

# MANAGEMENT'S DISCUSSION AND ANALYSIS



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## Mission and Organization of the Department of State

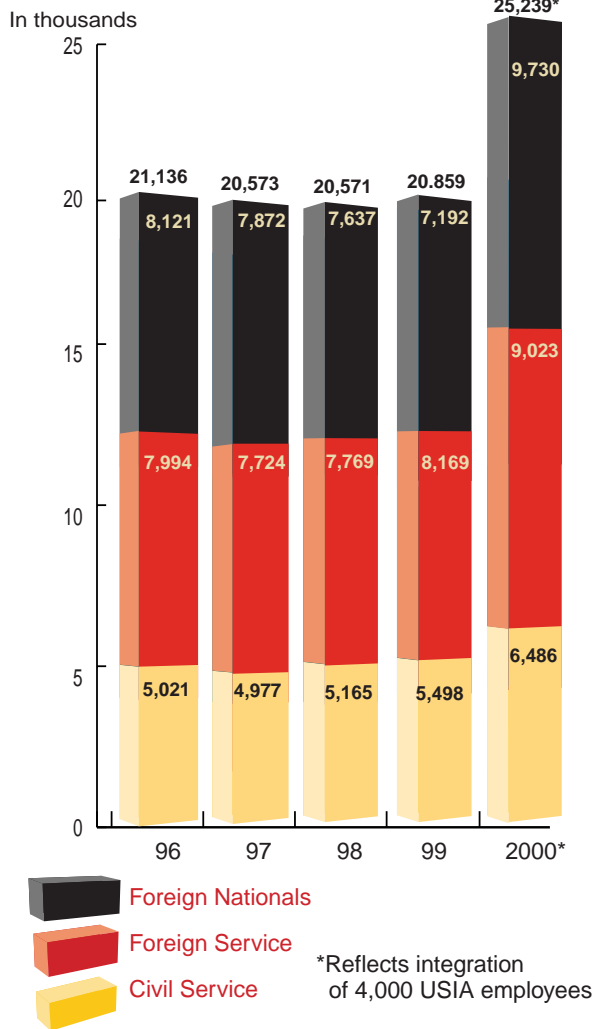
**D**iplomacy is an instrument of power, essential for maintaining effective international relationships, and a principal means through which the United States defends its interests, responds to crises, and achieves its international goals. The Department of State (Department) is the lead institution for the conduct of American diplomacy, a mission based on the role of the Secretary of State as the President's principal foreign policy adviser.

## MISSION

- Exercises policy leadership, broad interagency coordination, and management of resource allocation for the conduct of foreign relations.
- Leads representation of the United States overseas and advocates U.S. policies for foreign governments and international organizations.
- Coordinates, and provides support for, the international activities of U.S. agencies, official visits, and other diplomatic missions.
- Conducts negotiations, concludes agreements, and supports U.S. participation in international negotiations of all types.
- Coordinates and manages the U.S. Government response to international crises of all types.
- Carries out public affairs and public diplomacy.
- Reports on and analyzes international issues of importance to the U.S. Government.
- Protects and assists American citizens living or traveling abroad.
- Assists U.S. business.
- Manages those international affairs programs and operations for which the Department has statutory responsibility.
- Guarantees the Diplomatic Readiness of the U.S. Government.

The above mission statement guides the men and women of the Department who carry out foreign affairs programs and activities. Department employees are guided by a set of values as individuals and as an institution. The work of these employees has an impact on the American people here and abroad. Expertise in languages, understanding of foreign cultures and management of complex issues and programs gained through international experience are essential elements of this work. The Department exercises discipline in implementing policy regardless of personal preference, and its personnel are willing and able to serve worldwide as needed. The conduct of foreign relations is viewed as a long-term, career commitment rather than just a job. The Department workforce, a blend of Civil and Foreign Service Employees and Foreign Nationals overseas, reflects the diversity of America.

### Summary of Full-time Permanent Employees



The Department, the oldest and senior cabinet agency, was established in 1789 to advise the President on the formulation and execution of foreign affairs. The Secretary heads the Department and is the President’s principal advisor on the conduct of foreign relations. The Secretary is aided by a Deputy Secretary, six Under Secretaries, and the Counselor who serve as the Department’s corporate board on foreign policy with each specializing in the following areas—political affairs, economic, business and agricultural affairs, arms control and international security, global affairs, public diplomacy and public affairs, and management.

The foreign policy mission is conducted by approximately 25,200 employees in both the Civil Service and the Foreign Service, including Foreign Service Nationals, in the 162 countries where the United States is represented. In addition, the Department operates the following: national passport centers in Portsmouth, New Hampshire and Charleston, South Carolina; national visa centers in Portsmouth, New Hampshire and Williamsburg, Kentucky; two foreign press centers, one reception center, four offices which lease with foreign consular offices throughout the U.S., 13 passport agencies, 5 offices that provide logistics support for overseas operations, 22 security offices, and 3 financial services centers located overseas in Paris and Bangkok, and domestically in Charleston, South Carolina.

Within the Department’s headquarters in Washington, D.C., the mission is coordinated and managed through six regional bureaus, each with responsibility for a specific geographic area of the world. The regional bureaus and the overseas posts are supported by domestic offices (functional bureaus) that provide program management and administrative expertise in dealing with matters such as economics, intelligence, and human rights, as well as, finance, administration, information management, personnel, training, medical services, and security programs.



Harry S Truman Building, Washington, D.C.

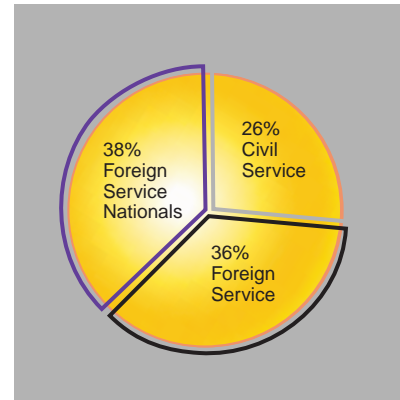
In each Embassy, the Chief of Mission (usually an Ambassador), is responsible for the coordination and management of all U.S. Government functions in the host country. Each Ambassador is appointed by the President, confirmed by the Senate and reports directly to the President through the Secretary. The Diplomatic Mission is also the primary U.S. Government contact for Americans overseas and foreign nationals of the host country. The Mission serves the needs of Americans traveling and working overseas and provides support to Presidential and Congressional delegations visiting the country.

## USIA Merged with Department of State

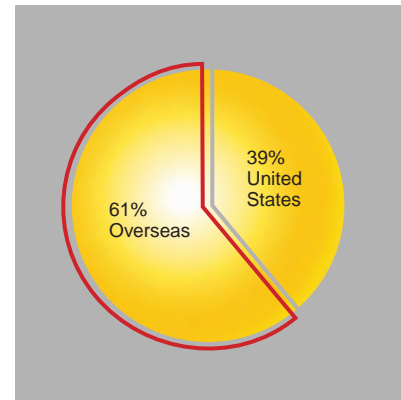
Pursuant to the Foreign Affairs Reform and Restructuring Act of 1998, the United States Information Agency (USIA) was abolished and certain functions were transferred to the Department of State effective October 1, 1999. As a result of this merger, over 4,000 “new” employees have been added to the Department of State.

USIA’s mission was to explain and support American foreign policy and promote U.S. national interests through a wide range of overseas information programs, as well as educational and cultural activities. USIA’s Bureau of Educational and Cultural Affairs remained a bureau in the Department, with responsibility for academic and professional exchanges and educational and cultural affairs. USIA’s Bureau of Information became the Office of International Information Programs in the Department, with responsibility for producing information programs and services to advocate U.S. policy positions with foreign audiences. Also, USIA’s Foreign Press Centers and Broadcast Services were incorporated into the Department’s Bureau of Public Affairs, area offices were combined with the Department’s regional bureaus and USIA’s Research Office was combined with the Department’s Bureau of Intelligence and Research.

**DEPARTMENT OF STATE WORKFORCE  
Full-time Permanent Employees  
as of September 30, 2000**



**DEPARTMENT OF STATE  
WORKFORCE-Where Based**



## Summary of Key Performance Goals and Results

During 2000, the Department continued full implementation of its first *Strategic Plan* prepared in 1997, as required by the Government Performance and Results Act (GPRA). The *Strategic Plan* defines, within the National Interests of the American people, the mission, goals, objectives, strategies, and performance measurement indicators for the Department of State and is available to the general public on the Department of State’s web site ([http://www.state.gov/www/global/general\\_foreign\\_policy/2000\\_dos\\_stratplan\\_index.html](http://www.state.gov/www/global/general_foreign_policy/2000_dos_stratplan_index.html)).

Specific performance goals for the Department’s programs and activities are further defined in the *2000-2001 Performance Plan*, also required by the GPRA.

The following chart summarizes the Department’s achievement of its goals for 2000.

