FINANCIAL HIGHLIGHTS

This is the fourth year that the Department has prepared Department-wide financial statements. The preparation of Department-wide financial statements is important in promoting improved accountability and stewardship over the public resources entrusted to the Department. Preparation of these statements is part of the Department's overall goals 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.

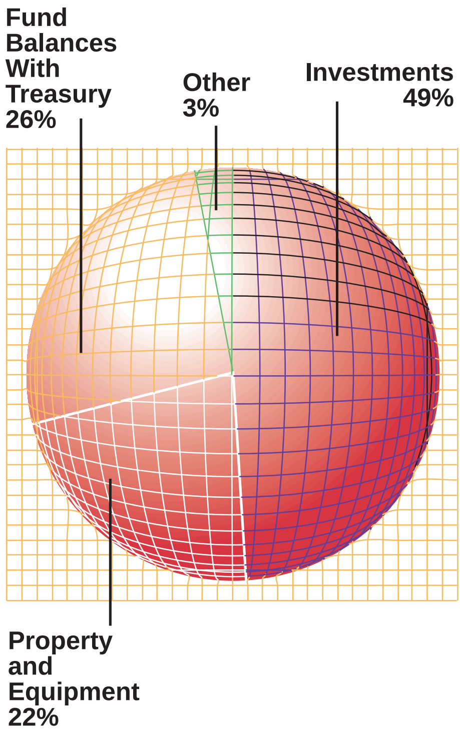
Subjecting financial statements to an independent audit enhances their reliability. Leonard G. Birnbaum and Company, an independent accounting firm, was retained by the Department's Office of the Inspector General to examine the Department's financial statements as of September 30, 1999. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* (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 $20.7 billion as of September 30, 1999. Investments of $10.1 billion, Fund Balances with Treasury of $5.4 billion, and Property and Equipment of $4.6 billion comprise 97% of this amount.

Investments consist almost entirely of U.S. Government Securities held in the Foreign Service Retirement and Disability Fund (FSRDF). The Department's assets reflected in the Consolidated Balance Sheets on page 69, are summarized on the following table (dollars in thousands).

Total assets increased $3.1 billion (18%) from the $17.6 billion in total assets as of September 30, 1998. The increase is primarily due to a growth in (1) Fund Balances with Treasury for monies received for arrearages to international organizations and Emergency Supplemental Appropriations

Assets by Type



for security upgrades and the Kosovo crisis, and (2) Investments due to reinvesting the interest earned on investments during the year.

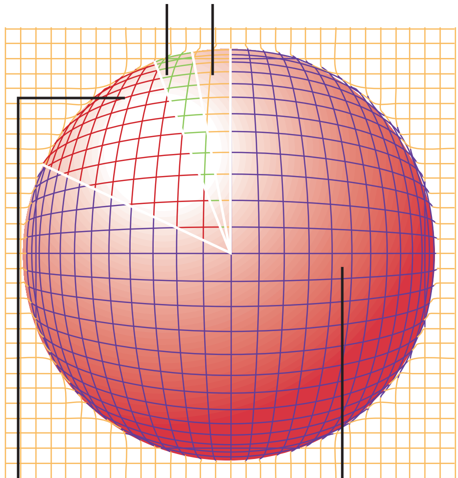
	1999	1998	1997
Investments, Net	$10,130,928	$ 9,553,109	$ 8,989,294
Fund Balances with Treasury	5,364,117	2,954,523	2,435,277
Property and Equipment, Net	4,624,322	4,434,797	4,399,532
Accounts Receivable, Net	280,899	285,457	584,393
Other Assets	280,499	325,990	355,733
Total Assets	$20,680,765	$17,553,876	$16,764,229

Financial Condition - Liabilities. The Department had total liabilities of $13.8 billion as of September 30, 1999. The Foreign Service Retirement Actuarial Liability of $11.2 billion and the Liability to International Organizations of $1.7 billion comprise 94% of this amount.

