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**United States Department of State  
and the Broadcasting Board of Governors  
Office of Inspector General**

# **Memorandum Audit Report**

**Department of State's Foreign Service  
"Up-Or-Out" Promotion System**

**Report Number AUD/PR-02-27, August 2002**

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**OFFICE OF AUDITS  
MEMORANDUM REPORT AUD/PR-02-27**

**DEPARTMENT OF STATE'S  
FOREIGN SERVICE "UP-OR-OUT" PROMOTION SYSTEM**

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At the request of the Chairman of the Subcommittee on National Security, Veterans Affairs, and International Relations, House Committee on Government Reform, the Office of Inspector General (OIG) reviewed the Department of State's (Department) Foreign Service "up-or-out" promotion system. The Subcommittee was particularly interested in the system's effectiveness, citing the retention and recruiting issues it understands the Department is facing.

The purpose of the Department's up-or-out system is to ensure a predictable and orderly flow through the ranks and to provide promotion opportunities for the best officers at all levels. With regard to promotions, the Department takes skills and experience into account in the annual reviews of documented performance, accomplishments, and potential. The current class system, mandated by the Foreign Service Act of 1980, establishes a maximum number of years officers may remain at a given class level before they are required to separate from the Department. The Secretary of State has authority to change the time limits for the so-called "time-in-class" rules.

OIG found that the up-or-out system separated between 1.0 and 1.6 percent of all Foreign Service generalist officers and 0.4 percent of Foreign Service specialist officers during fiscal years 1999 through 2001. Based on the information reviewed, OIG believes the system accomplishes its intended purpose. For example, about 87 percent of Foreign Service officers separated during the period in accordance with the up-or-out system were senior- or executive-level officers. The majority of vacant Foreign Service positions or assignment gaps, however, occurred below the senior level.

OIG also found that at least one-quarter of the officers retired under the up-or-out system during fiscal years 1999 and 2000 returned to the Department to work on a temporary or limited appointment within one year. OIG's review of selected personnel files for Foreign Service officers separated during FY 2001 showed that four returned to full-time employment as political appointees. One was recalled because of the officer's expertise in Middle Eastern affairs.

## **SCOPE AND METHODOLOGY**

OIG examined the extent of personnel losses owing to the up-or-out promotion system and its effect on the Department's staffing gaps and the retention of skilled Foreign Service personnel. OIG did not interview personnel retired under the up-or-out system, nor evaluate whether the Foreign Service skills lost through the system are replaced through recruitment, training, or promotion. Foreign Service skills by functional specialty, or cone, and by language were addressed in the review.

The time-in-class limitations are mandated by statute, and the terms are detailed in the Foreign Affairs Manual. OIG reviewed all applicable regulations and guidelines and interviewed Department officials in the Bureaus of Human Resources, Administration, and Consular Affairs and several regional bureaus. OIG also interviewed American Foreign Service Association representatives. The Office of Resource Management and Organization Analysis, Bureau of Human Resources, provided OIG with demographic information for the time-in-class population over a three-year period (1999-2001). OIG analyzed these data and reviewed a sample of Foreign Service personnel files for the same period.

The Program Reviews Division, Office of Audits, performed its work between November 2001 and April 2002. This study was conducted in accordance with generally accepted government auditing standards by Robert Wurster, division director; Lynda Kyte, audit manager; and Stephanie Molina, management analyst.

## **BACKGROUND**

The Department's up-or-out promotion system originated with the Foreign Service Reform Act of 1946 and former Secretary of State George C. Marshall, who first implemented the system in the military. There have been a number of studies of the Foreign Service personnel system over the years.<sup>1</sup> Most of the recent studies that addressed the up-or-out system suggested the need for fast-track promotion opportunities for outstanding performers. However, these studies did not recommend specific changes to the up-or-out system. Earlier studies, however,

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<sup>1</sup> OIG reviewed the following reports: *State Department Reform*, Frank Carlucci (2001); *The United States Commission on National Security/ 21<sup>st</sup> Century*, Gary Hart and Warren B. Rudman (2001); *Equipped for the Future, Managing U.S. Foreign Affairs in the 21<sup>st</sup> Century*, Stimson Center (1998); and *America's Overseas Presence in the 21<sup>st</sup> Century*, Overseas Presence Advisory Panel (1999).

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did address time-in-class eligibility requirements for promotion and noted that all officers need to spend enough time at each class level to allow for the development of skills and experience.

