did not independently verify any cost savings or

performance benefits data provided by the companies and other organizations we visited or those identified in other studies.

We conducted our review from August 1996 to July 1997 in accordance with generally accepted government auditing standards. We performed our work at government, public, and private organizations in Washington, D.C.; New York; New Jersey; and Michigan.

We are sending copies of this report to the Administrator, USAID; the Director, USIA; the Director, Office of Management and Budget; and interested congressional committees. We will also make copies available to others upon request.

Please contact me at (202) 512- 4128 if you or any of your staff have any questions concerning this report. The major contributors to this report are listed in appendix IV.



Benjamin F. Nelson, Director
International Relations and Trade Issues

List of Congressional Committees

The Honorable Jesse A. Helms
Chairman
The Honorable Joseph R. Biden Jr.
Ranking Minority Member
Committee on Foreign Relations
United States Senate

The Honorable Judd Gregg
Chairman
The Honorable Robert C. Byrd
Ranking Minority Member
Subcommittee on Commerce, Justice, State,
The Judiciary and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Benjamin A. Gilman
Chairman
The Honorable Lee H. Hamilton
Ranking Minority Member
Committee on International Relations
House of Representatives

The Honorable Harold Rogers
Chairman
The Honorable Alan B. Mollohan
Ranking Minority Member
Subcommittee on Commerce, Justice, State,
The Judiciary and Related Agencies
Committee on Appropriations
House of Representatives

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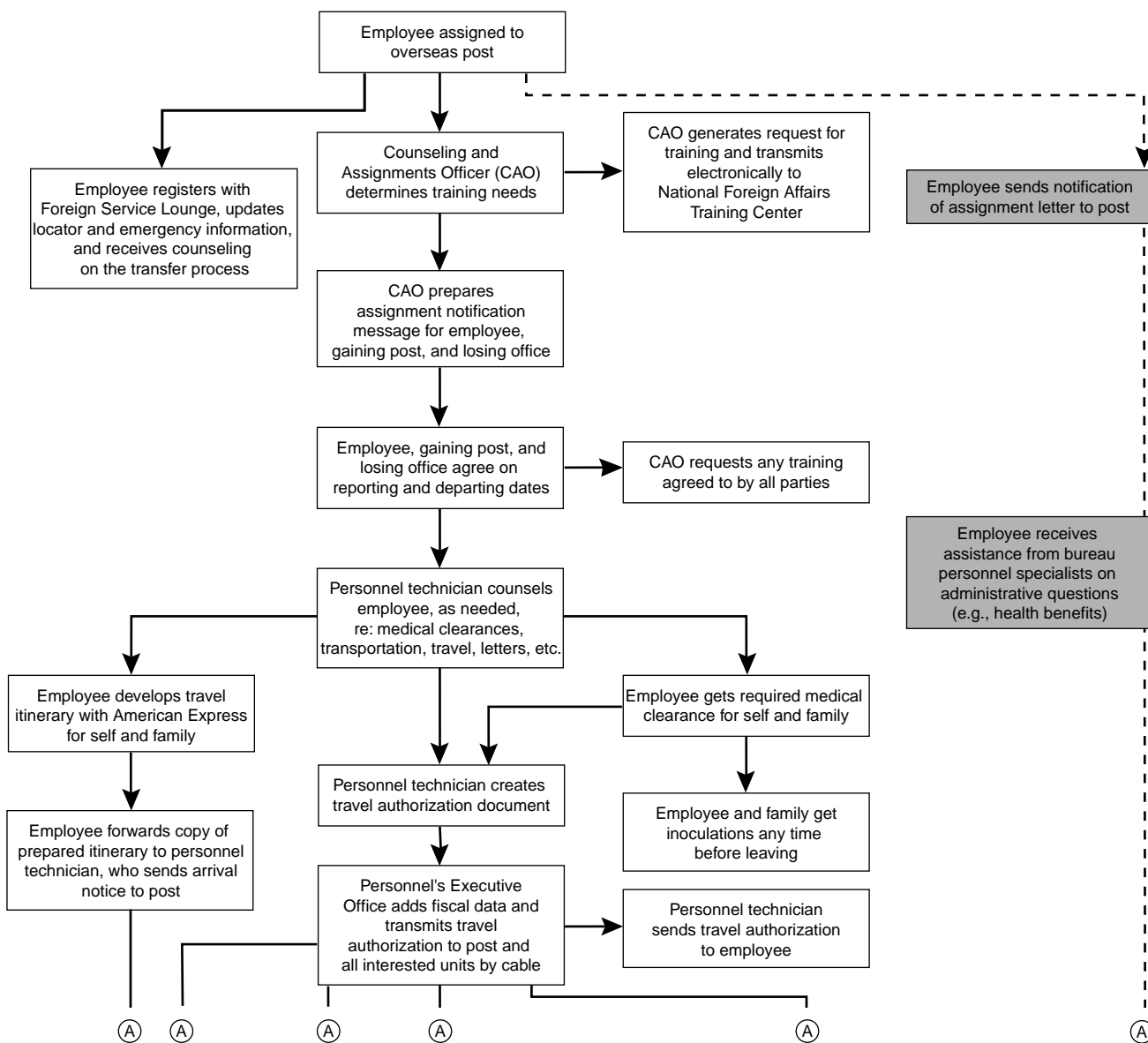
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Abbreviations