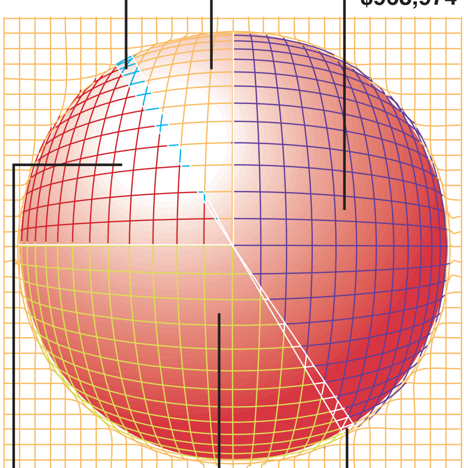
The Department's liabilities reflected in the Consolidated Balance Sheets on page 70, are summarized on the following table (dollars in thousands).

	1999	1998	1997
Foreign Service Retirement Actuarial Liability	$11,170,900	$10,736,700	$10,488,200
Liability to International Organizations	1,707,255	1,735,446	1,700,459
Accounts Payable	450,588	284,218	252,748
Capital Lease Liability	78,131	76,843	81,683
Federal Employees' Compensation Act Benefits	60,874	46,881	43,706
Other Liabilities	296,677	321,916	574,502
Total Liabilities	$13,764,425	$13,202,004	$13,141,298

Liabilities by Type



Earned Revenue by Program (in thousands)



Total liabilities increased by $0.6 billion (4.3%) from September 30, 1998, driven primarily by the increase in the Foreign Service Retirement Actuarial Liability in the FSRDF. The Foreign Service Retirement Actuarial Liability increased $0.4 billion to $11.2 billion, or 82% of total liabilities. Of the Department's total liabilities, $3.0 billion (22%) 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 cannot be paid until there is Congressional authorization and appropriation.

Financial Condition - Net Position. The Department's Net Position was $6.9 billion as of September 30, 1999, a $2.5 billion (59%) increase from the $4.4 billion balance at September 30, 1998. The $2.5 billion increase consists of a $2 billion increase in Unexpended Appropriations primarily for Supplemental Emergency Appropriations for security upgrades and the Kosovo crisis, an increase in appropriations for the arrearages to international organizations, and a $0.5 billion increase in the Cumulative Results of Operations.

Results of Operations. The results of operations are reported in the Statements of Net Cost and the Consolidated Statements of Changes in Net Position on pages 71 and 72, respectively.

The Statements of Net Cost categorize costs and exchange (i.e., earned) revenues by major program and responsibility segment. A responsibility segment is 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 Secretaries, with the Under Secretary for Management and offices reporting directly to the Secretary combined and reported in one column. To the extent practical, the programs displayed on the Statements 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. In addition, the statement contains a category for "Executive Direction and Other Costs Not Assigned" for costs and revenues related to high level executive direction, international 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 system.

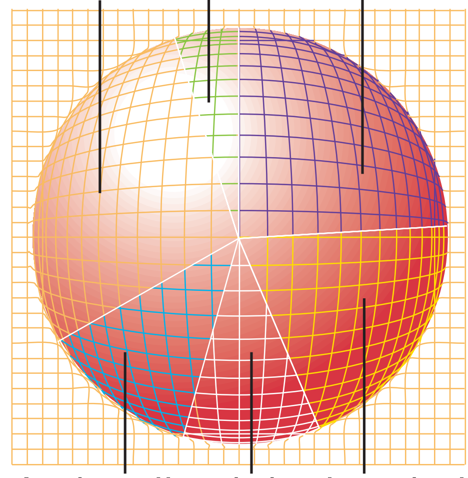
The Department's total net cost of operations for the year ended September 30, 1999, after intra-Departmental eliminations, was $5.0 billion. The Diplomatic Relations program with $1.6 billion of net costs, and International Organizations with $1.4 billion of net costs, comprise 60% of this amount. Revenues and expenses by program are shown at left. The major sources of exchange revenues are interest revenue and contributions to FSRDF, consular fees, services provided to other agencies through reimbursable agreements and the International Cooperative Administrative Support Services system. 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.

Total net costs increased by $1.1 billion (28.3%) from September 30, 1998, due to an increase in total costs of $1.1 billion. The $1.1 increase was primarily comprised of $0.4 billion for emergency security, $0.2 billion for international organizations, $0.2 billion for the FSRDF, and $0.1 billion for law enforcement. Total revenue remained constant at $2.4 billion.