The time-in-class rules were changed October 1, 1999, with the consolidation of the United States Information Agency into the Department. In an effort to implement the best practices of both agencies, a joint committee was formed to develop the current career structure. Previously, the time-in-class limit for all classes was 15 years. Currently, the time-in-class limits for Foreign Service generalists are

- ◆ 10 years at class FS-04,
- ◆ 13 years at class FS-03,
- ◆ 13 years at class FS-02, and
- ◆ 15 years at class FS-01.

All generalist officers are subject to a cumulative, 27-year time-in-service limit. Foreign Service specialist officers have significantly different rules:<sup>2</sup> 30 years cumulative from the date of entry and no more than 15 years in any one class, with the exception of a carryover of five years at the mid-levels. Mandatory retirement for all Foreign Service employees occurs at age 65.

### **Senior Threshold**

There is an additional requirement to the time-in-class rules, known as the “six-year window” for promotion into the Senior Foreign Service from the generalist or specialist FS-01 class. With the consolidation of the United States Information Agency into the Department, a decision was made to retain the window for all Foreign Service officers. The internal policy addressing the senior promotion window is cited in the Foreign Affairs Manual. Officers at this level, at their option, receive a maximum of six annual, consecutive Senior Threshold Selection Board reviews for promotion into the Senior Foreign Service. They are eligible to apply the third year after promotion to the FS-01 level, with the understanding that if they are not selected for promotion within the six-year window, they will be

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<sup>2</sup> Different rules apply for the following specialist skill codes: office management specialist, security technician, and medical technologist. Medical officers and psychiatrists also have different rules at the Senior Foreign Service level.

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mandatorily retired. Foreign Service officers at the FS-01 level are not required to open the promotion window at all. Those who choose not to compete for promotion are subject to time-in-class and time-in-service limits.

Specialists are also subject to the six-year window rule, with an important distinction: because there are so few opportunities for specialists in the Senior Foreign Service, selection board reviews for officers are only counted during the years when at least one promotion opportunity is available.

### **Annuities**

Foreign Service officers who are required to retire when their time-in-class or six-year senior window has passed are eligible for an immediate retirement annuity. As mandated in the Foreign Service Act of 1980, to be eligible for retirement, officers must be at least 50 years of age and have 20 years of creditable service. Regardless of age, however, all officers at the FS-01 level and above are eligible for immediate retirement benefits. For officers below the FS-01 level, who normally would be required to retire but do not meet the age and years of service criteria, an exception provides for an extension of time-in-class until the officer is eligible for an immediate annuity. During this time, the officer continues to be eligible for promotion opportunities.

### **Limited Career Extensions**

The use of limited career extensions is one mechanism for retaining officers subject to mandatory retirement who are needed by the Foreign Service, but who have separated because their time-in-class has expired. Limited career extensions are offered when the Director General, based on the recommendations of the selection boards, has determined that there is an exceptional need for that particular officer's skills. These extensions are rarely given to Foreign Service officers at the minister-counselor and counselor level. Limited career extensions are granted only for specific assignments covering a period of one year to a maximum of four years.

## **RESULTS OF REVIEW**

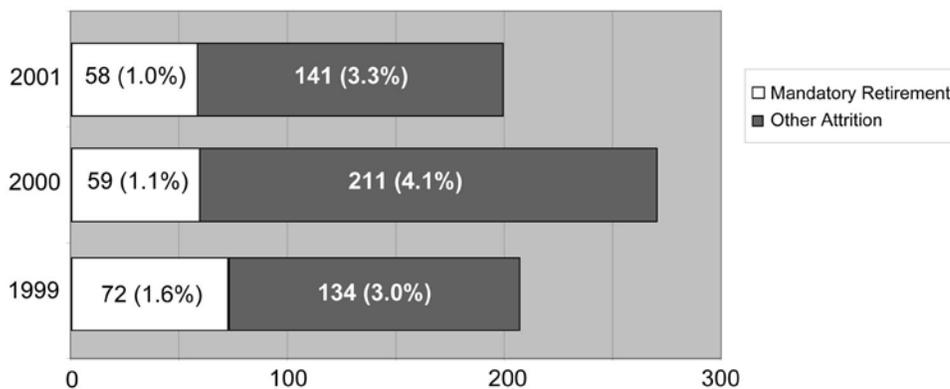
The Department's up-or-out system is designed to ensure an orderly and predictable flow through the ranks and to provide for the development of skills and experience

while providing promotion opportunities for those Foreign Service employees who best demonstrate the potential to succeed at the next higher level. OIG believes that the system accomplishes its intended purpose. According to officials in the Bureau of Human Resources, approximately 90 percent of the Department’s staffing shortages occur below the FS-01 or senior level. The relatively small number of mid-level officers required to retire under the up-or-out system indicates that the system is not significantly contributing to the existing staffing shortages.