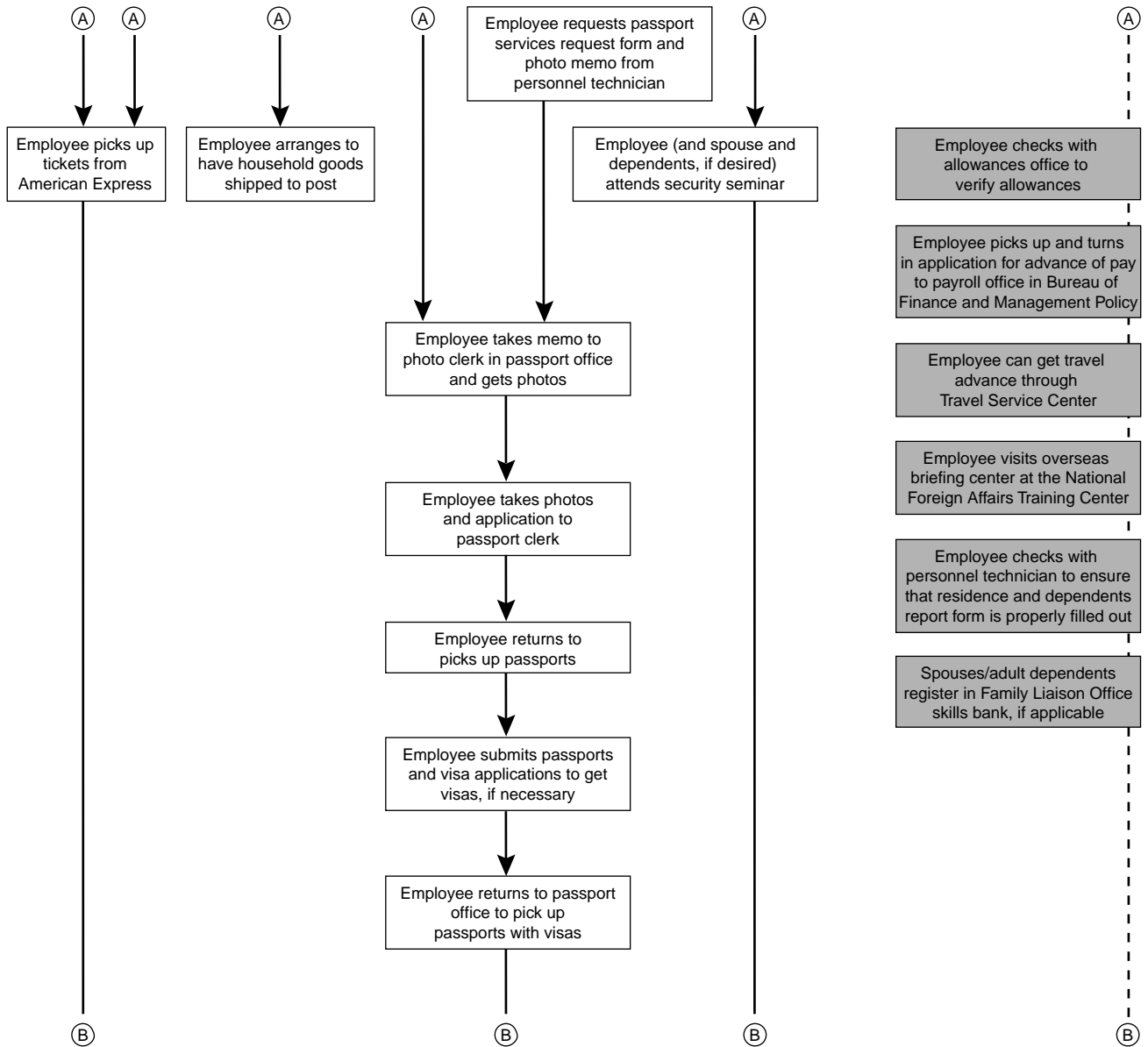
ACDA	Arms Control and Disarmament Agency
USAID	U.S. Agency for International Development
USIA	United States Information Agency