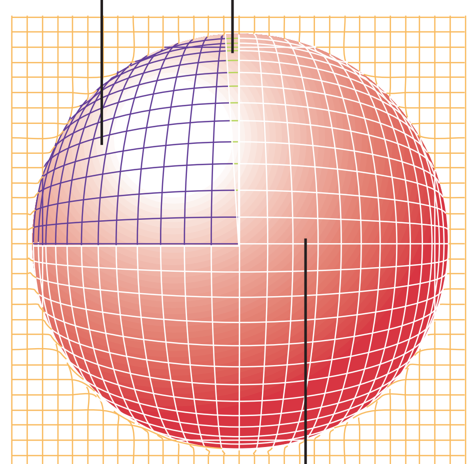
The Statements of Changes in Net Position report the net results (versus costs) of operations by adding the Department's financing sources for nonexchange revenues to the total net cost. In 1999, appropriations used totaled almost $6 billion, and comprised 75% of the Department's total revenues and financing sources.

The appropriations used of $6 billion is a $1.1 billion increase from the $4.9 billion total for 1998. This increase corresponds to the $1.1 billion increase in total costs discussed above. After a transfer out of $0.5 billion in consular fees that are deposited in the U.S. Treasury as general receipts, the net results of operations remained unchanged from the 1998 level of $0.5 billion. The $0.5 billion in net results of operations, together with the $2.0 billion increase in unexpended appropriations, resulted in an increase in total Net Position of $2.5 billion from $4.4 billion at September 30, 1998, to $6.9 billion at September 30, 1999.

Total Cost by Program
(in thousands)



Revenues and Financing Sources



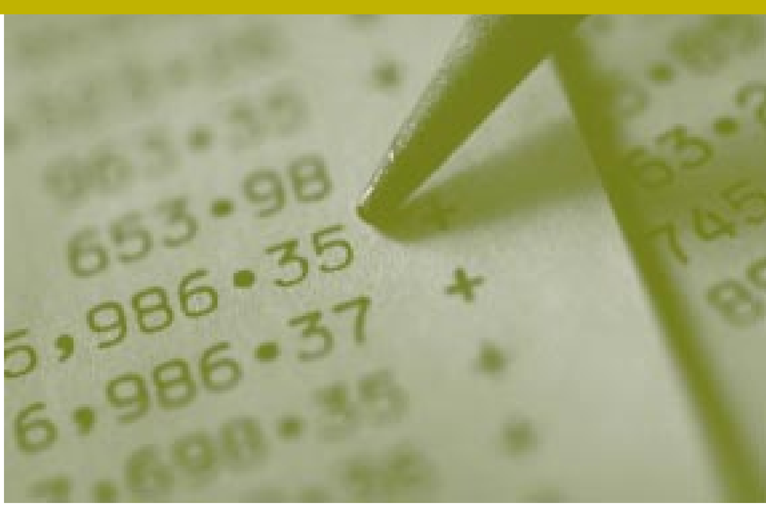
Budgetary Issues. The Department's operating budget provides the basic platform for the delivery of the nation's foreign policy as well as the infrastructure to support most U.S. Government civilian operations overseas. The operating budget has been essentially flat since 1993, while buying power has been eroded by approximately 20% due to inflation alone. As a result, the Department cut about 2,500 employees between 1993 and 1998, closed more than 30 embassies and consulates, and deferred essential modernization of infrastructure and communications. At the same time, workload was increasing, including dramatically greater passport and visa issuances, an increasing number of crises to manage, more difficult-to-support overseas posts, and dramatic increased security threats, such as terrorism, nuclear materials and narcotics smuggling, and international crime. There has been a major thrust in the past several years to obtain the resources necessary to meet the workload and infrastructure requirement – the Capital Investment Fund was created, the 1998 Emergency Security Supplemental was passed, and the Department has used Machine Readable Visa and Expedited Passport Fees to meet workload and information technology needs in the consular function.