## NATIONAL INTEREST PERFORMANCE GOAL SUMMARY

NATIONAL INTEREST	STRATEGIC GOAL	PERFORMANCE GOAL	OUTCOME*
<b>National Security</b>	Regional Security	State will minimize factors inhibiting full implementation of the Good Friday Peace Accord.	Successful (1 Indicator)
	Weapons of mass Destruction (WMD)	State will negotiate and implement with Russia and the other NIS countries the framework of treaties, agreements, and controls that will enable them to prevent WMD proliferation.	Unsuccessful (1 Indicator)
<b>Economic Prosperity</b>	Open Markets	Expand the scope and coverage of regional, multilateral, and bilateral trade and investment arrangements involving the United States to include new countries and industry sectors, and continue to seek market access in the telecommunications and aviation industries.	Successful (4 Indicators) Partially Successful (1 Indicator)
	U.S. Exports	Focus U.S. Government export promotion efforts on best international market prospects.	Successful (2 Indicators)
	Global Growth and Stability	Other countries and international financial institutions adopt policies designed to achieve global financial stability and restore economic growth.	Successful (1 Indicator)
	Economic Development	Developing and transitional countries make the necessary policy changes to create environments capable of supporting sustained economic growth,	Unsuccessful (1 Indicator)
<b>American Citizens &amp; U.S. Borders</b>	American Citizens	State will provide American citizens services knowledgeably, efficiently and courteously.	Successful (2 Indicators)
	Travel and Immigration	Replace approximately 5.5 million Border Crossing Cards by October 1, 2001 without disrupting cross-border travel and trade	Successful (1 Indicator) Partially Successful (1 Indicator)
<b>Law Enforcement</b>	International Crime/ Illegal Drugs	State will train foreign governments in the methods and techniques of combating international crime and drug trafficking.	Successful (3 Indicators)
	International Terrorism	State will provide support for governments in methods and techniques of combating terrorism.	Successful (5 Indicators)
<b>Democracy</b>	Democracy and Human Rights	State will provide support for governments and non-governmental organizations to hold free and fair elections.	Successful (3 Indicators)
<b>Humanitarian Response</b>	Humanitarian Assistance	State will improve humanitarian response mechanisms.	Successful (2 Indicators)
<b>Global Issues</b>	Environment, Population and Health	Negotiate and implement bilateral, regional, and global agreements that manage the production, use, and commerce in certain classes of industrial chemicals, pesticides and pollutants.	Successful (4 Indicators)

\*The results of the Department's efforts in meeting the performance goal is shown as successful, partially successful, or unsuccessful with the number of performance measurement indicators noted in parenthesis.

## DIPLOMATIC READINESS PERFORMANCE GOAL SUMMARY

DIPLOMATIC READINESS GOAL	PERFORMANCE GOAL	OUTCOME
<b>Human Resources</b>	All U.S. Government personnel on official duty abroad and under the authority of a Chief of Mission perform their duties in support of diplomatic operations in safety from serious injury due to political violence or crime.	Successful (3 Indicators)
	A Department-wide integrated Workforce Plan determines the size, distribution, composition and recruitment needs of the Department of State's American workforce through 2010.	Successful (3 Indicators)
	The Department is staffed with a fully skilled workforce and is ready to handle the surge of "baby boomer" retirements without a disruption in its work.	Successful (5 Indicators)
	The Department will sustain the morale, health, and well-being of employees and facility members	Successful (6 Indicators) Partially Successful (3 Indicators)
<b>Information Resources</b>	The Department's infrastructure, including its information technology systems, works after December 31, 1999.	Successful (2 Indicators)
	The Department's information technology systems and the information processed and stored in them are safe from unauthorized access, change, disclosure, disruption, or denial of service.	Successful (1 Indicator)
	The Department of State has modern Integrated technology accessible to all employees.	Successful (2 Indicators) Partially Successful (1 Indicator)
<b>Infrastructure and Operations</b>	The Department's domestic facilities are cost-effective and energy efficient, and enable employees to perform their duties.	Successful (4 Indicators)
	Overseas facilities under the Department's control enable State and other USG agencies' employees to perform their duties	Successful (4 Indicators)
	The Department's asset management program maximizes the economic benefits of our ready property holdings overseas	Successful (2 Indicators)
	All employees working in the Department's domestic facilities and designated foreign dignitaries within the United States are safe from physical harm.	Successful (1 Indicator) Partially Successful (3 Indicators)
	All classified and sensitive information at overseas and domestic facilities is safeguarded from physical and technical compromise	Successful (3 Indicators) Partially Successful (1 Indicator) Unsuccessful (1 Indicator)
	The Department of State has financial and accounting systems that meet internal and external financial management and programmatic requirements	Successful (2 Indicators) Partially Successful (2 Indicators)
	Domestic and overseas Department customers receive goods and services when needed.	Successful (3 Indicators)

## Department of State U.S. National Interests

**National Security** – To protect vital interests and secure peace; deter aggression; prevent, defuse, and manage crises; halt the proliferation of weapons of mass destruction; and advance arms control and disarmament.

**Economic Prosperity** – To expand exports, open markets, assist American business, foster economic growth, and promote sustainable development.

**American Citizens and U.S. Borders** – To protect American citizens abroad and safeguard the borders of the United States.

**Law Enforcement** – To combat international terrorism, crime and narcotics trafficking.

**Democracy** – To support establishment and consolidation of democracies and uphold human rights.

**Humanitarian Response** – To provide humanitarian assistance to victims of crises and disaster.

**Global Issues: Environment, Population and Health** – To improve the global environment, stabilize world population growth, and protect human health.

The following pages address the Department's key performance results in achieving the strategic goals within the National Interests. Performance results are more fully described in the Overview of the Department's Performance Report (Overview) section of this report (page 108) and in the Department of State *Fiscal Year 2000 Program Performance Report*, published in March 2001 at [http://www.state.gov/www/global/general\\_foreign\\_policy/perfplan\\_index.html](http://www.state.gov/www/global/general_foreign_policy/perfplan_index.html). For future accountability reports, the Department's *Program Performance Report* under GPRA will replace the Overview Section. The Department of State *Accountability Report for Fiscal Year 2000* can also be found on the Department's web site at <http://www.state.gov/m/fmp/acctrpt>.

### **Performance Data Verification and Validation**

The Office of the Inspector General (OIG) plans to verify and validate Department performance data as an integral component of its audits and inspections. For example, in the OIG report on Trade Barriers, the OIG found that many Department activities produced tangible results but its performance indicators did not provide well-defined statements of its expected performance or accurately capture the Department's contributions to reducing trade barriers. Also, the OIG's work related to major management challenges will assess the Department's progress and performance data in those areas. In addition, the OIG plans to systematically verify performance data in areas where audits and inspections are not being conducted to the extent objective verification is feasible for the performance measures. Management will work with the OIG and the program offices to facilitate the verification and validation process.

# NATIONAL INTEREST: NATIONAL SECURITY

## Strategic Goal: Regional Security

Ensure that local and regional instabilities do not threaten the security and well-being of the United States or its allies.

Regional stability, achieved through diplomatic leadership, a strong military and effective intelligence, is fundamental to U.S. national security. The tactics for achieving this goal is to maintain effective working relationships with leading regional states using cooperation in military defense through alliances, military assistance and defense trade controls to help prevent, manage and diffuse regional conflicts. Regionally based initiatives include support to the Northern Ireland Peace Process, Dayton Peace Accords, Stability Pact for the Balkans, Middle East, and the Association of Southeast Asian Nations Regional Forum.

- **Key Performance Goal:** The Department of State will minimize factors inhibiting implementation of the Good Friday peace agreement.
- **Outcome Desired:** Great Britain, Ireland and Northern Ireland implement the Good Friday peace agreement.
- **Results:** While the primary responsibility for implementation of the Good Friday Accord (GFA) lies with the British and Irish governments and the parties to the agreement, active U.S. involvement and support has been critical to the success of the GFA. The Department's target was to promote the full and effective functioning of the Northern Ireland elected Assembly and (administrative) Executive, as well as North-South institutions and to continue progress on the decommissioning of arms.

This year, GFA institutions, including North-South bodies, were established and became functional. Power was devolved to the Northern Ireland Assembly and the Executive prepared the budget. Additional progress was made in May when the Irish Republican Army (IRA) stated it would put its arms "completely and verifiably" beyond use and an initial inspection of an IRA arms dump took place.



Belfast, Ireland

### OTHER ACHIEVEMENTS

**Peacekeeping.** Bosnia and Herzegovina continued to make progress under the Dayton Peace Accords. The NATO-led Stabilization Force reduced its manpower by one-third without a decline in public security. The number of minority refugees returning increased by two-thirds over the previous year, advancing the aim of reversing ethnic cleansing.

**Middle East Peace Talks.** Israeli and Palestinian representatives continued to meet to discuss a Framework Agreement for Permanent Status. During the Camp David Peace Summit in July, Prime Minister Barak and PLO Chairman Arafat directly confronted and discussed the most difficult issues between them, including the status of Jerusalem and the right of return of Palestinian refugees. Despite marathon sessions and the achievement of understanding on certain issues, the summit ended without an agreement. However, progress was made in southern Lebanon, when Israeli troops were withdrawn, ending a 22-year occupation.



Erez border crossing between Israel and the Gaza Strip.