### **Time-in-Class and Foreign Service Attrition Levels**

From fiscal years 1999 through 2001, the attrition rate for Foreign Service generalists from all causes was approximately five percent. This is lower than the federal government average, estimated by the Office of Personnel Management to be six percent in 2000.

**Figure 1: FY 1999-2001 Attrition Rates for Foreign Service Generalists**



Source: OIG analysis of data provided by the Bureau of Human Resources, Office of Resource Management and Organization Analysis.

Foreign Service specialists retire under the up-or-out system at a much lower rate than generalist officers. Less than 0.4 percent of specialists left the Foreign Service because of the up-or-out system. The longer time-in-service limits and more flexible time-in-class rules for specialists account for this difference.

## **Senior Classes Most Affected by Time-in-Class**

When analyzed at the class level, data from fiscal years 1999 through 2001 revealed that 87 percent of Foreign Service officers required to retire under the up-or-out system were at the FS-01 or Senior Foreign Service level. There were 106 FS-01 and 90 Senior Foreign Service officers required to retire from fiscal years 1999 through 2001. Over the same period, there were 28 mid-level officers required to retire. The relatively small number of mid-level officers required to retire indicates that the up-or-out system is not significantly contributing to the existing mid-level Foreign Service staffing shortages. The Bureau of Human Resources currently estimates that the mid-level staffing gap is 130 positions for generalists and 307 positions for specialists. According to senior officials, the gap is a result of hiring below attrition in the 1990s, and it is being addressed through current hiring initiatives.

Figure 2: Total Number of Time-in-Class Separations by Class (1999-2001)

<b>Class Level</b>	<b>Generalist</b>	<b>Specialist</b>	<b>Total</b>
<b>Senior Foreign Service</b>	85	5	<b>90</b>
<b>FS-01</b>	84	22	<b>106</b>
<b>FS-02 and below</b>	20	8	<b>28</b>

Source: OIG analysis of data provided by the Bureau of Human Resources, Office of Resource Management and Organization Analysis.

The majority of the specialists required to retire during the three-year period OIG studied were at the FS-01 level. OIG noted that this is a reflection of the few promotion opportunities available to specialists in the Senior Foreign Service.

## **Retention of Skilled Foreign Service Personnel**

The Department's FY 2002 performance plan states that it needs to attract, train, promote, and retain the best employees. Through the up-or-out system, some Foreign Service officers are separated before they would have voluntarily left or retired. OIG reviewed the personnel files of 27 of the 58 Foreign Service officers

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receiving mandatory separation letters in FY 2001.<sup>3</sup> The majority of these officers were already at the FS-01 or Senior Foreign Service level. In all but one case, OIG found that these officers had been recommended for promotion or advancement by the annual appraisal rater or reviewer in one or more of the last three years. The Department officials OIG interviewed pointed out that, typically, officers being mandatorily separated are quite skilled at their position or rank, but only the best advance to the next level, especially into and within the senior ranks.

One indication of a Foreign Service officer's types of skills or expertise is reflected in his or her functional cone. The chart below provides the number of officers mandatorily retired for fiscal years 1999, 2000, and 2001 by cone. The number of political officers required to retire is relatively higher than for officers in other cones owing to the larger total number of political officers.

Figure 3: Number of Foreign Service Officers Separating by Cone

<b>Cone</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>Total</b>
<b>Administrative</b>	13	16	7	<b>36</b>
<b>Consular</b>	10	10	8	<b>28</b>
<b>Economic</b>	15	5	12	<b>32</b>
<b>Political</b>	34	18	20	<b>72</b>
<b>Public Diplomacy</b>	0	8	11	<b>19</b>
<b>Total</b>	<b>72</b>	<b>57</b>	<b>58</b>	<b>187</b>

Source: OIG analysis of data provided by the Bureau of Human Resources, Office of Resource Management and Organization Analysis.

