Despite medical advances, the spread of infectious diseases threatens not only the health of populations, but also the political, economic and social stability of entire countries. The U.S. faces challenges to prevent the spread of diseases that occur among humans and also those resulting from contaminated food. During 1998, the Department realized protocol was finalized that establishes the prototype International Surveillance and Response Network for the reporting of food-borne diseases. The Network, which tracks incidences of salmonella and E.coli, is now operational between the U.S. and the EU. The President joined the Secretary of State and the USAID Administrator in announcing HIV/AIDS initiatives and a $10 million fund for AIDS orphans. Also, the Department was instrumental in negotiating an arrangement with the Government of Sweden to work in the Baltic States on a health problem which threatens the United States - multiple-drug resistant tuberculosis.

DIPLOMATIC READINESS

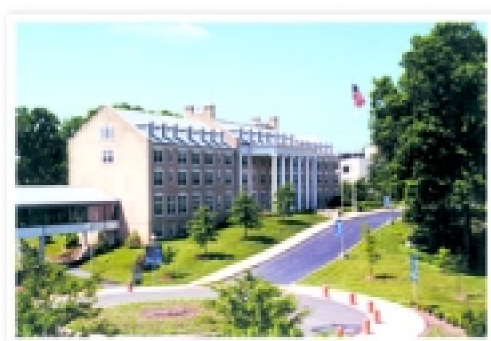
The ability of the Department of State to advance the foreign policy interests of the United States – including supporting the overseas roles of the other federal agencies represented abroad – depends upon the quality of Departmental personnel, technologies, and infrastructure. Diplomatic Readiness, a core responsibility, is the strategic asset that enables the Department to carry out its mission.

Diplomatic Readiness Goal:

Enable the U.S. Government to achieve foreign policy objectives and respond to international crises by cultivating a skilled, motivated, diverse, and flexible workforce.

People are the Department of State's most significant resource – 20,600 highly qualified civil service, foreign service, and foreign service national employees, with many more contract employees, in over 300 locations in the U.S. and overseas. Sound workforce planning and management is a critical component of Diplomatic Readiness, and a challenging task, especially given the complexities of operating overseas. Since the Department of State represents the U.S. to the world, its workforce must be highly skilled and truly representative of the American people, while its employment practices must demonstrate the U.S. commitment to the principles of fairness and equal employment opportunity.

- **Increased Information Technology Training.** The Foreign Service Institute (FSI) is located at the 72 acre National Foreign Affairs Training Center (NFATC) in Arlington, Virginia. As the federal government's primary training institution for personnel of the foreign service community, FSI helps promote diplomatic readiness by equipping foreign affairs personnel with first rate language and area expertise, as well as diplomatic tradecraft, general management and information management skills. The Department doubled information



The Foreign Service Institute campus in Arlington, Virginia.

technology training over the past two years to support the information modernization efforts by providing 236,000 hours of user training to over 13,000 students, including Information Management Specialists at over 100 overseas posts. During 1997, 193,704 hours of training were provided to 8,207 students at 25 posts. Respectively, this was a 22%, 58% and 300% increase during 1998.

New Foreign Service recruits being sworn in.

- **Improved Recruitment Methods.** The Department continued its Five Year Recruitment Plan, designed to recruit candidates from groups under-represented in its workforce. Minority hiring was significantly higher than in 1997 due to outreach efforts at colleges and universities having large numbers of minority students. The Department also completed and pre-tested a model Alternative Examination Process for entry into the Foreign Service to supplement the traditional Foreign Service Written Examination. It is expected that this new process will screen and identify applicants with the skills and experience the Foreign Service needs.

- **Planned Workforce Changes.** The Department completed a second iteration of the Overseas Staffing Model, which establishes an objective means of determining the quantity and type of employees needed at each overseas post. As part of the process, a "corporate board", comprised of the Department's top managers, reviews the resource allocation decisions to ensure that they are consistent with the priorities established by the Secretary. Planning for the expected retirement of the "Baby Boomers" from the Civil Service workforce, the Department is using the competencies identified by the Office of Personnel Management as essential for successful leadership to build a continuum of training to prepare the next generation of leaders. In expectation of the Foreign Affairs Agencies Reorganization in 1999 (merging of the Arms Control and Disarmament Agency and U.S. Information Agency into the Department of State), the Department spent much of the year laying the groundwork for a smooth transition to a unified structure, conforming disparate policies by identifying the "best practices" among the affected agencies.

Diplomatic Readiness Goal:

Strengthen the ability of the United States to achieve its International Affairs goals and respond to crises through effective and efficient information resources management and information systems.

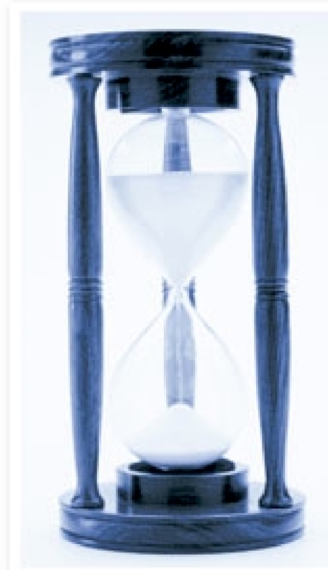
The collection, analysis and communication of information concerning international issues and developments of importance to the U.S. Government are essential to achieving foreign policy goals. Given the vast quantities of information available today, there is a premium on value-added and timely information. Secure and reliable information technology, along with accurate and efficient information networks, are essential tools for the policy process and Department operations at home and abroad. They are equally critical for the effective conduct of foreign relations, and for communications with the rest of the government and the public.