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 insufficient replacement cycles of vehicles, furniture, telephone systems, and information technology. In 2001, the Department will continue to face demands for worldwide security, information technology modernization and replacement, and increased telecommunications capacity. The Department also faces challenging policy demands, including Southeastern Europe, arms control and non-proliferation, civil wars and refugees in Africa, human rights violations, relations with the United Nations and other international organizations, and North Korea, all of which require the appropriate level of resources.

The Department of State has also just completed the consolidation of the U.S. Information Agency and the Arms Control and Disarmament Agency into the Department of State. The integration will improve the execution of U.S. foreign policy, but will require dedicated resources to relocate and consolidate staff, ensure the use of common information technology platforms, and train American and foreign national staff. Security has always been a priority for the Department but this importance grew even more after the bombings at two East African embassies in 1998. The Department received over $1.4 billion in 1999 to (1) reestablish operations in Nairobi and Dar es Salaam, (2) upgrade all facets of facility security (including local guards, equipment, and construction), (3) hire additional security professionals, (4) continue counter-terrorism activities, (5) provide anti-terrorism training to foreign government police forces, and (6) provide disaster assistance to Kenya and Tanzania. In 2000, worldwide security upgrades funding of $254 million in the operating budget and $314 million in the capital construction budget are being used to maintain increased security levels established with the 1999 supplemental funds, and continue the program to build secure facilities. In 2001, over $1 billion has been requested in the President's budget, with $3.3 billion in advance appropriations, to maintain security levels and upgrade perimeter security, and continue the construction of secure facilities.

The Department's overall 2001 budget request of $7.8 billion includes the funds necessary to (1) continue the security program addressed above, (2) meet mandatory wage and price increases overseas and domestically, (3) $200 million for perimeter security and $16 million to hire additional security professionals, (4) minor increases to implement the recommendations of the Overseas Presence Advisory Panel with regard to training and the development of a common information technology platform for use by all U.S. Government agencies with an overseas presence, and (5) full funding of U.S. assessed contributions to international organizations including the United Nations and U.N. peacekeeping operations.

OTHER REPORTING REQUIREMENTS



The *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 more than 180 days delinquent. In accordance with the agreement and the Debt Collection Improvement Act, the Department began referring receivables to Treasury for administrative offset in 1999. The Department referred 1,678 accounts with a value of $1,885,452 to Treasury for cross-servicing in 1999. In addition, the Department uses installment agreements, restriction of passports, and salary offsets to collect its receivables.

FY 1999 Department of State Debt Management Activities
(Dollars in Thousands)

Receivables – Beginning FY Balance	$	29,317
Total New Receivables		17,730
Total Collections		(20,274)
Total Adjustments		852
Total Written-Off		(4)
Total Receivables – End of FY	$	27,621
Allowance for Loss on Accounts Receivable		(3,088)
Total Receivables, Net, End of FY	$	24,533
Aging Schedule of Receivables:		
Current	$	17,944
Delinquent:		
- 180 days or less	$	3,211
- 181 to 365 days		903
- > 365 days		5,563
- Total Delinquent Debt	$	9,677
Total Receivables	$	27,621

The total amount of receivables outstanding at the end of 1999 was approximately $27.6 million. This amount is comprised of receivables owed to the International Boundary and Water Commission, Repatriation Loans, travel advances, proceeds of sale of real property owed to the Department, and retirement annuity overpayments.

The majority ($2.9 million) of the receivables over 365 days delinquent 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.

FY 1999 Accounts Receivable and Total Debt Outstanding
(Dollars in Thousands)

Type of Receivable	Principal	Percentage of Total Debt Outstanding
International Boundary and Water Commission Receivables	$14,612	52.9%
Repatriation Loans	3,497	12.7
Travel Advances	1,036	3.7
Retirement Overpayments	1,017	3.7
Proceeds of Sale	922	3.3
Miscellaneous Receivables	6,537	23.7
	$27,621	100.0%

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. The balance of civil monetary penalties owed as of September 30, 1999, was $6,760,000. In 1999, no new assessments were imposed and the Department collected $820,000 of outstanding civil monetary penalties from Boeing Company and Delft Instruments, N.V., as explained below.