The Department of State's Employee Relocation Process (Washington to Post Only)



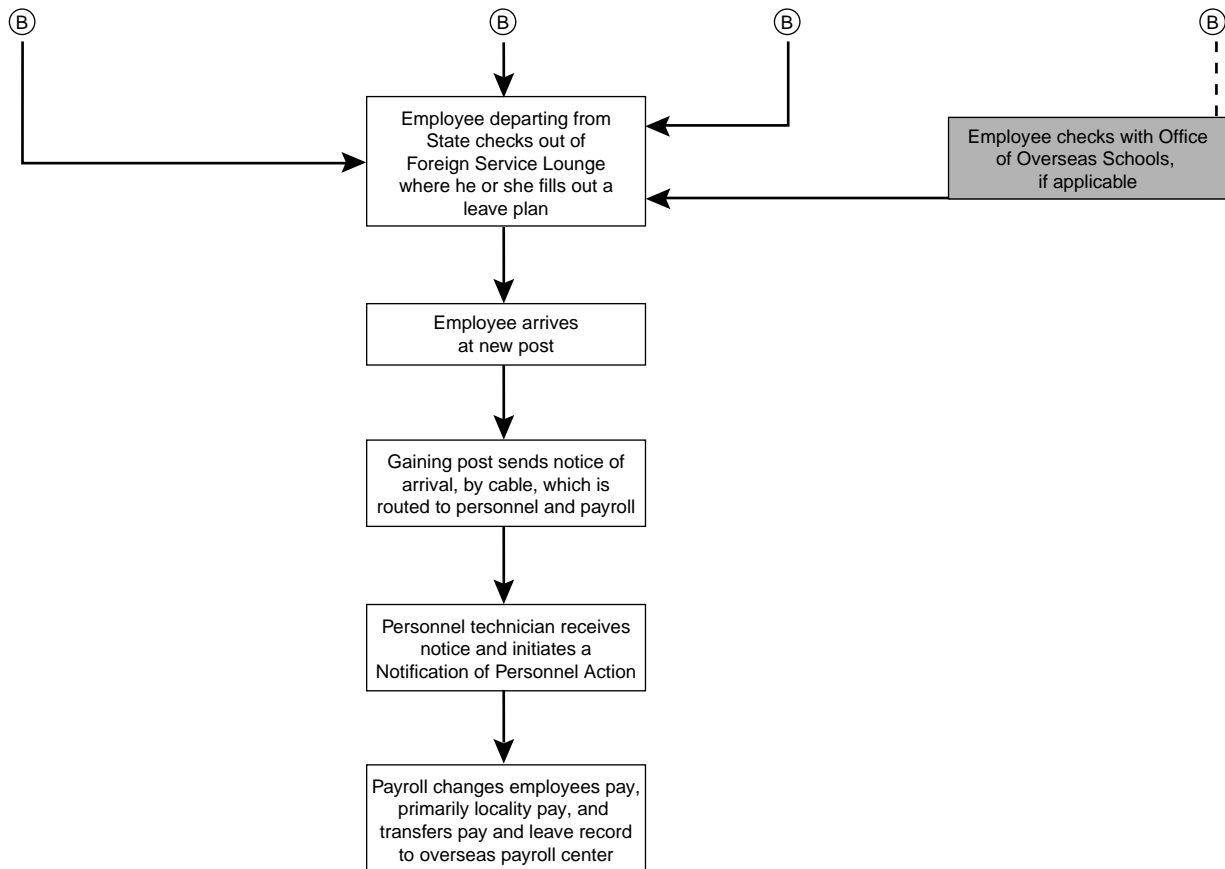
Optional steps, which can be done in any order.


**Appendix I
The Department of State's Employee
Relocation Process (Washington to Post
Only)**



Optional steps, which can be done in any order.

Appendix I
The Department of State's Employee
Relocation Process (Washington to Post
Only)



 Optional steps, which can be done in any order.