## OTHER ACHIEVEMENTS

**NATO.** The Department supported U.S. interests in NATO by promoting new members, cooperating through Partnership for Peace and improving NATO-Russian relations. NATO successfully integrated three new members — Poland, Hungary and the Czech Republic. This has the effect of erasing Cold War dividing lines and advancing the Department's aim of a whole and free Europe.

## Strategic Goal: Weapons of Mass Destruction

Eliminate the threat to the United States and its allies from weapons of mass destruction (WMD).



"Iskander-E" short range ballistic missile (NATO name SS-26 Iskander) deploying for spectators at the Ural Arms Exhibition in Nizhny Tagil, Russia.

The most serious threat to U.S. security is the possible use of weapons of mass destruction and the missiles that deliver them to the U.S. population or U.S. forces. The Department shares the lead responsibility for nonproliferation policy with the Departments of Defense and Energy, has the lead responsibility for arms control and verification policy and coordinates policy implementation. Of greatest concern are proliferation threats emanating from Russia, China, North Korea, and threshold states that seek to acquire WMD. The Department's activities have grown substantially since the 1999 integration of the former Arms Control and Disarmament Agency (ACDA). A number of tactics are used to prevent, discourage and eliminate the accumulation of weapons of mass destruction. These include efforts to: deny materials and technology to proliferators; reduce strategic offensive arms, tactical nuclear weapons, stockpiles and infrastructure; and prevent and contain WMD and missile programs in key countries and regions through various means including negotiating and implementing multilateral agreements.

- **Key Performance Goal:** The Department will negotiate and implement with Russia and other NIS (New Independent States) countries the framework of treaties, agreements and controls that will enable them to prevent WMD proliferation.
- **Outcome Desired:** Russia and other NIS countries do not contribute to the proliferation of WMD materials, weapons, expertise, technologies or delivery systems.
- **Results:** While the overall planned results have not been achieved, the Department was successful in expanding the installation of Internal Compliance Programs (ICPs) in entities of particular concern. The Department's key focus with Russia was helping Russian nuclear, aerospace, and industrial entities establish ICPs to ensure that they comply with Russian export controls and improve the enforcement of export control laws and regulations. Dozens of Russian and Ukrainian high-tech enterprises received first stage ICP training, and several enterprises participated in product classification training.

The Department continued to support Russia's efforts to protect, store, and account for its nuclear materials. The International Science and Technology Centers, located in Moscow and Kiev, are intergovernmental organizations funded by the U.S., European Union (EU), Japan, Republic of Korea, Norway, and Canada. The Centers fund civilian work by over 30,000 former Soviet WMD specialists to reduce their incentives to assist countries of concern. Some projects are now moving to commercialization and permanent transition out of weapons work. The Centers engage former scientists in Russia, Ukraine, Belarus, Kazakhstan, Uzbekistan, Kyrgystan, Georgia and Armenia.

In June 2000, the U.S. and Russian Presidents announced agreement on the disposition of 68 metric tons of weapon-grade plutonium withdrawn from their respective nuclear weapons programs. This agreement assures that plutonium will be changed into forms unusable for nuclear weapons and that it will never again be used for military purposes. The Department has continued to pressure Moscow to halt the transfer of sensitive nuclear and missile material and technology to Iran and other states of concern.



A worker checks departing bus for radiation levels near TOMSK-7 Plutonium processing facility. Russia

Arms control initiatives played a critical role in responding to the potential WMD threat emanating from Russia, the NIS, and other regions as well. The following summarizes the Department's work in key WMD treaties during 2000.

- Strategic Arms Reduction Treaties (START): The Parties continued to reduce their strategic nuclear offensive arms to meet the START I Treaty ceiling of 6,000 deployed warheads by the December 2001 deadline. Russia ratified the START II Treaty in May 2000. Russia and the U.S. conducted preliminary discussions on further reductions under a START III treaty.
- National Missile Defense (NMD): The Department discussed with Russia the need to negotiate changes to the Anti-Ballistic Missile Treaty necessary to permit deployment of a limited national missile defense. Russia has not yet been willing to engage in such formal negotiations.

#### OTHER ACHIEVEMENTS

In South Asia, the Department began an export control assistance program with India to help improve its ability to prevent unauthorized transfers in dealing with concerns regarding proliferation, and continued dialog with Pakistan on its export control program. The U.S. and China announced a new arrangement under which China committed not to assist, in any way, any country in the development of Missile Technology Control Regime-class ballistic missiles, and to enact at an early date comprehensive missile-related export controls. North Korea reaffirmed its missile launch moratorium, first announced in September 1999. In 2000, 14 additional states ratified or acceded to the Chemical Weapons Convention.

# NATIONAL INTEREST: ECONOMIC PROSPERITY

## Strategic Goal: Open Markets

Open world markets to increase trade and free the flow of goods, services, and capital.

Since the end of the Cold War, economic issues have become increasingly important in international affairs. Political stability is linked to long-term economic growth and prosperity. America prospers when other countries prosper. In promoting open markets, increased exports, global economic growth, and growth in developing and transition economies, we are promoting American prosperity. America's economy has become increasingly integrated with the global economy with the U.S. the largest exporter in the world of farm products, manufactured goods and services. Globalization offers vast new opportunities.

- **Key Performance Goal:** Expand the scope and coverage of regional, multilateral, and bilateral trade and investment arrangements involving the United States to include new countries and industry sectors, and continue to seek liberalization and market access in the telecommunications and aviation sectors.
- **Outcome Desired:** Markets in every country are open to American goods, services, and investment, with a level playing field that allows the United States to compete effectively.
- **Results:** The Department's approach is to expand World Trade Organization (WTO) membership, increase the number of Open Skies agreements, and increase U.S. telecommunications and information technology equipment sales.



Market in Kiev, Ukraine.

The Department participated in intensified negotiations during the first quarter of the year to launch a new World Trade Organization (WTO) round of talks. A number of new countries have become WTO members — Georgia, Croatia, Lithuania, Albania and Moldova. Talks to bring China into the WTO entered their final phase with the passage of Permanent Normal Trade Relations (PNTR) for China. Discussions continued with Russia, Saudi Arabia, and Ukraine on WTO entry and adoption of multilateral trade regime disciplines.

The Department's market-oriented Open Skies initiative yielded agreements with 12 new countries (performance target of five), bringing the total number of agreements to 47 in 2000. This model is now the template for civil air agreements worldwide.

The Department led the U.S. delegation to the 2000 World Radio Conference that put government and civilian users of radio spectrum in a strong position to provide cutting edge communications services. Americans will soon enjoy coast-to-coast compact disc-quality radio programming as a result of a Digital Audio Spectrum agreement with Mexico. American telecommunications and information technology equipment sales grew faster than projected, from \$123 billion in 1999 to \$135 billion in 2000. Foreign operations revenue of U.S. telecommunications service providers also grew from \$4.4 billion in 1999 to \$4.8 billion in 2000.

#### OTHER ACHIEVEMENTS

**Expanded Trade Agreements.** The Department worked with other United States Government agencies and the Congress to secure passage of the African Growth and Opportunity Act and to implement its provisions, to negotiate a sound framework for PNTR with China, and to sign a bilateral trade agreement with Vietnam.

## Strategic Goal: U.S. Exports

Expand U.S. exports to \$1.2 trillion early in the 21st century.

The 1997 National Export Strategy sets the goal of expanding U.S. exports of goods and services from \$800 billion in 1995 to \$1.2 trillion early in the 21<sup>st</sup> century. To accomplish this objective, the Department relies on a number of export promotion efforts such as advocacy, finance, and public diplomacy.

- **Key Performance Goal:** Focus U.S. Government export promotion efforts on best international market prospects.
- **Outcome Desired:** Expand United States exports to higher levels by 2001, thus generating more and better jobs at home for Americans.
- **Results:** U.S. exports rose from \$686 billion in 1999 to \$765 billion in 2000, an increase of 11.5%. This exceeded the Department's performance target of \$720 billion. Service exports continued to grow faster than merchandise exports, continuing a trend that began in the mid-1980s.

#### OTHER ACHIEVEMENTS

**Promoted U.S. Interests.** The Department advocated for dozens of U.S. companies, helping to win billions of dollars in contracts that boost American jobs and prosperity. In addition, the Department of State led an intensified dialogue with the European Union that led to agreements on data privacy worth billions of dollars and Mutual Recognition Agreements in sectors worth over \$50 billion. The Department led bilateral investment consultations to reduce investment barriers with eight countries.

McDonald's near Tiananmen Square.  
Beijing, China



## Strategic Goal: Global Growth and Stability

Increase global economic growth and stability.

In order to increase global economic growth and stabilize economic crises when they occur, the Department encourages countries that have a major impact on the global economy to adopt market-oriented investment, legal, and regulatory reforms. Also, strengthening the International Monetary Fund and other international financial institutions to achieve regional financial stability, a key ingredient to global economic growth, can facilitate reform.