- **Maintained Information Technology (IT).** The Department successfully maintained the diplomatic classified telegram system which provided for the receipt , authentication, and delivery of over 3 million official messages between the Department's headquarters, all 250 diplomatic missions and other U.S. Government agencies worldwide. The Department's unclassified e-mail system handled 40 million messages and serviced 53,000 global users, including the Department and other U.S. Government agencies. In addition, the Department maintained mainframe computer operations, which supported consular processing of 6.5 million passports, background security name checks for the processing of 8 million visa applicants, and personnel, financial and payroll operations conducted in 164 countries in more than 140 currencies.

- **Deployed Key Overseas Computer Infrastructure.** During 1998, the Department of State deployed a new, fully modernized, unclassified computer infrastructure to 136 overseas posts. The program was named A Logical Modernization Approach (ALMA) and it will be deployed to remaining overseas posts in 1999. Emphasizing the unclassified, Internet-linked ALMA network reflected the Department's strategic requirement to engage beyond traditional diplomatic channels, as well as the need to maximize results from the investment of resources. Therefore, the Department has made the deployment of ALMA its top modernization priority.

- **Reporting Year 2000 (Y2K) Issues.** Recognizing the worldwide problem of potential computer failures due to Y2K, the Department initiated a comprehensive program to address this issue.

  – **Initiated Plans to Address State of Readiness.** Year 2000 readiness is one of the Department of State's highest priorities and Year 2000 issues receive attention at the most senior levels. The Department of State is confident it will be prepared. All 59 mission critical systems completed global implementation by May 14, 1999. The non-mission critical systems will be ready by September 1999. Internal telecommunications systems are Y2K compliant and have been rigorously tested; building systems and security systems at all facilities both domestic and overseas have been assessed and are prepared for the new year. To ensure meeting its responsibilities beyond 2000, the Department of State is engaged in an intense four-phase program to remediate, test, and certify the IT and non-IT systems and infrastructure supporting its core business functions, as well as prepare contingency plans for possible failures of systems or host country infrastructure. In particular, the Department has identified over 190 mission critical system interfaces with third parties, which include both data transfers and electronic funds transfers, and has aggressively managed those interfaces. Memoranda of understanding with each of the interface partners have been obtained. The electronic funds transfer (EFT) interfaces between the Department's financial systems and local banks by their nature change on a regular basis as relations with over 100 specific institutions begin or end. The Department's Bureau of Financial Management and Policy (FMP) aggressively tracks compliance data. Relationships are terminated with banks unable to establish or maintain Y2K readiness. New banking agreements are made only with Y2K compliant banks.



– **Costs of Addressing Y2K Issues.** The Department of State is continuing a major modernization program for information technology systems. Year 2000 costs are difficult to estimate and track because the majority of funds were not separately budgeted for Y2K and many expenditures are incurred within ongoing acquisition, development, and maintenance initiatives. In providing a single estimate rather than a range of estimates, the Department has attempted to take a conservative or high-end approach in attributing IT costs to Year 2000. Overall, the Department estimates the total cost for ensuring its systems are ready has been $206 million through August 1999, including that provided by OMB's Y2K Emergency Fund.

– **Risks of Y2K Issues.** Worst case scenarios can range from a loss of communications in a crisis situation affecting vital United States interests, to the inability to report on a citizen emergency in a timely manner, to the failure to pay staff and meet vendor obligations. Y2K crises in countries where preparations have been inadequate could lead to civil disorder and serious economic, social and political consequences. In fact, the possible scenarios are so varied in their potentials that it is not possible to usefully speculate on them, other than to seek to be prepared. The magnitude, complexity and breadth of the potential for Y2K problems are such that there can be no assurance all possibilities have been addressed.

– **Contingency Planning.** Nevertheless, Business Continuity and Contingency Plans (BCCP) are being developed to assure the Department of State's core business functions can be performed if Year 2000 problems occur. OMB's 9th quarterly report on federal agencies for the period ended May 14, 1999 noted how, within GAO guidelines, "Agencies have taken somewhat varied approaches to developing their BCCPs depending on the size, the mission, and the organization of the agency." This is an accurate statement for the Department of State with its worldwide responsibilities and the myriad conditions that exist at over 250 overseas posts and the many domestic facilities. The Department's BCCP therefore reflects its centrally managed but decentrally implemented structure and is focused on the need to maintain the overall continuity of the Department's business -- the pursuit of United States strategic goals and national interests -- in the face of potential Year 2000 failures. BCCP at the Department is consistent with GAO guidelines. It identifies potential risks and seeks to mitigate each risk to ensure continuity of business processes even if systems fail to operate as expected.

- **Individual Location Contingency Planning**. In addition to the Washington, D.C., headquarters, the Department has 30 annexes in the local area, 13 passport agencies and 22 diplomatic security offices across the United States, 3 financial processing centers (Charleston, Paris and Bangkok) and over 250 embassies, consulates and missions around the world. Each of these has developed a business continuity and contingency plan or have assured adequate coordination with their headquarters and will participate in the Department's contingency plan exercises following the completion of end-to-end testing of the Department's business processes. Upon completion of these tests, the focus will shift to testing of the contingency plans. Additional details were provided in the Department's June 15, 1999, report to OMB on its business continuity and contingency planning.