Differences Between the State Department and Some Organizations Employing Best Practices for International Transfers

Best practice	State	Ford	Texaco
Centralized program Administration	No—currently administered in several bureaus and/or offices	Yes—International Service Center	Yes—Expatriate Service Center and Texaco Relocation Center
One point of contact for transferring employee	No—numerous points of contact in several bureaus and offices required to complete the transfer	Yes—one counselor in the International Service Center coordinates all aspects of the transfer	Yes—one point of contact in Expatriate Service Center coordinates the transfer
Integrated information systems	Partial—the Bureau of Personnel's new integrated system will upgrade information capability for parts of the transfer process	Partial—data centralized but not linked electronically	Yes—purchased an integrated system from consultant and linked with existing information systems
Outsourcing			
• Travel	Yes	Yes	Yes
• Move management	No	Yes	Yes
• Household effects counseling	Partial, some contractors used	Yes	Yes
• Tax consulting	Not applicable	Yes	Yes
• Home sales	Not applicable	Yes	Yes
• Orientation	No	Yes	Yes
• Medical	No	No	No

Comments From the Department of State

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



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

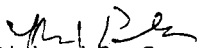
August 29, 1997

Dear Mr. Hinton:

We appreciate the opportunity to provide the enclosed Department of State comments on your draft report, "STATE DEPARTMENT: Using Best Practices to Relocate Employees Could Reduce Costs and Improve Service," GAO/NSIAD-97-204, GAO Job Code 711206.

If you have any questions concerning this response, please call the coordinator for the response, Ms. Sheri Sprigg at (202) 647-3196.

Sincerely,


Richard L. Greene

Enclosure:

As stated.

cc:

GAO/NSIAD - Mr. Ford/Ms. Glod
STATE/A - Mr. Kennedy

Mr. Henry L. Hinton, Jr,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

Appendix III
Comments From the Department of State

Department of State Response
to the GAO Draft Report
“STATE DEPARTMENT: Using Best Practices to Relocate Employees
Could Reduce Costs and Improve Service”
GAO/NSIAD 97-204, GAO Job Code 711206

The Department of State shares GAO’s view that the Department, using the team approach when appropriate, should work to improve its process for relocating employees to deliver better customer service. As the report notes, the Department itself reviewed the transfer process in 1994 and 1995 and took several steps to improve parts of the system, particularly in the Bureau of Personnel, as part of its Strategic Management Initiative. More recently, a Logistics Reengineering Project (LRP) systematically and comprehensively studied the Department’s logistics processes, recommending a new cross-functional organization to streamline logistics and improve customer service. Several pilot projects resulting from the LRP are underway. Other limited pilot projects, using the team approach, are under discussion. The planned consolidation of the State Department with USIA and ACDA will also provide opportunities for change, as we adopt the best practices from each agency. Given the magnitude of the consolidation and reengineering efforts already underway at the Department, however, we do not consider the establishment of a special team to redesign the employee transfer process to be practical or cost-effective at this time.

See comment 1.

The Department also agrees that “one-stop shopping” for the employee should be a touchstone for improvement of the employee transfer process. But an understanding of the Department’s requirements, which differ from those in the private sector, must also form the basis for any redesign of the process. While the best practices of private industry cited in the report are useful and should be evaluated as part of the Department’s current reengineering efforts, they are not necessarily the best practices for the State Department as well. For example, based on the report’s figures, the Ford Motor Company would not appear to be a good model for the State Department. Ford Motor Company relocates about 800 employees per year at a cost of “hundreds of millions of dollars annually,” (p. 13), while the State Department relocates about 3,000 employees per year at a direct cost of about \$60 million annually in recent years (pp. 1-2). On the basis of these figures it would appear that the Department is significantly more efficient.

See comment 2.

Several specific suggestions in the report require further response. The report recommends developing an integrated information management system to manage the reengineered transfer process. The most pressing information technology challenge facing the Department at this time is the Year 2000 compliance of our systems. Undertaking this added initiative during this crucial time would be difficult, requiring compliance with the Clinger-Cohen Act and rigorous analysis of cost data, performance information, and return on investment.

See comment 3.

Appendix III
Comments From the Department of State

See comment 4.

In the discussion on outsourcing options, the report suggests outsourcing the Department's medical examination program. The Office of Medical Services is reengineering many of its core activities including the process of issuing a medical clearance. New developments, such as the Americans with Disabilities Act, require the Department to re-evaluate the way employees and their families are assigned and cleared to work overseas. Among the options being evaluated by the Office is the possibility of integrating the clearance process in a "Health Maintenance Model." Until this reengineering has occurred, the Department does not believe outsourcing the medical clearance function would be appropriate.

See comment 5.

The report also recommends expanding the use of door-to-door shipments of household effects. The Department agrees that such shipments should be increased, and has done so since the inception of the program in 1994. For the one-year period ending July 1997, the Department forwarded 289 shipments through the GSA's door-to-door program. This is an increase of 37 percent since 1994, when 182 shipments were shipped door-to-door. However, experience has shown that door-to-door shipments may not be cost-effective in many parts of the world. Door-to-door shipments were routed to Mexico for the first time this year, with mixed results. Although the service level was found to be equivalent to the direct procurement shipping method, the door-to-door costs averaged in excess of \$6,000 more than direct procurement shipping.