- **Key Performance Goal:** Other countries and international financial institutions adopt policies designed to achieve global financial stability and restore economic growth.
- **Outcome Desired:** Broadly based economic growth occurs in all countries.
- **Results:** The Department played a critical role in efforts to promote economic integration and recovery in Southeast Europe, Africa, and the Caribbean Basin. In order to strengthen international financial institutions, the Department and Treasury negotiated for the partial payment of arrearages to International Financial Institutions. However, within the World Bank Group, U.S. arrears to the International Development Authority were \$32.1 million, and to the Global Environment Facility were \$204.2 million.

## Strategic Goal: Economic Development

Promote broad-based growth in developing and transitional economies.

Working with International Financial Institutions and other USG agencies such as Treasury, the Export-Import Bank and the Department of Commerce, the Department of State promotes policy reforms that lead to open markets and pluralistic societies in developing and transition economies.

- **Key Performance Goal:** Developing and transitional economies make the necessary policy changes to create environments capable of supporting sustained economic growth.
- **Outcome Desired:** Developing and transitional economies achieve sustainable economic growth, establish or strengthen market-based economic structures, become full members of the world economy, and eventually provide markets for United States exports.
- **Results:** The Support for Eastern European Democracy (SEED) program assists countries in the region to continue their successful transition from communism to market democracies. SEED efforts have focused on democratization, building a free and independent media, anti-corruption and private sector development. This year, no countries graduated and none are expected to graduate in the immediate future. The United States is extensively engaged in urging the seven remaining SEED countries (of the initial 15) to undertake the reforms necessary to qualify for graduation.

# NATIONAL INTEREST: AMERICAN CITIZENS and U.S. BORDERS

## Strategic Goal: American Citizens

Enhance the ability of American citizens to travel and live abroad securely.

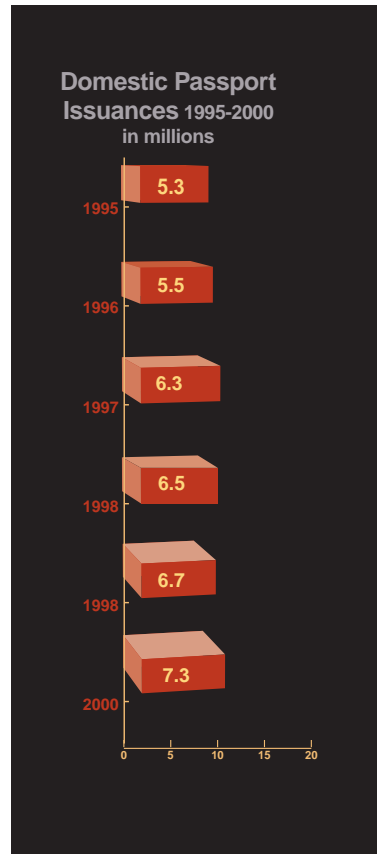
The protection and welfare of Americans overseas is a top priority of the Department of State. The purpose of this goal is to ensure that American citizens receive information, assistance and protection as they travel and reside abroad. The Department continues to face record demands for passports, travel information and requests for assistance from American citizens. Approximately 3.2 million Americans reside abroad, and Americans make more than 54 million trips outside the U.S. each year.

- **Key Performance Goal:** The Department will provide American citizens services knowledgeably, efficiently and courteously.
- **Outcome Desired:** U.S. Citizens will have the information and services they need to travel and reside abroad.
- **Results:** The Department's Consular Information Program alerts the public to problems they may encounter abroad. This fiscal year, the Department was

successful in disseminating information on consular services and travel safety using the Internet. The Bureau of Consular Affairs' web site (<http://travel.state.gov>) is known as the best place to obtain consular information and an authoritative source of travel safety information. The Department's goal is to average 150,000 "hits" per day and 95% of users finding the information helpful. The consular portion of the Department's web site averaged approximately 240,000 "hits" per day which is over 87 million "hits" during the year, 31 million more than in 1999. Survey's have showed ninety percent of users found the information helpful. Those who did not find the information helpful indicated their dissatisfaction stemmed from an inability to get their questions answered by telephone, an unwillingness or inability to call the passport information 900 number, and the absence of a listing of the winners of the Diversity Visa (DV) lottery. The consular portion of the Department's web site earned a place in Government Executive Magazine's list of the 16 "Best Feds on the Web." The Department strives for continual improvement in the web site and has planned enhancements, such as on-line status checks, to reduce such complaints.



Forbidden City, China



In the Department's first government-wide customer satisfaction survey, the services provided to passport applicants scored high in all areas measured. The survey showed that the service that passport customers received exceeded their expectations and the majority of customers with previous passport experience were more satisfied than they were in the previous two years. In addition, the Department's American Customer Satisfaction Index score of 73 on a 100 point scale was two points higher than the norm for private-sector service industries and more than 6 points higher than the aggregate score for the Federal government. The consortium that produced the Index (the University of Michigan Business School, Arthur Andersen, and the Federal Quality Consulting Group) considered the results excellent.

## Strategic Goal: Travel and Immigration

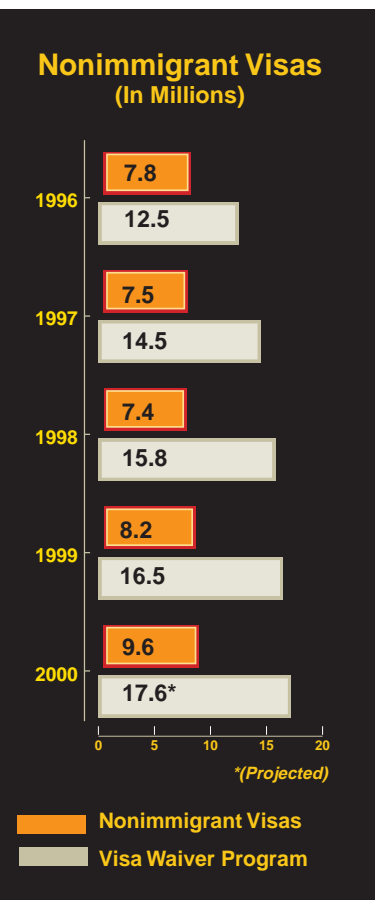
**Control how immigrants and non-immigrants enter and remain in the United States.**

The United States has been a beacon of freedom and opportunity throughout its history and continues to be an attractive destination for foreign tourists. The Department of State shares responsibility with the Department of Justice's Immigration and Naturalization Service (INS) for administering U.S. immigration laws fairly and effectively. U.S. consular officers provide for the lawful entry of persons who seek to enter the U.S. either temporarily or as immigrants.

Nonimmigrant visa workload at Foreign Service Posts during 2000 totaled over 9.6 million. Immigrant visa workload totaled over 678,000 applicants. Department of State posts provided 55% of the issued immigrant visa data in an electronic format to immigration inspectors at 16 major ports of entry.

- **Key Performance Goal:** Replace approximately 5.5 million Border Crossing Cards by October 1, 2001 without disrupting cross-border travel.
- **Outcome Desired:** All persons using Border Crossing Cards to enter the United States from Mexico after October 1, 2001 will use a card issued after April 1, 1998.
- **Results:** The Department's efforts to comply with Section 104 of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996, which requires that every (U.S./Mexico) Border Crossing Card (BCC) issued as of April 1, 1998, contain a biometric (a fingerprint) and be machine-readable have been largely successful. The goal is for all existing cards, estimated at 5.5 million, to be replaced.

In 2000, the final two posts were equipped to take BCC applications. Presently, all 12 posts countrywide process BCC applications. Additionally, consular officers process applications at four locations along the border using a portable BCC enrollment system. Visa officers in Mexico adjudicate the applications, then electronically forward the data to the Immigration and Naturalization Service. Three card production facilities produce the cards in the U.S. and return them to Mexico for delivery to the applicant.



Even though the results of the Biometric Program have been largely successful, it is not likely that all 5.5 million Border Crossing Cards will be replaced by October 1, 2001. Replacing the existing BCCs has been difficult for the Department due to:

- An unanticipated surge in first-time applications.
- A reluctance by Mexicans to apply far in advance of the deadline.
- Cardholders were initially suspicious that if their application was rejected that the old card would be confiscated.
- Distant applicants have been slow to visit the consular offices.

To address these issues, the Department is developing a pilot program to improve the process by producing the cards at posts in Mexico. A promotional campaign is also under way to promote replacement applications.

## NATIONAL INTEREST: LAW ENFORCEMENT

### Strategic Goal: Law Enforcement

Transnational crime represents a growing threat to the prosperity and well-being of Americans. International criminal organizations have become increasingly global and sophisticated. Their prevalence and resilience affects U.S. interests in stability, immigration and democracy. The Department works with foreign governments to prevent international crime and to enhance their ability to provide the U.S. with improved assistance to identify, investigate, arrest and prosecute international criminals.

- **Key Performance Goal:** The Department will train foreign governments in the methods and techniques of combating international crime.
- **Outcome Desired:** Foreign governments have the political will and institutional capabilities to conduct more effective programs to combat international crime.
- **Results:** The International Law Enforcement Academies (ILEA) established in Bangkok, Thailand and Budapest, Hungary build relationships for U.S. law enforcement agencies and to combat international crime. The Department's training programs at these and other Non-ILEA overseas locations, encompassing intellectual property rights, white collar crime, stolen cars, anti-smuggling, and anti-money laundering, are protecting U.S. interests and commerce. In 2000, the Department began a partnership with the government of Botswana to create an International Law Enforcement Academy that would initially serve southern Africa and eventually all of Africa. Construction began this year. The number of ILEA and Non-ILEA training course participants each increased by about 400 participants, exceeding the Department's target goal.