  The Department of State is confident of its readiness to fulfill it's most important responsibilities, protecting American citizens abroad, pursuing U.S. political, economic and security interests, and ensuring the safety of staff and facilities. In the latest report dated August 1999, Representative Stephen Horn, Chairman of the Subcommittee on Government Management, Information and Technology, gave the Department of State an "A" for its progress towards Y2K compliance. The previous rating in June 1999 was an "A-." February 1999 and November 1998 ratings were both "F." The grades are based on mission critical systems and associated criteria.

Diplomatic Readiness Goal:

Establish and maintain infrastructure and operating capacities that enable employees to pursue policy objectives and respond to crises.

The Department of State operates and maintains a network of diplomatic and support facilities in over 250 locations worldwide, ranging from highly developed countries with advanced infrastructure to underdeveloped or crisis-bound nations without reliable communications, transportation, or banking systems in all 24 worldwide time zones. The Department must respond to a vast array of support needs at overseas posts, ensuring that representatives from all U.S. Government agencies and their families can live and conduct business safely and efficiently, with due regard for morale, even in unhealthy or dangerous locations.

Architect's model of the new U.S. Embassy in Ottawa, Canada.

- **Increased Use of Real Asset Management.** The Department reviews its real property inventory to identify those properties that may be underutilized, functionally inadequate, expensive to maintain, or otherwise excess to its needs. The proceeds from the disposal of excess property are used to acquire, via purchase or construction, lower cost replacements and other financially attractive properties worldwide. During 1998, the Department sold nearly $103 million of real property and earmarked $55.9 million for the purchase of overseas properties. This does not include the normal maintenance and rehabilitation work.

- **Pursued Energy Conservation.** The Department is aggressively pursuing a worldwide program to increase energy efficiency at its overseas facilities. During 1998, $3.1 million was earmarked for the implementation of 396 energy conservation measures at 47 overseas posts. The resulting savings of $761,000 represents an internal rate of return of 15% on funds invested in energy conservation measures at overseas posts.

- **Established African Task Group.** The Department established the African Task Group to restore secure office facilities in Dar es Salaam and Nairobi as quickly as possible after the terrorist attacks on August 7, 1998. Emergency operations were re-established within days after the tragedy at each site. By the end of 1998, temporary office facilities were completed and occupied at both sites. Construction of interim office buildings was well underway with planning for permanent construction ongoing.

FINANCIAL HIGHLIGHTS

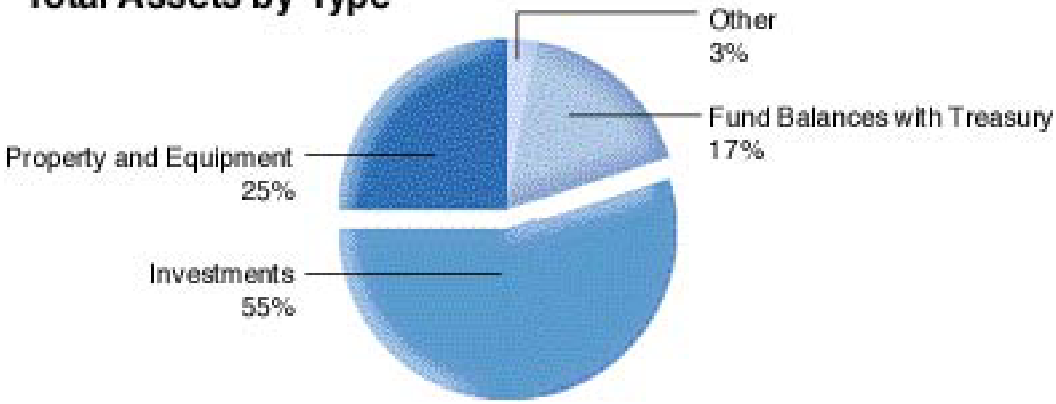
This is the third year that the Department of State has prepared Department-wide consolidated financial statements. The preparation of Department-wide consolidated financial statements is an important step towards promoting improved accountability and stewardship over the public resources entrusted to the Department. Preparation of these financial statements is part of the Department's overall goal to improve financial management and to provide accurate and reliable information that is useful in assessing performance and allocating resources. Responsibility for the integrity and objectivity of the financial information presented in the financial statements rests with Department management.

Subjecting financial statements to an independent audit enhances their reliability. Leonard G. Birnbaum and Company, an independent accounting firm, was retained by the Department's Office of Inspector General to audit the Department's Financial Statements as of and for the year ending September 30, 1998. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, as issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 98-08, *Audit Requirements for Federal Financial Statements*.

Financial Condition - Assets. The Department had total assets of $17.6 billion as of September 30, 1998. Investments in U. S. Government Securities of $9.6 billion, and Property and Equipment (net) of $4.4 billion comprise 80% of this amount. The investment amount shown in the financial statement consists almost entirely of investments by the Foreign Service Retirement and Disability Fund (FSRDF). Property and Equipment is primarily composed of overseas real property ($3.8 billion) consisting of embassies, consulates and related office structures, and housing.