OIG also gathered available data on language skills and found that for fiscal years 1999 through 2001, a third of the Foreign Service officers mandatorily separated had tested at a moderate proficiency level for a designated “hard” or “super hard” language (e.g., Arabic, Chinese). Many of the officers have some proficiency in more than one language. Proficiency in at least one language is a requirement for advancement into the Senior Foreign Service. The information on language skill scores was derived from the Department's central personnel database. In addition, OIG reviewed the available personnel files and noted that a

<sup>3</sup>These files represent an OIG judgmental sample.

few of the officers in the sample earned their hard-language proficiency rating through foreign language training taken early on in their careers, but had not used the language in any of their last five tours of duty.

The General Accounting Office (GAO) recently completed a report on foreign language proficiency at various U.S. government agencies, including the Department.<sup>4</sup> The report noted that most foreign language shortages were in hard-to-learn languages from the Middle East and Asia. The report also noted that the Department does not have reliable aggregate data on whether Foreign Service officers currently serving in positions requiring foreign language ability have the appropriate language skills for their positions. GAO found that, in five critical languages as of July 2001, the Department had 370 language-designated positions, and 21 of them were vacant.

According to a senior Department official OIG interviewed, the hard-language shortage problem cannot necessarily be attributed to a shortage of language-qualified officers. Not all officers with the hard-language proficiency bid on overseas assignments in the region or countries where the applicable language-designated positions are. As the official told OIG, other career and personal considerations come into play, and the Foreign Service rarely uses directed assignments to deploy officers overseas. Also, according to senior officials in the Bureau of Human Resources, many vacant or under-filled language-designated positions are in the lower ranks where senior employees are unlikely to serve.

## **Post-Retirement Employment at the Department of State**

OIG found that more than one-quarter of the officers required to retire in fiscal years 1999 and 2000 returned to work at the Department in a “when actually employed” status within one year of separation.<sup>5</sup> Others might return as contractors, temporarily recalled employees, and political appointees. Although rarely used, limited career extensions might be offered to a few. These experienced officers are hired back by the Department on an as-needed basis. They fill staffing gaps domestically and overseas.

Approximately, 850 retired officers were listed on the payroll in FY 2002 in a “when actually employed” status. They represent a pool of candidates available to

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<sup>4</sup> *Foreign Languages: Human Capital Approach Needed to Correct Staffing and Proficiency Shortfalls* (GAO-02-375, January 2002).

<sup>5</sup> OIG did not review the employment status of officers who received mandatory separation notices in FY 2001 because it was too early to determine post-retirement employment.

be called upon for limited periods of service. For these retired officers, their annual salary cap cannot exceed the difference between their Foreign Service retirement annuity and pre-retirement salary rate, which effectively limits the number of days worked per year. Although they worked throughout the Department, the highest concentrations were in the Bureaus of Administration (257), European Affairs (134), and Consular Affairs (84). OIG interviewed senior officials in the executive offices of all three bureaus. They told OIG that these retired officers fill staffing gaps that are essential to ongoing operations. In the Bureau of Administration, the majority of those in “when actually employed” status were working on Freedom of Information Act requests and the declassification of historical documents. As noted by senior officials OIG interviewed, they are not substitutes for full-time Foreign Service officers because of their limited appointments.

OIG identified 38 retired officers in “when actually employed” status at the time of the review from the total pool of Foreign Service officers required to separate in fiscal years 1999 and 2000. OIG reviewed eight of these personnel files to determine how the retired officers were serving the Department. Three were previously Senior Foreign Service, and five were FS-01s. OIG found that these officers were generally coming back to do work related to the type of work in which they had developed expertise.

OIG also reviewed the personnel files of four Senior Foreign Service officers separated under the up-or-out system who returned to the Department as political appointees. One was initially recalled to the Department for his expertise in Middle Eastern affairs and Arabic. Currently, three are serving as chiefs of mission and the other as a deputy assistant secretary.

## **DEPARTMENT COMMENTS**

The Bureau of Human Resources agreed with the OIG report conclusion that the up-or-out system works as intended and does not cause undue loss of skills to the Department. The Bureau stated that a closed, entry-level, career personnel system requires a mechanism to narrow gradually the ranks at more and more senior levels and to ensure that the best employees are promoted to the next level. It was also noted that the mid-level deficit and language shortages cited in the report are primarily the result of inadequate overall staffing. The Bureau noted that the Department is working aggressively to rectify staffing shortages through its ongoing hiring initiatives.

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