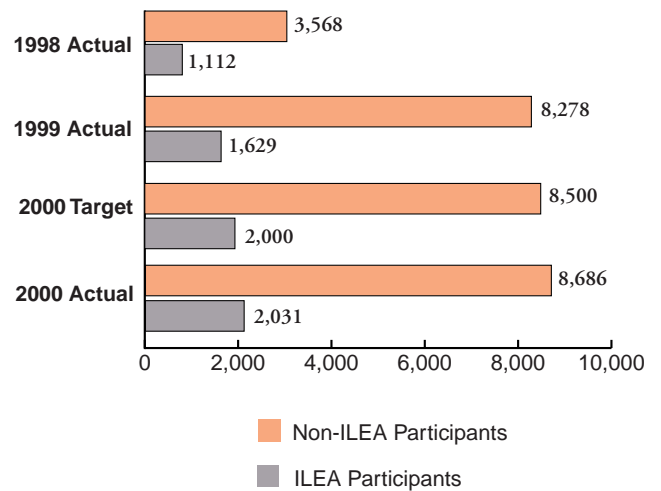
Diplomatic Security Engineer.



## OTHER ACHIEVEMENTS

In 2000, the Department supported the continued training and procurement of equipment for the newly established Joint U.S.-Hungarian Task Force Against Organized Crime, sponsored two conferences on youth gangs through the Organization of American States drug commission, sponsored and coordinated more than eighty bilateral anti-money laundering training programs in forty-plus countries globally, and spearheaded successful efforts to persuade our G-8 partners, through the Senior Expert Group on Transnational Organized Crime (Lyon Group), to establish a database within INTERPOL of some 5,000 East European Organized Crime figures and companies. The database has thus far promoted 15 investigations in various countries.

Number of Training Course Participants



## Strategic Goal: Illegal Drugs

Reduce significantly from 1997 levels the entry of illegal drugs into the United States.



Opium poppy field, Wa Village, Wa Territory, Shan State, Burma

Most illegal narcotics consumed in the U.S. come from abroad. Control of this foreign supply must complement efforts to reduce drug use and its harmful consequences in the U.S. The Department coordinates implementation of those elements of the National Drug Control Strategy that entail relations with or actions by foreign governments or international organizations, and activities outside the U.S. subject to the authority of chiefs of U.S. diplomatic missions. The Department applies the diplomatic measures required by the Congressionally mandated annual Narcotics Certification process to identify the major drug producing and transit countries and to encourage these countries to cooperate fully with the United States.

- **Key Performance Goal:** The Department of State will train foreign governments in the methods and techniques of combating drug trafficking
- **Outcome Desired:** Foreign governments have the political will and institutional capabilities to conduct more effective programs to reduce the production of illicit drugs and their flow to the United States.
- **Results:** The strategy to reduce the availability of illegal drugs in the United States focuses on programs to eliminate their production at their source and to interdict drug shipments before they reach U.S. borders. Departmental efforts during 2000 in providing assistance to foreign governments to control drug activities included the following.

## South and Central America and the Caribbean

In Colombia, the Department coordinated with the Colombia National Police to spray almost 42,000 raw hectares of coca and 9,000 hectares of opium poppy. In 2000, the U.S. government committed \$1.3 billion in support of Plan Colombia regional activities. In Peru, the Peruvian government responded favorably to all outstanding diplomatic notes on narcotics issues. Coca eradication, focused in the less secure valley production zones, surpassed 6,100 hectares for the year, a 12% net reduction. However, resistance to coca eradication by hardcore coca-growing communities and economically depressed areas slowed the scope of the total coca reduction this past year. Bolivia reached its target of eliminating the last of 7,500 hectares of remaining coca in the Chapare, and plans are under way to eliminate the illegal coca in Yungas, and reduce the amount under cultivation there for indigenous use to half the 12,000 hectares currently allowed by Bolivian law. In Guatemala, the Department's Air Wing ran a very successful interdiction deployment in Guatemala. At the request of the Guatemala Narcotics Affairs Section, a package of three UH-1N helicopters and one OV-10 Bronco fixed-wing aircraft executed a 120 day deployment and conducted illicit crop reconnaissance and aerial interdiction. The helicopter package was key in several successful cocaine busts.



T-65 Thrush spraying coca fields in Colombia.

This past year the government of Brazil implemented Operation Cobra, a plan to reinforce its presence in the border area with Colombia designed to prevent detrimental effects from possible spillover following implementation of Plan Colombia. In response to an alarming increase in drug consumption, the Department assisted the Government of Nicaragua in launching a demand reduction project this past year. The Department's future assistance will focus on supporting the national drug coordinator's office and various Non-Government Organizations (NGOs), including the Moravian Church.

## East Asia

Thailand has continued a successful opium eradication project that in 2000 led to the second lowest cultivation and production since the U.S. began crop estimates in the mid-1980s. In Vietnam, the Department supported an advisory program to assist the Vietnamese in drafting effective counternarcotics legislation. The draft legislation was presented to the Vietnamese legislature in November 2000 for consideration.

## South Asia

In 2000, the government of Pakistan reduced opium poppy cultivation from 1,570 to 515 hectares, and opium production declined from 37 metric tons to 11. After a greatly expanded 1999 opium crop in India, the Department worked with Indian narcotics officials, by providing vehicles and equipment to facilitate new initiatives for more comprehensive law enforcement. The Department also held discussions with senior Indian officials to ensure political support for these initiatives. India responded by dedicating additional personnel and equipment and significantly hampered the diversion of licit opium in the 2000 crop.

## Strategic Goal: Counterterrorism

Reduce international terrorist attacks, especially on the United States and its citizens.



Truck bomb attack on the U.S. Embassy in Nairobi: various rescue personnel gathered near the flags flying at half mast for a memorial ceremony at the bomb site.

International terrorism continues to threaten U.S. interests around the world, and developing good working relationships with other countries is important in fighting the threat. The dangers to American citizens, civilian and military facilities and foreign policy interests, as well as the threat of the weapons of mass destruction, continue to make terrorism a national security issue and law enforcement challenge. The Department works aggressively to thwart terrorists before they can get within striking distance, by curbing their funding, munitions, sanctuaries and freedom of movement to target areas.

- **Key Performance Goal:** The Department of State will train foreign governments in methods and techniques of combating terrorism.
- **Outcome Desired:** Foreign countries will become full partners with the United States in countering terrorism.
- **Results:** The Department of State continued to strengthen the political will, international cooperation, and operational capability of friendly countries willing to participate in counterterrorism efforts. The Department's Antiterrorist Training Assistance (ATA) program, which trains foreign officials, continued to expand as shown in the illustrative chart. Working groups were established with Russia and India, while intensive bilateral exchanges continued with such key countries as Canada, Great Britain and Israel, and also with Australia in preparation for the Olympic games. During the year, the Department hosted 25 regional and multilateral conferences and two major interagency counterterrorism exercises.

Antiterrorist Training			
<u>1998</u>	<u>1999</u>	<u>2000 Target</u>	<u>2000 Actual</u>
1,600	2,100	2,300	2,400

### OTHER ACHIEVEMENTS

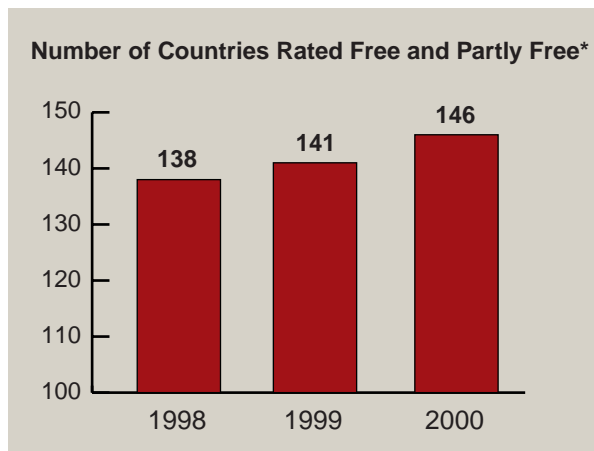
Blocked the entry of 91 terrorists and 15 organized crime figures during 2000 through use of the Department's computerized, all-source database TIPOFF. This system provides biographic elements and law enforcement reports to American, Canadian and Australian consular, immigration and customs officials. Also, the Department aided Jordanian security forces in their antiterrorist capabilities and prevented a major attack against Americans at hotels and tourist sites in Jordan.

# NATIONAL INTEREST: DEMOCRACY

## Strategic Goal: Democracy

Increase foreign government adherence to democratic practices and respect for human rights.

Democracy and respect for human rights are central components of U.S. foreign policy. Supporting democracy not only promotes such fundamental American values as religious freedom and worker rights, but also helps create a secure, stable and prosperous global arena in which the United States can advance its national interests.