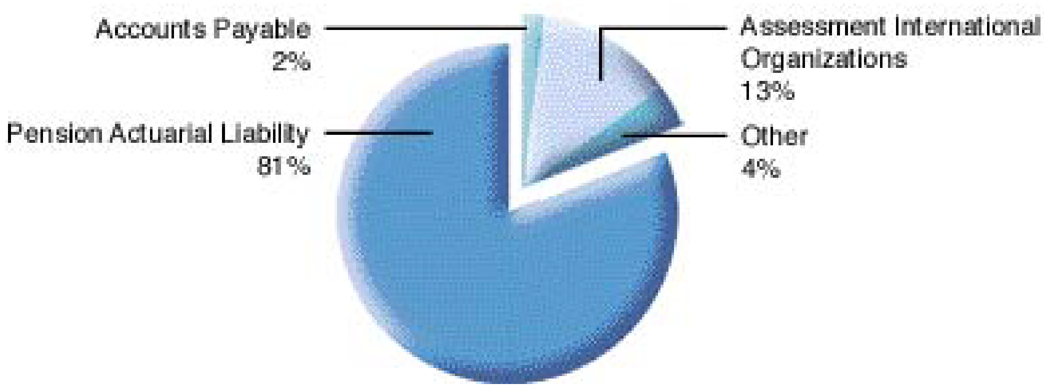
Total assets increased $0.8 billion from the $16.8 billion in total assets as of September 30, 1997, due to increases in Investments and Fund Balances with Treasury.

Total Assets by Type



Financial Condition - Liabilities. The Department had total liabilities of $13.2 billion as of September 30, 1998. Of this amount, $10.7 billion (81%) was for the FSRDF's Pension Actuarial Liability and $1.7 billion (13%) was for Assessments from International Organizations. Of the Department's total liabilities, $3.1 billion (24%) were unfunded, i.e., not covered by budgetary resources. The largest portion of the unfunded liabilities is $1.7 billion in accumulated arrears on assessments from international organizations which can not be paid until there is congressional authorization and appropriation. Since September 30, 1997, total liabilities increased only slightly (less than $0.1 billion), as a net result of increases in the funded liabilities and decreases in unfunded liabilities.

Liabilities by Type

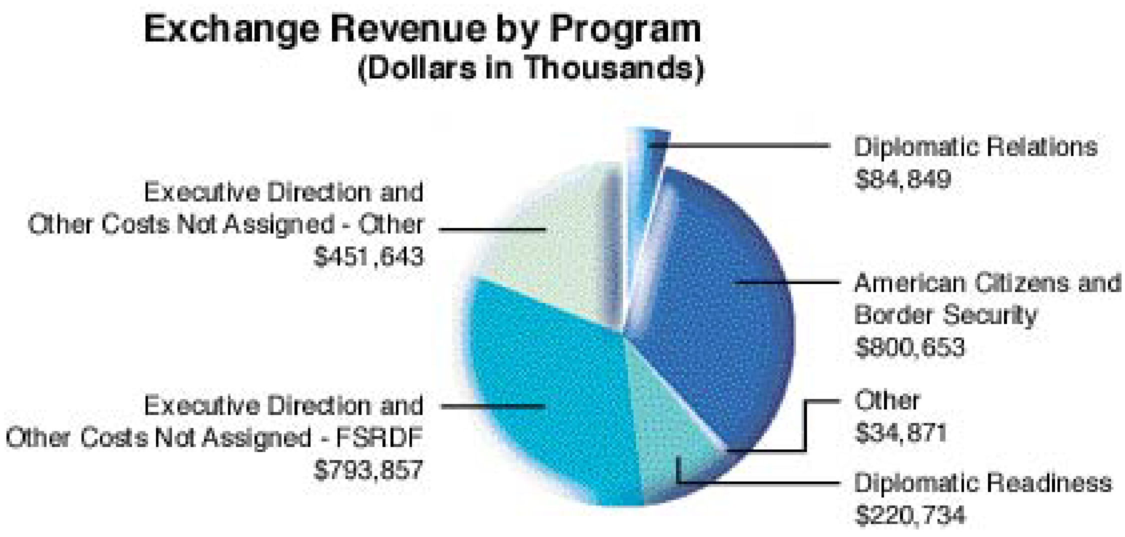


Results of Operations. The results of operation are reflected in both the Consolidating Statement of Net Cost and the Consolidated Statement of Changes in Financial Position. The Department’s various financial activities are shown in the Consolidating Statement of Net Cost, which categorizes costs and exchange (i.e., earned) revenues by major program and responsibility segment. A responsibility segment is a component responsible for carrying out a mission or major line of activity, and whose managers report directly to top management. The Department’s responsibility segments are by Under Secretary, with the Under Secretary for Management and the offices reporting directly to the Secretary combined in one column of the Consolidating Statement of Net Cost.