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 be due each subsequent year on the assessment date. This penalty was imposed on Boeing 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 oil rig 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 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. In 1999, the number of payments increased to 417,041, primarily due to improved reporting from overseas posts on the number of payments subject to the PPA. The incidence of late payments decreased to 7%, but the amount of interest paid increased $220,000 to $1.3 million.

Timeliness of Payments
FY 1998-1999

	1999	1998
On time	90%	87%
Early	3	-
Late	7	13
Total	100%	100%
Late Payments:		
Interest paid	4%	7%
Interest not due	3	6
Interest due but not paid	<0.01	-
Total	7%	13%

Selected Payment Data
FY 1998-1999

	1999	1998
Number of Payments	417,041	270,026
Interest Paid ($ in 000)	1,346	1,126
Interest Under $1 not Due ($ in 000)	10	15
Interest due but not Paid ($ in 000)	18	-
Number of Procurement Charge Card Transactions	34,088	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 is composed of nine other Assistant Secretaries, including the Chief Information Officer and 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 or their equivalent 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, and reviews, audits, or inspections and investigations performed by the Inspector General and/or the General Accounting Office.

Each year, Department organizations with material weaknesses in program and/or 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 year ending September 30, 1999. This evaluation provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved in 1999. The Management Control Steering Committee approved the closure of the following seven previously reported material weaknesses.

- Rehabilitation and Maintenance of Real Property Overseas
- Accounting for the Working Capital Fund
- Strengthen Immigrant and Nonimmigrant Visa Processing
- Management of Major Acquisitions
- Information Management – Contingency Planning
- Information Management – Mainframe Security
- Information Management – Modernization

This reduces the total number of pending material weaknesses, including the financial management system nonconformance, to four. During the last five years, the Department has made significant progress, reducing the number of material weaknesses from 19 to four, which includes the closure of 17 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 nonconformance, 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 FiscalYear
1995	19	2	-	17
1996	17	3	1	15
1997	15	3	1	13
1998	13	2	-	11
1999	11	7	-	4

Pending Material Weaknesses and Nonconformance Targeted Correction Date

Title	Fiscal Year
Information Management – Information Systems Security	2000
Inadequate Administrative Staffing Overseas	2000
The Passport Process	2000
Financial and Accounting Systems – Nonconformance	2002

Material Weaknesses Closed in Fiscal Year 1999

The following is a description of the seven weaknesses approved for closure by the Management Control Steering Committee during fiscal year 1999 with a brief description of the original weakness and actions taken to correct them.

Rehabilitation and Maintenance of Real Property Overseas – The lack of professional maintenance capabilities at the post level, the lack of systematic maintenance and rehabilitation programming, and the lack of adequate funding for the maintenance and repair of facilities all contributed to the deterioration of the Department's aging overseas facilities inventory. Delays in obtaining adequate and sustained funding directly affected the cost of correcting maintenance problems in the long run and impeded the efficient and cost effective operations of missions abroad. The need for cleared U.S. staff to maintain classified areas complicated maintenance and increased costs.

All major facets of the Department's rehabilitation and maintenance programs are in place, enabling the Department to deal effectively with overseas facilities maintenance requirements as long as funds are appropriated in future years to support efforts. A program to provide posts with expert resident facility maintenance capability was established. Maintenance guidelines were provided to all posts. A systemic approach to reduce the backlog of rehabilitation and system replacement projects to an acceptable level is in place and standard criteria are being applied to prioritize funding execution of the maintenance backlog. A maintenance assistance center was established in Washington, D.C. Annual condition surveys are now conducted at overseas posts. We have completed the development and installation phases of the Facility Project Subsystem which tracks and prioritizes maintenance requirements.

Accounting for the Working Capital Fund – When the Department initially reported the Working Capital Fund (WCF) as a material weakness, it had estimated assets of $24 million and annual revenues of $67.5 million. The Department did not have an integrated financial management system that adequately captured and reported WCF by individual activity. As a result, the integrity of the WCF and the Department's ability to adequately safeguard resources were in jeopardy. In addition, the Department was unable to produce auditable WCF financial statements as required by the Chief Financial Officers Act.