See comment 6.

As the report correctly notes, posts have not begun using the door-to-door method for shipments inbound to the United States. However, the European Logistical Support Office has negotiated rates to ship HHE from Antwerp directly to the employee's residence (warehouse-to-door). The percentage of inbound shipments from Antwerp using the GSA program has increased from 35% the first year to 60% at present.

See comment 7.

The report also suggests that State consider limiting the number of freight forwarders used for shipping household effects. The Department understands the advantages in limiting the number of freight forwarders cited in the report, but notes that increased competition among freight forwarders can also lead to better performance. In recent years, as the Department of Defense has reduced the number of personnel relocating, competition has increased as the moving industry has turned to the Department to recoup some of the business lost.

The following are GAO's comments on the Department of State's letter dated August 29, 1997.

GAO Comments

1. Although State is taking actions to improve many of its systems, its position of delaying action to improve its transfer process because of other reengineering and consolidation initiatives contributes to long-standing and costly inefficiencies in one of the Department's key operations. We believe that (1) the reengineering initiatives already underway in the Department have helped create a climate of support for new and more efficient ways of doing business, (2) the transfer process is a logical extension of the systems being reengineered, and (3) the working groups charged with reorganizing the foreign affairs agencies can and should incorporate these and other best practices in their analyses. Although State took some actions, it essentially failed to satisfactorily address the transfer process problem in the mid-1990s as part of its Strategic Management Initiative. Given the inefficiencies involved and the cost savings that would follow, we believe State should not miss this opportunity to take timely and meaningful action. A large number of employees' quality of life would be improved and numerous other benefits could be derived from a reengineered process.

2. State's concern that Ford Motor Company would not be a good model for it to consider appears based on the Department's misinterpretation of information in our draft report. Our draft report did not state that Ford's relocation costs total hundreds of millions of dollars annually. It said that Ford officials believed that the company's new International Service Center had enabled Ford to better manage its international assignment process that costs hundreds of millions of dollars annually. Ford officials had used the terminology "international assignment process" to describe the total investment Ford has made in its overseas operations, including employee relocation, salaries, equipment, infrastructure, and so forth. We modified our report to reflect this point. We strongly believe that the best practices of Ford, as well as those of the other companies described in our report, provide a good basis for State to reengineer its relocation process to reduce costs and improve services. Those best practices include one-stop shopping for employees, centralization of the transfer administration function, outsourcing, development of information systems to track and coordinate transfers, and greater use of door-to-door shipments for employees' household effects.

3. We recommended that State develop an integrated information system to manage its reengineered transfer process, adding that it should be done either with off-the-shelf technologies or information resource initiatives already underway in the Department. Some of the companies that we benchmarked have used off-the-shelf systems from major vendors, and State documents indicate that, as part of its modernization strategy, it plans to identify commercial off-the-shelf products as options for designing a comprehensive resource management system. The thrust of our recommendation is that State should build on the numerous initiatives underway in the Department to modernize systems and link agency processes. The development of an information system to support a reengineered transfer process would be a logical part and/or extension of the overall modernization process.

4. We support the Department's efforts to reengineer its medical clearance processes and its consideration of several options for improving medical services. Although State believed that outsourcing should not be considered until the reengineering has been completed, our recommendation is designed to encourage the Department to consider all practical options for reengineering, including outsourcing. The experiences of the private sector, as well as State's own data, indicate that outsourcing is a reengineering option that can produce greater efficiency and better service for certain processes.

5. Although State agreed that door-to-door shipments should be increased, the data it provided is misleading concerning the actual level of progress made by the Department. Specifically, State provided data showing that the number of door-to-door shipments have increased 37 percent in the past 3 years. While this may appear progressive, it is misleading because the total number of shipments sent door-to-door in 1996 represented only about 10 percent of those that could have utilized this method. Clearly, State has a lot of room to expand its use of door-to-door shipments and reap the financial benefits.

6. We asked State to provide data supporting its claim that it cost an average of \$6,000 more using the door-to-door method for shipments to Mexico. State could not substantiate this claim.

7. We believe that the greater use of door-to-door shipments by the European Logistical Support Office further confirms our conclusion that State can and should expand the use of such shipments. We believe that it also demonstrates that door-to-door shipments are a viable alternative for

Appendix III
Comments From the Department of State

overseas posts, eliminating the need to incur the additional expenses associated with channeling posts' shipments through the European Logistical Support Office in Antwerp, Belgium.

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