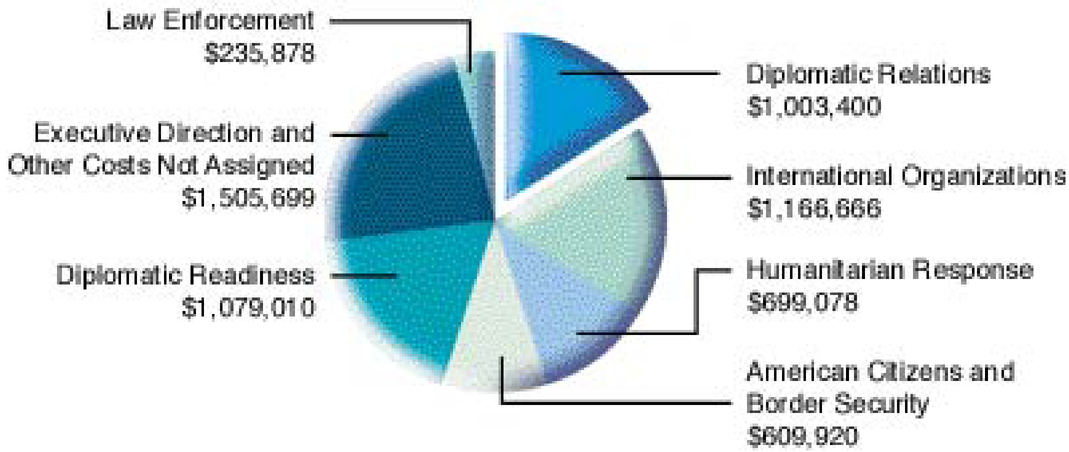
Programmatic Reporting. To the extent practical, the programs displayed on the Consolidating Statement of Net Cost correlate to the national interests discussed earlier in this report. An exception is for the national interests of National Security, Economic Prosperity, Democracy, and Global Issues. These interests are primarily carried out through the Department's Diplomatic Relations and International Organizations programs. These two programs, with 1998 net costs of $0.9 and $1.1 billion, respectively, constitute 53% of the total net cost of operations. Other programs reported on the Statement of Net Cost include American Citizens and Border Security, Humanitarian Response, Law Enforcement, and Diplomatic Readiness. In addition, the statement contains a category for "Executive Direction and Other Not Assigned" for costs and revenues related to high level executive direction, international boards and commissions, and certain general management and administrative support costs that cannot be reasonably allocated to a particular program. This latter category contains two activities with major financial implications for the Department, particularly with regard to revenue. These are the FSRDF and the International Cooperative Administrative Support Services (ICASS) system.

The Department's total net cost of operations in 1998, after Intra-Departmental eliminations of almost $1 billion, was $3.9 billion. Revenues and expenses by program are shown below. The major sources of exchange revenues are interest revenue and contributions to FSRDF, consular fees, services provided to other agencies through reimbursable agreements and ICASS. Exchange revenues are reported regardless of whether the Department is permitted to retain the revenues in whole or in part. Specifically, the Department collects but does not retain passport, and certain visa and other consular fees.

Revenue and Expenses by Program

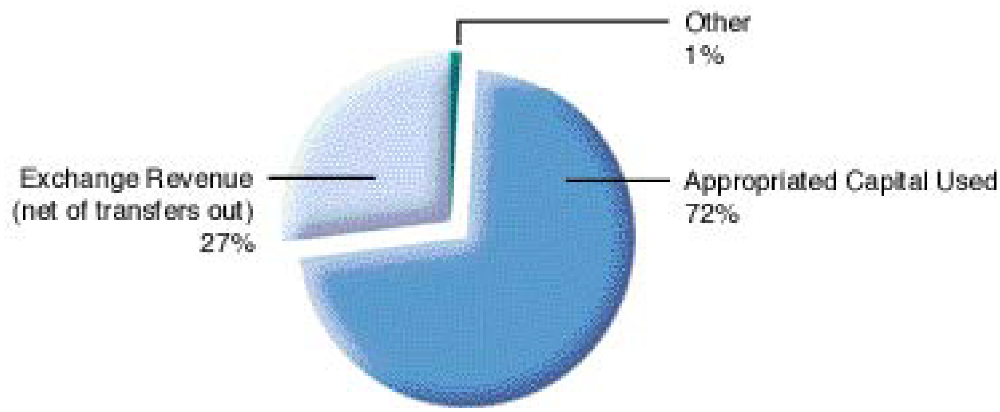


Expenses by Program
(Dollars in Thousands)



Changes in Net Position. The Statement of Changes in Net Position reports the results of operations by adding to the net cost of operations the Department's financing sources other than exchange revenue. In 1998, appropriations used totaled almost $4.9 billion. After a transfer out of $0.5 billion in consular fees that are directly deposited in the U.S. Treasury as general receipts, the net results of operations was almost $0.5 billion, down slightly from $0.6 billion in 1997.

Revenues and Financing Sources



Budgetary Issues. The Department's operating budget provides the basic platform for the delivery of the nation's foreign policy as well as the infrastructure to support most U.S. Government civilian operations overseas. The operating budget has been essentially flat since 1993, and buying power has been eroded by approximately 15% due to inflation alone. As a result, the Department has had to cut about 2,500 employees, closed more than 30 embassies and consulates, and defer essential modernization of infrastructure and communications. At the same time, workload has increased, including dramatically greater passport and visa issuances, an increasing number of crises to manage, more difficult-to-support overseas posts, and increases security threats, such as terrorism, nuclear and narcotics smuggling, and international crime. The tragic events in East Africa a year ago highlight this threat.