\* The Freedom House, published authoritative annual survey

- **Key Performance Goal:** The Department will provide support for governments and non-governmental organizations to hold free and fair elections.
- **Outcome Desired:** New democracies hold free and fair elections.
- **Results:** The Department recognizes that democracy is much more than just elections. The slow development of democracy in some states demonstrates that elections should be regarded, not as an end in themselves, but the means to establish a political system that fosters growth and self-fulfillment of its citizens by promoting and protecting their political and civil rights.

In June 2000, over one hundred governments gathered in Warsaw for the first-ever meeting of the Community of Democracies. Participants at the meeting endorsed the Warsaw Declaration which outlined the basic elements of democracy and democracy promotion. The Warsaw Declaration is a major manifestation of U.S. leadership and offers clear evidence of this country's commitment toward promoting solutions. In September 2000, the Department published the second *Annual Report on International Religious Freedom*, documenting violations in 194 countries around the world.

# NATIONAL INTEREST: HUMANITARIAN RESPONSE

## Strategic Goal: Humanitarian Response

Prevent or minimize the human costs of conflict and natural disasters.

The Department is the hub for coordinating the USG response to humanitarian crises. In the event of a crisis, the Department initiates decision-making in Washington, communicates with other donors in capitals and international forums, and coordinates implementation in the field on all issues ranging from preventive diplomacy to peacekeeping.

- **Key Performance Goal:** The Department of State will improve humanitarian response mechanisms.
- **Outcome Desired:** The impact on refugees of conflict and natural disasters will be lessened.
- **Results:** In 2000, the Department achieved its goal of preventing and minimizing the human costs of conflict and natural disasters. Success was measured by two standards — that minimum food, water and shelter needs were met for the vast majority of a displaced population within 15 days of a mass population movement and that information related to natural disasters and complex humanitarian emergencies at the UN and other international organizations was shared.

The two most notable sudden mass migrations in 2000 took place when 270,000 people fled East Timor and when 900,000 refugees returned to Kosovo. No reports of extraordinary suffering as a result of unmet basic needs were reported among the returning Kosovars. Among the East Timorese population who fled to West Timor, conditions were difficult to measure due to the pervasive insecurity and insufficient access by international aid workers.



Chemical toilets and basins in Kosovar refugee camp set up by a German unit in Macedonia.



Damage caused by the 12 November earthquake. Duze, Turkey

## OTHER ACHIEVEMENTS

**Removed Landmines.** The Department's Humanitarian Demining Program has assisted 37 countries on five continents in confronting the direct and indirect effects of landmines. Humanitarian demining assistance has reduced casualties, restored agricultural land to productive use, returned refugees to their homes, and provided health care to mine victims.

**Information Sharing.** In partnership with other government and non-government organizations, the Department provided funding and a network of information culminating in the following accomplishments:

- Development of ReliefWeb to share information to help improve the quality of data and expand the coverage of natural disasters and complex humanitarian emergencies. It was accessed one million times during the past summer.
- Partnering of ReliefWeb and the Global Disaster Information Network (GDIN) to develop contact databases. This will be operational and available in 2001. ([www.GDIN-international.org](http://www.GDIN-international.org)).

**Established Standards.** The Department led a diverse group of International Organizations and NGOs in agreeing upon standards and sharing best practices in the sectors of health, water and sanitation, food nutrition and shelter and site planning. The resulting "SPHERE" standards have been completed and are available on the internet ([www.sphereproject.org](http://www.sphereproject.org)) in five languages.



Unexploded ordnance, Quang Tri Province, Vietnam

## NATIONAL INTEREST: GLOBAL ISSUES ENVIRONMENT, POPULATION, and HEALTH

### Strategic Goal: Environment

Secure a sustainable global environment in order to protect the United States and its citizens from the effects of international environmental degradation.

The global environment has a profound impact on the United States, its citizens and its national interests. Certain toxic chemicals and pesticides that are in widespread use in other countries pose environmental and health risks to Americans. The Department places a priority on reaching international agreements to minimize the use of these substances.

- **Key Performance Goal:** Negotiate and implement bilateral, regional, and global agreements that manage the production, use, and commerce in certain classes of industrial chemicals, pesticides, and pollutants.
- **Outcome Desired:** The health and environmental dangers to Americans stemming from the worldwide use of acutely hazardous chemicals are reduced in a manner that is cost effective and promotes American trade interests.

- **Results:** The Department was moderately successful in reaching agreement on common labeling standards with final agreement expected in the Spring of 2001. The global agreement on the use and production of persistent organic pollutants was finalized in December 2000. The Department was successful in finalizing a European-North American transboundary air pollution agreement on heavy metals that the U.S. ratified in December 2000.

The Department continued to work with other nations to elaborate the Kyoto Protocol of the UN Framework Convention on Climate Change. The Department brokered EU and Umbrella Group agreement on the rules for participation in the Kyoto Mechanisms, and achieved broad support for the U.S. position regarding the operations of the Clean Development Mechanism.

Boat in Hong Kong Harbor.



The Department led Federal efforts in the UN General Assembly to strengthen protection for the global marine environment. To help depleted fish stocks recover from over fishing and to protect marine mammals, the Department led international efforts to adopt and implement stronger conservation standards for ocean fisheries, reduce over-capacity in global fisheries, combat illegal fishing, and protect seabirds from fishing activity.

The Department led USG efforts to develop an agreement with the European Union on satellite navigation systems that protects U.S. industry and the American GPS user community.

## DIPLOMATIC READINESS GOALS

### Diplomatic Readiness Goal: Infrastructure and Operations

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

The ability of the Department 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.

The Department 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 crises-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.

- **Key Performance Goals:** The Department of State's domestic facilities are cost-effective and energy efficient, and enable employees to perform their duties. Overseas facilities under the Department's control enable state and other Federal agencies' employees to perform their duties.

- **Outcome Desired:** Facilities under the Department of State’s control enable employees to perform their duties in safe and secure facilities.
- **Results:** The most critical infrastructure need of the Department is to enhance the protection of our posts abroad in response to the increased security threat due to terrorism. The Department has made great progress in this area. Increasing the setback from the street is one of the major ways to reduce the threat of loss of life and injury. This has been accomplished through the closure of streets and through the acquisition of property adjacent to our facilities. Over the last 18 months, 108 setback properties at 28 posts around the world have been acquired. Another 15 properties at 10 posts are under negotiation or investigation.

### Physical Security Projects

	<u>1999 Actual</u>	<u>2000 Target</u>	<u>2000 Actual</u>
Number of Physical Security			
Upgrade Projects Funded*	1,097	1,150	1,137
Number of Projects Completed	207	710	516
Acquire/Obtain Options for Sites	5	10	9
Initiate Design/Construction	12	12	8
Complete Construction	3	7	4

\* cumulative 1998 to 2000

In 2000, the Department continued installation of Network Intrusion Detection systems to counter cyber-terrorism attacks, now deployed at 95 Posts and 146 locations.

The Department has been partially successful in domestic security improvements. A number of initiatives are under way to ensure the safety and efficiency of the domestic facilities entrusted to the Department. Installation of perimeter security for the Harry S. Truman Building is ongoing. Renovation of the Columbia Plaza building was completed. Multi-year renovations for the Foreign Affairs consolidation and the Harry S Truman Building are ongoing.

### OTHER ACHIEVEMENTS

**Asset Management Program.** Results of the Department’s Asset Management Program have been successful. The Department has instituted an asset management strategy to determine the “highest and best use” of its underutilized and excess property. Working with the posts, the Department disposes of excess and underutilized property.

### Number of Excess and Underused Properties

	<u>1999 Actual</u>	<u>2000 Target</u>	<u>2000 Actual</u>
Number of Excess Properties			
Marketed Worldwide	38	30 – 40	35
Anticipated Sales	10	15 – 20	15



**Employee Safety.** Results on improving employee safety have been partially successful. While addressing the increase in threats and incidents abroad, the Department also addressed significant increased demands on domestically based personnel in support of overseas operations including the protection of the Secretary, visiting foreign dignitaries and employees serving in domestic facilities. Programs specifically designed to enhance domestic security include (1) implementation of a validated visitor access control system and (2) replacement of Department employee identification cards. The new cards use Smart Card technology.

The replacement of the employee passes with Smart Card technology, targeted to begin the end of 2000, has been delayed until the 2<sup>nd</sup> Quarter of 2001. Also, during 2000, the Department obtained two (versus target of four) armored vehicles for the domestic fleet. The Secretary's replacement armored limousine has been ordered. During 2000, the Department was successful in ensuring that the safety of dignitaries was not compromised as evidenced by the World Trade Organization Conference, the Middle East Peace Talks and the Millennium Summit.

**Safeguarding Information.** Efforts to safeguard information have been partially successful. In safeguarding all classified and sensitive information from being compromised, the following initiatives have been undertaken by the Department.