An interface between the Transportation Management System and the Department's Central Financial Management System (CFMS) was implemented in August 1994 that provides automated recording of revenues and costs from Despatch Agency field activities to CFMS. A Labor and Lock revenue tracking system was implemented that provides a central database for capturing and managing Labor Pool cost center activities, edits on financial data, and provides an audit trail for Labor Pool monthly charges. Accounting for the International Cooperative Administrative Support Services (ICASS) was successfully implemented within the WCF in 1997, and is separately audited (with an unqualified "clean" auditor's opinion). A strategic plan was developed to produce auditable statements for the balance of the WCF. Work continued in 1998 and 1999 to strengthen the processes.

WCF Accounting Procedures were developed and implemented. Reconciliations were completed on several major general ledger accounts and Financial Statements were prepared with the assistance of a CPA firm for 1994-98.

Strengthen Immigrant and Nonimmigrant Visa Processing – Unfilled consular computer systems needs and enhancement requirements, insufficient consular staffing overseas, and insufficient interagency exchanges of intelligence on inadmissible aliens created a greater likelihood of fraud in immigrant (IV) and nonimmigrant visa (NIV) processing by weakening management controls over consular operations. Hence, our increased vulnerability to visa fraud which manifests itself in entry into the United States by individuals ineligible for admission.

All operating posts overseas have modernized consular systems, which incorporate consular officer accountability and on-line namecheck connectivity to the Washington database. The database has been increased under the State-Immigration and Naturalization Service (INS) data share program. The NIV system has been "security certified" by the Department's Bureau of Diplomatic Security. Security features of the physical NIV have been enhanced; further improvements in visa foils and printers are under development. Development of a Hispanic namecheck algorithm is under way. The Border Crossing Card Program is implemented at all Mexican posts. Junior Officer intake levels have increased. More consular systems managers are receiving improved consular automation training.

Management of Major Acquisitions –The Department's managerial policies and practices, limitations inherent in the personnel system, and current operational practices did not provide adequate control to ensure that major acquisitions effectively and efficiently met the Department's missions and programs. As a result, acquisitions were not clearly defined or adequately evaluated in terms of expected outcomes, and the personnel and financial resources required to execute them. This material weakness recognizes OMB Circular A-109 requirements as a subset of major acquisitions, which have greater application in the Department.

Since this material weakness was opened in 1992, only Information Technology (IT) acquisition initiatives have met the "major acquisitions" dollar thresholds defined by legislation. Thus, efforts to address this weakness were redefined by new guidance contained in the IT Management Reform Act of 1996 and the *Capital Planning Guide*. These new procedures have been implemented to incorporate IT, financial and acquisition management considerations in all decisions on major IT acquisitions. The Bureau of Information Resource Management headed by the Chief Information Officer is responsible for developing, issuing and maintaining policy guidance on major IT acquisitions which is contained in Volume 5, Chapter 900, of the *Foreign Affairs Manual*. The Office of Inspector General (OIG) and the Department reviewed outstanding issues from the 1992 major IT acquisitions audit. The OIG closed the audit report based upon progress made, and the significant changes in the regulatory and organizational environment. The Foreign Service Institute developed a course, *Managing State Projects*, for program managers responsible for major acquisitions and other significant projects. By the end of FY 1999, 525 employees had taken this course. A new policy requiring that all major IT project managers take this course was promulgated December 1999.

Information Management – Contingency Planning – The Department was highly dependent on automated data processing as part of its basic mode of operation when this weakness was originally reported. The Department lacked the following ADP safeguards: backup capability at the Foreign Affairs Data Processing Center (FADPC) at Main State, backup financial and payroll systems at the three Financial Service Centers (Paris, Bangkok and Charleston, SC), and documented and tested information systems contingency planning guidance.

Guidance for disaster avoidance planning, disaster recovery planning, and business resumption planning has been developed. Alternate processing sites are now established at Main State and Beltsville, MD, giving a greatly improved infrastructure to mitigate the impact on mainframe operations in the event of a disaster. Additional planning and testing of these alternate sites capabilities is under way. The sole mainframe now operating overseas is located in Financial Service Center Paris. Detailed implementation and executable recovery plans were developed, and testing of these plans are being coordinated with the bureaus owning the corporate mainframe-based applications. Classified applications were migrated off the Red mainframe onto non-mainframe platforms and the Red mainframe was decommissioned.