While operating within a complex environment, the Department's infrastructure has eroded, resulting in crucial staffing and training gaps, inadequate Foreign Service National pay and benefit plans, and unmet vehicle, equipment, furniture, telephone and information technology needs. In 2000, the Department will continue to face demands for worldwide security, information technology modernization and replacement, increased telecommunications capacity, and Y2K issues. The Department also faces challenging policy demands, including the Southeastern Europe Initiative, North Korea, arms control and non-proliferation, Middle East Peace, global issues, relations with the United Nations and other international organizations, and relations with China, each of which requires additive resources.

The Department of State is also implementing the President's plan to consolidate the foreign affairs agencies which was approved by Congress. On April 1, 1999, the Arms Control and Disarmament Agency was consolidated into the Department and, on October 1, 1999, the U.S. Information Agency was consolidated as well. While there will be a period of adjustment, integrating personnel and administrative support systems, there will be long-term benefits in the conduct of our foreign policy

As a result of the East Africa bombings, the Department received an Emergency Security Supplemental appropriation for FY 1999 of $1.489 billion for security, specifically for the following.

- Creating temporary embassies in Nairobi and Dar es Salaam while designing and building replacement embassies ($200 million).
- Providing all posts with basic security equipment packages ($650 million).
- Expanding local guard coverage at facility perimeters ($186 million).
- Hiring additional personnel to provide security expertise at more posts and implement these measures ($75 million).
- Upgrading emergency radio communications to all posts ($123 million).
- Temporarily relocating, upgrading, or constructing new facilities at posts identified as the highest priority ($185 million).
- Increasing anti- and counter-terrorism activities ($20 million).
- Providing some assistance to Kenya and Tanzania ($50 million).

The Department's FY 2000 budget request of $6.3 billion includes a decrease from the one-time Emergency Security Supplemental, offset by increases for wage and price increases domestically and overseas and minor increases for certain arms control and market development initiatives. The Department's $6.3 billion request represents approximately 30% of the overall International Affairs request, which is only 1% of the total U.S. Government budget. For 2000, the Department has requested $268 million for the recurring costs of the Security Supplemental, as well as an additional $300 million for overseas facility construc tion and an advance appropriation of $3.6 billion for 2001 to 2004 for overseas facility construction. The 2000 budget will allow the Department to construct four new diplomatic facilities and acquire up to eight additional posts.

OTHER REPORTING REQUIREMENTS

The *1998 Accountability Report* consolidates reporting to the President and the Congress for a number of separate laws. This section contains reports on those subject areas of financial and program management currently mandated by Congress.

Debt Collection Improvement Act

The Department uses a variety of methods to collect its receivables. In 1998, the Department entered into a cross servicing agreement with Treasury for collection of our receivables and, in accordance with the Debt Collection Improvement Act of 1996, are referring receivables to Treasury for administrative offset. In addition, the Department uses installment agreements, restriction of passports, and salary offsets to collect its receivables.

Department of State FY 1998 Debt Management Activities
(Dollars in Thousands)

Total Receivables Outstanding End of FY	$	32,173
% of Outstanding Debt:		
- Delinquent		24.1%
- Estimated to be Uncollectible		8.9%
% of Debt Collected		40.1%
% of Debt Written-Off		-
Total Receivables	$	263,972
Total Collections		105,744
Total Adjustments		(126,054)
Total Write-Off		-
Total Estimated Uncollectible		2,856
Total Receivables Net of Allowance	$	29,317
Aging Schedule of Delinquent Receivables:		
- 180 days or less	$	761
- 181 to 365 days		1,129
- > 365 days		5,877
- Total Delinquent Debt	$	7,767

FY 1998 Accounts Receivable and Total Debt Outstanding
(Dollars in Thousands)

Type of Receivable	Principal	Percentage of Total Debt Outstanding
International Boundary and Water Commission Receivables	$ 16,785	52.2%
Proceeds of Sale	4,043	12.6%
Repatriation Loans	3,519	10.9%
Misc. Accounts Receivable	3,101	9.6%
Value Added Tax Refunds	1,734	5.4%
FSRDF Withholding Receivable	1,045	3.3%
Travel Advances	1,043	3.2%
Retirement Overpayments	903	2.8%
	$ 32,173	100.0%

The total amount of receivables outstanding at the end of 1998 was approximately $32.2 million. This amount is comprised of receivables owed to the International Boundary and Water Commission, proceeds of sale of real property owed to the Department, Repatriation Loans, retirement annuity overpayments, travel advances and value added tax refunds due from foreign governments.

The majority of the delinquent receivables are for the Repatriation Loan Program. These are loans given to destitute American citizens stranded overseas to allow them to return to the United States. The loans are given only if the individual cannot obtain funds from relatives, friends, employers, or any other source. The Department acts as the lender of last resort. The loan is due 60 days after repatriation to the United States. Due to their poor economic situation, most of these individuals are unable to repay the loans on time.

Federal Civil Penalties Inflation Adjustment Act

The Federal Civil Penalties Inflation Adjustment Act of 1990 established annual reporting requirements for civil monetary penalties assessed and collected by Federal agencies. Civil Penalties are defined as any non-criminal penalty, fine or other sanction for which a given dollar amount or maximum amount is specified by Federal law, and which is assessed or enforced by an agency as a result of an administrative proceeding or civil action in the Federal courts.