- (1) Seven posts have installed the Video Entry Guard Alarm Systems (VEGAS) bringing the total of posts completed to 17. The 2000 goal was to complete 18 posts.
- (2) Unclassified systems at all embassies/consulates report to a central location. All posts now have access to a monitoring center which forwards incidents to a Computer Incident Response Team for all OpenNet Systems.
- (3) The phased deployment of a Network Intrusion Detection Systems on unclassified systems at all overseas locations is ongoing. This effort is 40% complete with 146 locations at 95 posts being monitored at the central monitoring center.
- (4) Approximately 85% (target 99%) of incumbent Information Systems Security Officers received training.
- (5) Periodic security reinvestigations of personnel have been unsuccessful in meeting the five-year renewal requirement due to resource constraints.
- (6) Closure of the outstanding recommendations in the GAO Report—Computer Security—Pervasive Serious Weaknesses Jeopardize State Department Operations, GAO/AIMD-98-145, May 1998.
- (7) 100% of domestic employees and contractors attended the mandatory annual security briefing. Incorporated the briefing material into the new-hire processing.
- (8) Established and implemented an aggressive antivirus program, which enabled the Department to operate with minimal disruption during recent virus attacks.
- (9) Closure of Information Systems Security, FMFIA material weakness opened in 1998.

# MANAGEMENT CONTROLS AND FINANCIAL SYSTEMS

## FMFIA Assurance Statement

Fiscal Year 2000

As a result of the recommendations of the Department's Management Control Steering Committee and the assurances given by senior Department officials, I am pleased to certify, with reasonable assurance that, except for the three pending material weaknesses identified in this report, the Department's systems of management control, taken as a whole, comply with Section 2 of the *Federal Managers' Financial Integrity Act of 1982*.

The Department is in substantial compliance with applicable Federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. However, the Department does not substantially comply with Federal financial management systems requirements. Therefore, the Department does not fully comply with Section 4 of the *Federal Managers' Financial Integrity Act of 1982*. We have developed a remediation plan to resolve this issue and expect to achieve substantial compliance by Fiscal Year 2003.



Secretary of State

### Management Control Program

The Federal Managers' Financial Integrity Act (FMFIA) requires annual reviews of the adequacy of management controls for Federal programs and activities. The Management Control Steering Committee (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 (non-voting), the Deputy Chief Financial Officer and the Deputy Legal Adviser.

Individual assurance statements from Ambassadors (overseas) and all Assistant Secretaries (in Washington, D.C.), serve as the primary basis for the Department's assurance that management controls are adequate. The assurance 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, along with 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 fiscal year ending September 30, 2000. This evaluation provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved in 2000. The Committee approved the closure of the following two previously reported material weaknesses:

- **Information Management – Information Systems Security** — The Department's information systems security program was fragmented among several bureaus creating vulnerabilities. The Security Infrastructure Working Group, the IT Change Control Board, and the Corporate Information Systems Security Office were established to provide centralized management. In addition, an Information Systems Security Officer training program was established. The Corporate Information Systems Security Officer (CISSO) program incorporates a comprehensive schedule of activities that includes: vulnerability assessment, risks identification, risk remediation, and contingency planning processes. This will ensure that adequate protections are provided for all Department information collected, processed, transmitted, stored, or disseminated on systems.
- **The Passport Process** – U.S. passports may be obtained by fraudulent means, including employee malfeasance. These activities impact the integrity and international acceptance of the U.S. passport. The Department is addressing the physical and operational weaknesses that may result in passport fraud to include installation of a photodigitization process and increasing anti-fraud staffing. The photodigitization system will be installed throughout the domestic passport production network within the next 15 months.

In addition, two new material weaknesses were added that were reported by the USIA prior to their merger with the Department. This brings the total number of pending material weaknesses to three. During the last five years, the Department has made significant progress, reducing the number of material weaknesses from 16 to three, which includes the closure of seventeen and the addition of four, for a net reduction (change) in material weaknesses of thirteen. The Department currently has no items on the General Accounting Office's High Risk List, and has not had any since 1995. The following two tables show the progress made over the past five years in correcting and closing material weaknesses and a summary of the Department's Corrective Action Plan for pending material weaknesses and non-conformances.

## Number of Material Weaknesses by Fiscal Year

Year	Number at Beginning of Fiscal Year	Number Closed	Number Added	Number at Remaining at End of Fiscal Year	Net Change
1996	16	3	1	14	-2
1997	14	3	1	12	-2
1998	12	2	-	10	-2
1999	10	7	-	3	-7
2000	3	2	2*	3	0

\* Reported by the Department of State as a result of the merger with USIA.

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## Pending Material Weaknesses and Nonconformance with Targeted Correction Date

### Title

### Fiscal Year

#### **Inadequate Administrative Staffing Overseas**

**2001**

The Department suffers from an acute shortage of skilled Foreign Service Administrative staff overseas. A two-track approach is being taken to determine administrative staffing levels and ensure that funding is available to support overseas administrative activities.

#### **Integration of Grants—Tracking System**

**2002**

Multiple systems used to track grant awards in support of international educational and cultural exchange programs are not fully integrated with the grants-tracking systems or the Central Financial Management System. Integrated systems have been developed to manage and track grant-funded exchange projects and their participants from beginning to end. These systems are currently being expanded to cover all 50-plus programs.

#### **Exchange Visitor Information System (EVIS)**

**2003**

The EVIS system contains information on the organizations designated by the Department to conduct educational and cultural exchange programs and on the Foreign Nationals who have participated as exchange visitors within these programs. Data discrepancies were found in EVIS. A new national system is being developed with the Immigration and Naturalization Service and the Department of Education. The system will enable the Department to acquire complete data on the participants in the EVIS Program almost instantaneously.

#### **Financial and Accounting Systems—Nonconformance**

**2003**

Significant progress has been made over the past few years to address the financial management systems nonconformance. Attainment of substantial compliance with Federal financial management systems requirements is the focus of the Department's Remediation Plan established with OMB in March 2000.

A more detailed description of the two closed material weaknesses and the pending material weaknesses and nonconformances with associated corrective action plans, is provided in the Supplemental Information and Other Reporting Requirements section of this report.

### **Federal Financial Management Improvement Act (FFMIA) Compliance.**

In 1996, Congress enacted the Federal Financial Management Improvement Act of 1996 (FFMIA), Public Law 104-208. FFMIA is intended to improve Federal financial management by ensuring that Federal financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards.

In 2000, the Department continued to maintain substantial compliance with two of the three major requirements of FFMIA — compliance with the Standard General Ledger (SGL) at the transaction level and Federal accounting standards. The third and final component, attaining substantial compliance with Federal financial management systems requirements, is the focus of the Department's Remediation Plan established with OMB in March 2000. This plan identifies twelve initiatives that are being accomplished over the next several years. The Department expects to achieve substantial compliance by the end of 2003.

During 2000, the first year of the plan, the Department completed seven of the plan's 12 initiatives. The initiatives completed encompass implementation of new financial software modules, security programs, and mainframe contingency plans and includes the following.

- New financial software modules.
  - An automated Fixed Assets System for recording and reporting on real property.
  - A Project Cost Accounting System to capture and record capital improvement and construction project costs.
  - An Unliquidated Obligation System to facilitate the tracking and oversight of unliquidated obligations on a worldwide basis.
- Development of security programs that include multi-level security awareness programs, a security risk assessment evaluation workplan for ascertaining the sensitivity of information to the threat, and a professional security staff to oversee the implementation of the program. Programs were developed and implemented for the following.
  - Mainframe Security Program.
  - Central Financial Management System (CFMS) Security Program.
- Development and testing of Mainframe Contingency Plans for the following.
  - CFMS Mainframe Contingency Plan.
  - Paris FSC Mainframe Contingency Plan.

## MANAGEMENT CHALLENGES FACING THE DEPARTMENT OF STATE

The following is the summary portion of the March 15, 2001 Statement by the Department of State's Inspector General before the House Committee on Government Reform, Subcommittee on National Security, Veterans Affairs, and International Relations, regarding the management challenges facing the Department of State. The full Statement, accompanied by management's response, is contained in the Supplemental Information and Other Reporting Requirements section of this report. Certain parts of the Statement pertinent solely to the Broadcasting Board of Governors were removed from the text of the summary and the full Statement.

### **Inspector General's Statement.**

Thank you for this opportunity to discuss with you today some of the serious management challenges facing the Department of State. This hearing continues the useful and productive ongoing dialogue between this committee and the Department's Office of Inspector General. The State Department has made real progress in meeting some of its management challenges but sustained commitment, strategic planning and adequate resources are essential for their ultimate resolution. Viable solutions also depend on a cooperative relationship between the State Department with its OIG and committees like this one.

### **Summary**

I want to discuss with you today a number of issues that were identified by my predecessor when she addressed this committee in July. One of the most pressing challenges for the Department is providing for the protection of its people, information and diplomatic facilities overseas. In the wake of the 1998 bombings of two of our embassies in Africa, the Department responded with alacrity to implement emergency supplemental measures. We commend the Department for its rapid response and its senior managers for their full engagement in dealing with this issue. The post-Africa bombing measures run the gamut from improved shatter resistant window film for all missions and strengthened perimeter defenses, to the institution of new initiatives like the surveillance detection, overseas wireless, and armored vehicle programs. These programs have given our embassies additional layers of real protection. The Department recognized the urgency of implementing these programs on a global basis. OIG believes that our staff and our buildings are better protected now than they were before the tragic bombings. In our forthcoming work, OIG will encourage the Department to consider whether some of these initiatives should now be adapted more specifically to local security environments with their unique characteristics.