Information Management – Mainframe Security – Concerns remained that serious security vulnerabilities on mainframe computers for domestic operations at the Foreign Affairs Data Processing Center at Main State and the Beltsville Information Management Center have not been systematically addressed. Specifically, mainframe security policy/standards must be published and, once published, must be implemented by the responsible offices. A professional security staff was established to implement and maintain the Access Control Facility (ACF2) security software. The staffing level has been enhanced to cover classified systems and to increase monitoring and maintenance of the unclassified systems.

A monitoring program that tracks potential mainframe security incidents was implemented, and is actively monitoring six systems. Two handbooks were published, *Mainframe Security Handbook* and *ACF2 Systems Administration Guide,* (drafted in June 1997 and updated in August 1999), to document and help ensure appropriate security procedures for mainframe computer access control.

Mainframe security policy revision is in the final clearance process and will be published by the Bureau of Diplomatic Security in Volume 12 of the Foreign Affairs Manual. On-site Information Systems Security Officer training was provided at Financial Service Center Paris to strengthen the program in Paris.

Information Management – Modernization – The Department was heavily dependent on proprietary computer systems and software for financial, consular, personnel, and administrative systems at approximately 90% of the overseas unclassified systems and 72% of the domestic systems were technically obsolete and should be replaced.

The Department made significant progress deploying A Logical Modern Approach (ALMA) infrastructure equipment to overseas posts. Approximately $120 million was invested to implement numerous IT modernization projects. Specific accomplishments include the following: As of September 30, 1999, ALMA was successfully deployed to 232 overseas posts. Domestic bureaus and overseas posts have made significant investments to upgrade desktop computer components. Mainframe computers at the Paris Financial Service Center were upgraded. Major progress was made in deploying a high-speed switched data network. All posts' telecommunications processor systems are Year 2000 compliant. The Department's domestic communications center was upgraded. All mission critical corporate applications are Year 2000 compliant.

Management Follow-up to OIG Recommendations

This information on the Department of State's follow-up on the status of audit recommendations covers 1999. It includes information on the status of recommendations more than one year old without final management decisions, and a Management Statistical Summary. During 1999, the Department of State tracked 37 audit reports that are more than one year old that include a total of 180 recommendations for which final action was not taken to bring closure to the reports. These audits contain over $1.5 million in disallowed costs and recommended actions which when implemented could result in up to $8.3 million being better used. The Department is working to bring closure to the 37 audits (see table on next page) and recognizes that the follow-up actions and compliance to the recommendations are essential to improving the effectiveness and efficiency of the program operations.

Management Statistical Summary

37 Audits Over One Year Old Requiring Final Action

Program Area	Number of Audit Reports	Number of Audit Recommendations
Counter Intelligence	3	14
Financial Management	11	55
Information Management	3	15
Security Oversight	12	67
Support Programs	3	15
Property Management and Procurement	5	14
TOTALS	37	180

Status of Audits with Recommendations that Funds be Put to Better Use

On October 1, 1998, there were six audits with management decision on which final action had not been taken with recommendations to put funds to better use, with a dollar value of $11.5 million. The Department had one audit where final action was taken during the fiscal year resulting in savings of $3.5 million. Another audit was recommended with savings of $320,480. Therefore at September 30, 1999, there were six audits with recommendations to put funds to better use awaiting final action with a dollar value of $8.3 million.

Status of Audits Disallowed Costs

On October 1, 1998, 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. During the period, another audit with a value of $145,000 was recommended. The resulting balance at September 30, 1999 was two audits totaling $1.5 million.

Funds Put to Better Use and Disallowed Costs in Audit Reports
Management Table as of September 1999

	Number of Audit Reports Identifying Funds Put to Better Use	Amount of Funds Put To Better Use Put to Better Use	Number of Audit Reports Identifying Disallowed Costs	Amount of Disallowed Costs
Beginning of Year	6	$ 11,455,238	1	$ 1,400,000
New Audits During Year	1	320,480	1	145,000
Implemented Action	(1)	(3,500,000)	-	-
End of Year	6	$ 8,275,718	2	$ 1,545,000