On September 29, 1998, a civil monetary penalty was assessed on the Boeing Company for $7,500,000, with an initial payment of $3,500,000 which was received by the Department in early October 1998. In addition, five installments of $800,000 will become due each subsequent year on the assessment date. This penalty was imposed on Boeing by the Acting Under Secretary of State for Arms Control and International Security Affairs and Director, U.S. Arms Control and Disarmament Agency, for repeatedly exporting defense articles (technical data) and defense services to Russia, Ukraine, Norway and Germany without the required approvals from the Department. In some cases, Boeing violated the terms and conditions of the approvals which were provided by the Department. The Boeing project involved the launching of commercial satellites from a converted oilrig in the Pacific Ocean.

The Department is collecting installments for an August 21, 1997, assessment on Delft Instruments, N. V. The initial payment of $200,000 was made in August 1997. Five installments of $20,000 each will continue to be collected on the anniversary date of the assessment until August 22, 2002. Delft Instruments had concealed a material fact involving the unauthorized transfer of U.S.-origin defense articles to Iraq and Jordan.

Prompt Payment Act

The Prompt Payment Act (PPA) requires that Federal agencies pay their bills on-time or, if late, pay an interest penalty. During 1996, the Department implemented an Office of Inspector General approved Quality Control Program. The Quality Control Program provides for the systematic and continuous review of payment processes to ensure, among other things, the proper calculation of due dates and payment of interest. Since its inception, the Quality Control Program, coupled with the increased use of government charge cards, has improved the Department's overall compliance with the PPA. In 1998, the continued application of the Quality Control Program increased our compliance with the requirements to accurately calculate payment due dates, and pay interest when due. This resulted in an increase in the percentage of late payments from 8% in 1997 to 13% in 1998, and a corresponding increase of $347,000 in dollar value of interest paid.

Timeliness of Payments
FY 1995-1998

	1995	1996	1997	1998
On-time	68%	87%	92%	87%
Early	12	-	-	-
Late	20	13	8	13
Total	100%	100%	100%	100%
Late Payments:				
Interest paid	4%	5%	4%	7%
Interest not due	9	8	4	6
Interest due but not paid	7	-	-	-
Total	20%	13%	8%	13%

Selected Payment Data
FY 1995-1998

	1995	1996	1997	1998
Number of Payments	269,183	180,941	334,093	270,026
Interest Paid ($ in 000)	447	423	779	1,126
Interest under $1 not due ($ in 000)	22	14	10	15
Interest due but not paid ($ in 000)	12	-	-	-
Number of IMPAC Charge Card Transactions	-	18,479	25,692	27,208

Management Integrity and Accountability

Management Control Program

The Federal Managers' Financial Integrity Act requires annual reviews of the adequacy of program and activity management controls. The Management Control Steering Committee oversees the Department's management control program. The Committee is chaired by the Chief Financial Officer, and includes seven Assistant Secretaries, the Chief of Information Officer, the Inspector General, and the following two additional high-ranking officials, the Deputy Chief Financial Officer and the Deputy Legal Adviser.

Individual assurance statements from Ambassadors overseas and Assistant Secretaries and equivalents in Washington, D.C., serve as the primary basis for the Department's assurance that management controls are adequate. The officers' statements are based on information gathered from various sources, including the managers' own knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations, reviews, audits, or inspections and investigations performed by the Inspector General and the General Accounting Office.

Each year, Department organizations with material weaknesses in program and administrative activities must submit plans to correct these weaknesses to the Committee for review and approval. These plans, combined with the individual assurance statements, provide the framework for monitoring and improving the Department's management controls on an on-going basis.

Status of Management Controls and Report on Material Weaknesses and Nonconformance

The Department evaluated its management controls and financial management systems for the fiscal year ending September 30, 1998. This evaluation provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved in 1998. The Management Control Steering Committee approved the closure of the following two previously reported material weaknesses: (1) Personal Property Management, and (2) Worldwide Disbursing and Cashiering. These closures reduce the total number of pending material weaknesses, including the financial management system nonconformance, to 11. During the last five years the Department has made significant progress, reducing the number of material weaknesses from 20 to 11, which includes the closure of 11 and the addition of two. The following tables show the progress made over the past five years in correcting and closing material weaknesses, and a list of pending material weaknesses and the non-conformance, along with targeted correction dates.

Number of Material Weaknesses by Fiscal Year

Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of Fiscal Year
1994	20	1	-	19
1995	19	2	-	17
1996	17	3	1	15
1997	15	3	1	13
1998	13	2	-	11

Pending Material Weaknesses and Nonconformance
Targeted Correction Date

Title	Fiscal Year
Information Management - Contingency Planning	2000
Information Management - Modernization	1999
Information Management - Mainframe Security	1999
Information Management - Information Systems Security	1999
Management of Major Acquisitions	1999
Rehabilitation and Maintenance of Real Property Overseas	1999
Inadequate Administrative Staffing Overseas	1999
The Passport Process	1999
Strengthen Immigrant and Nonimmigrant Visa Processing	1999
Accounting for the Working Capital Fund	1999
Financial and Accounting Systems - Nonconformance	2000

Material Weaknesses Closed in 1998

The following is a description of the two weaknesses approved for closure by the Management Control Steering Committee during 1998 with a brief description of the actions taken to correct them.

- **Personal Property Management** – The Department lacked central oversight of property management operations and did not monitor compliance with property management regulations. In addition, security and communications equipment, which is centrally funded and controlled, was not fully accounted for in Departmental records. These weaknesses hampered efforts to plan acquisitions and to identify excess property.

  The personal property assets of the Department, except for security and communications equipment, are tracked by the Non-Expendable Property Application for 246 activities worldwide. These records indicate 99% of inventories as completed and reconciled. Security equipment is tracked on the Property Accountability Management System. Security equipment inventories have been completed and successfully reconciled each year since the initial reconciliation in 1993. Communication equipment at posts abroad is tracked on the Worldwide Property Accountability System. Initial communications equipment inventories have been conducted, reconciled and certified at 88% of overseas posts, with inventories and inventory reconciliation underway at the remaining 12%. Management controls are in place for these systems.

  A central Property Management Branch was created to oversee the administration of the property accountability program. Property management policies and procedures were developed and published in Volume 6 of the *Foreign Affairs Handbook*. In addition, training was established and incorporated in the Foreign Service Institute's Administrative Management curriculum.

- **Worldwide Disbursing and Cashiering** – The Department had 21 U. S. Disbursing Officers (USDOs) worldwide who were accountable to the U.S. Department of Treasury for disbursement of several billion U.S. dollars and foreign currency equivalents. The exact dollar value could not be identified because, in general, the USDOs were unable to reconcile, balance, or clear their Treasury accounts or accurately report to Treasury the value of their foreign currency holdings. In addition, the USDOs were not consistently exercising proper oversight of the cashiering functions under their purview.

Many actions have been taken to improve controls over disbursing and cashiering. Recentralization of 18 USDOs to the three Financial Service Centers (FSCs) is completed. Disbursing is now performed only at the three FSCs, overseas in Paris and Bangkok and domestically in Charleston, South Carolina. Budget clearing accounts at the disbursing offices closed by recentralization have been reconciled. Standard disbursing guidelines were implemented. USDO oversight focuses on bank reconciliation, foreign currency management, and cashier monitoring and training. In addition, two detailed disbursing compliance reviews were performed at each FSC to ensure compliance with guidelines and management controls. These reviews will continue to be performed.

Automated overseas cashiering software is now being used and cashier training is being conducted at the FSCs. Standard monitoring controls are in place to determine proper cashier advance levels and to notify posts of delinquent monthly cashier verifications.

Overseas Physical Security Concerns

The Management Control Steering Committee considered adding overseas physical security as a new material weakness primarily as a result of the terrorist bombings at U.S. embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania. The Committee expressed the Department's great concern for physical security of the working and living environment for all employees. There is an inherent risk, and whenever the threat levels change, the Department responded with countermeasures. Security levels were increased at low-and medium-risk posts to the same as high-risk posts. Further information on security controls and performance measures is in the Diplomatic Readiness section of this report.

The Committee also reviewed the policies of other U.S. government agencies with numerous operating locations (e.g., U.S. Postal Service, Social Security Administration, and Department of Defense). The Committee concluded that conditions at overseas and domestic locations did not warrant opening a material weakness for this matter.

Management Follow-up to OIG Recommendations

This information on the Department of State's follow-up on the status of audit recommendations covers 1998. It includes information on the status of recommendations more than one year old without final management decisions, and a Management Statistical Summary.

STATUS OF AUDIT RECOMMENDATIONS WITHOUT MANAGEMENT DECISIONS

During 1998, the Department of State tracked 36 audit reports that are more than one year old that include a total of 225 recommendations for which final action was not taken to bring closure to the reports. These audits contain over $ 1.4 million in disallowed costs and recommended actions which when implemented could result in up to $11.5 million being better used. The Department is working to bring closure to the 36 audits (see table below) and recognizes that the follow-up actions and compliance to the recommendations are essential to improving the effectiveness and efficiency of the program operations.

36 Audits Over One Year Old Requiring Final Action

Program Area	Number of Audit Reports	Number of Audit Recommendations
Counter Intelligence	3	17
Financial Management	11	68
Information Management	4	13
Security Oversight	11	78
Support Programs	4	32
Property Management and Procurement	3	17
TOTALS	36	225

MANAGEMENT STATISTICAL SUMMARY

Status of Audits with Recommendations that Funds Be Put to Better Use.

On October 1, 1997, there were four audits with management decision on which final action had not been taken with recommendations that funds be put to better use, with a dollar value of $7.9 million. During the year, two audits with a value of $3.5 million were recommended. The resulting balance at September 30, 1998 was six audits with recommendations to put funds to better use awaiting final action with a dollar value of $11.5 million.

Status of Audits Disallowed Costs.

On October 1, 1997, there was one audit with management decision on which final action had not been taken, with a dollar value of disallowed costs totaling $1.4 million. No activity occured during the period, therefore the $1.4 million balance remained at September 30, 1998.

FUNDS PUT TO BETTER USE AND DISALLOWED COSTS IN AUDIT REPORTS MANAGEMENT TABLE AS OF SEPTEMBER 30, 1998

	Number of Audit Reports Identifying Funds Put to Better Use	Amount of Funds Put to Better Use	Number of Audit Reports Identifying Disallowed Costs	Amount of Disallowed Costs
Beginning of Year	4	$7,934,408	1	$1,400,000
New Audits During Year	2	3,520,830	-	-
Implemented Action	-	-	-	-
End of Year	6	$11,455,238	1	$1,400,000