The Department has made significant improvements in the area of financial management. However, serious problems persist and represent a challenge to State operations that must be met. I am pleased to note that, for the first time, the Department submitted its fiscal year 2000 financial statements with the required OIG audits to OMB by the March 1st deadline. For the fourth year running, our audit gave the Department an unqualified opinion to the effect that its financial statements were free of material misstatements. Nevertheless, in preparing this year's

recent audit of State's financial statements, OIG reported significant potential weaknesses related to information systems security that will require continued, careful attention. On the positive side, at the end of fiscal year 2000, the Department has made significant progress in correcting the majority of weaknesses that were reported in the annual Federal Managers' Financial Integrity Act report.

Another major challenge for the Department is strengthening the authority of the Chief of Mission, as the President's representative, to coordinate the policies, resources, and activities of all agencies operating at our embassies overseas. The number of agencies, which have not traditionally operated overseas, has grown significantly in recent years. Our ambassadors must have the tools they need to provide effective leadership for the achievement of multi-faceted foreign policy goals and for the advancement of U.S. national interests.

In the area of strategic planning, OIG notes that the Department continues to make progress in implementing the Government Performance and Results Act. However, we believe that the Department still needs to identify overall priorities for its strategic goals and to devise a better process to link resources with those priorities.

# FINANCIAL HIGHLIGHTS

The Department's financial statements, appearing on pages 56 through 107, received for the fourth straight year an unqualified audit opinion issued by the independent accounting firm of Leonard G. Birnbaum and Company. 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. Department management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements and financial data presented in this report have been prepared from the accounting records of the Department of State in conformity with generally accepted accounting principles (GAAP). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

## Effect of USIA's Merger

On October 1, 1999, the Department assumed ownership of all assets and responsibility for all liabilities of the former United States Information Agency (USIA). In addition, all personnel associated with the functions were transferred to the Department at the same grade or class and at the same rate of basic pay or basic salary. Amounts reported for 1999 in the **Overview of Financial Position** below include the transfer of the USIA balances on October 1, 1999. Refer to Note 2 ("Foreign Affairs Agencies Consolidation") accompanying the audited financial statements for additional information on the merger.

## Overview of Financial Position

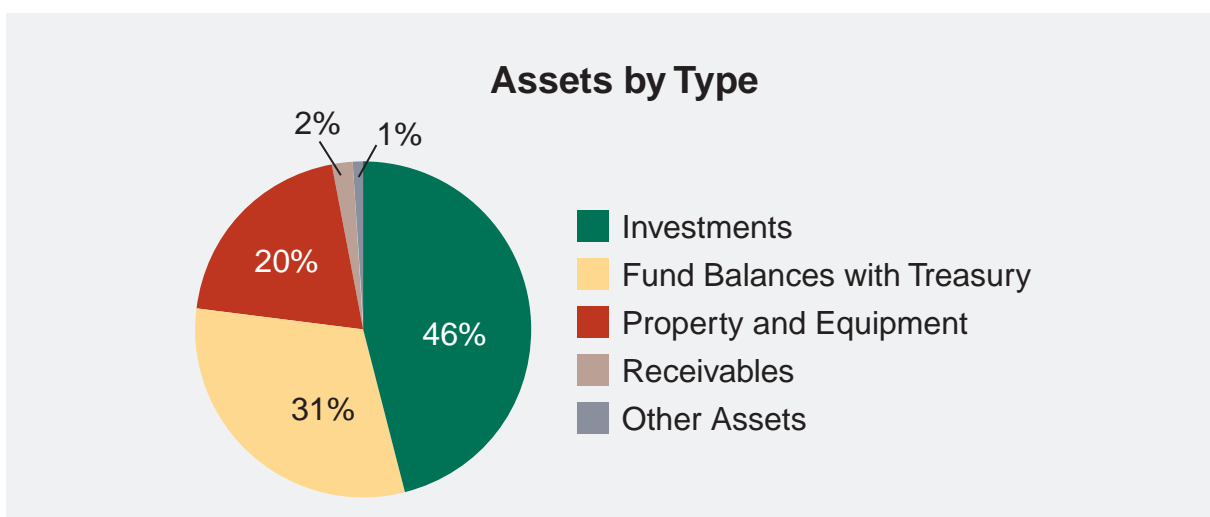
*Assets.* The *Consolidated Balance Sheet* on page 56 shows the Department had total assets of \$23.0 billion at the end of 2000. This represents an increase of \$1.8 billion (8.5%) over the previous year's total assets of \$21.2 billion, including merged assets from the former USIA of \$0.5 billion. This increase is principally due to increases in investments of \$500 million in the Foreign Service Retirement and Disability Fund (FSRDF) and Fund Balances with Treasury of \$1.3 billion. The increases in Fund Balances with Treasury primarily resulted from the receipt of a supplemental appropriation of \$825 million for Plan Colombia and \$244 million to cover United Nations (UN) arrearages.

The Department's assets are summarized in the following table (dollars in thousands).

	<u>2000</u>	<u>1999</u>
Investments, Net	\$10,669,382	\$10,142,953
Fund Balances with Treasury	7,101,842	5,825,425
Property and Equipment, Net	4,687,989	4,631,109
Accounts, Loans & Interest Receivable, Net	414,979	468,006
Other Assets	<u>125,023</u>	<u>104,902</u>
Total Assets	<u>\$22,999,215</u>	<u>\$21,172,395</u>



Investments, Fund Balances with Treasury, and Property and Equipment comprise 97% of total assets. Investments consist almost entirely of U.S. Government Securities held in the FSRDE.

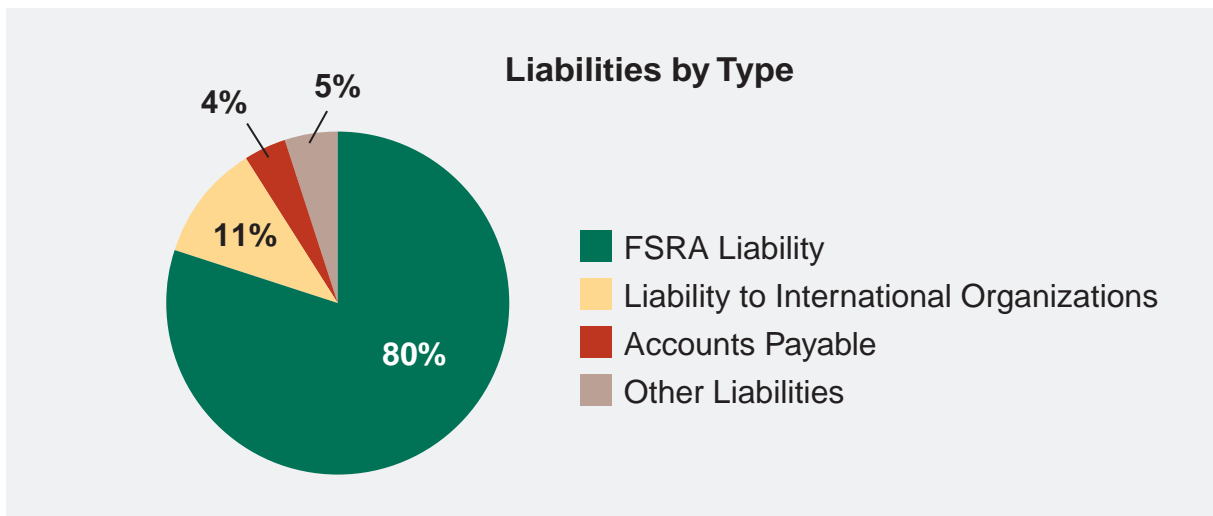


**Liabilities.** The Department had total liabilities of \$14.3 billion at the end of 2000. The Department's liabilities are summarized in the following table (Dollars in Thousands):

	<u>2000</u>	<u>1999</u>
Foreign Service Retirement Actuarial Liability	\$11,475,900	\$11,170,900
Liability to International Organizations	1,608,326	1,707,255
Accounts Payable	611,126	459,496
Other Liabilities	<u>624,911</u>	<u>677,599</u>
Total Liabilities	<u>\$14,320,263</u>	<u>\$14,015,250</u>

The Foreign Service Retirement Actuarial (FSRA) Liability of \$11.5 billion and the Liability to International Organizations of \$1.6 billion comprise 91% of the total liabilities.

Of the total liabilities, \$2.6 billion (18%) were unfunded, i.e., budgetary resources were not available to cover these liabilities. The \$2.6 billion is comprised of the unfunded portion of the FSRA Liability of \$669.5 million, representing the amount by which the \$11.5 billion FSRA Liability exceeds the FSRDF's net assets available to pay the liability, and the \$1.6 billion Liability to International Organizations. The \$669.5 million unfunded portion of the FSRA Liability is \$232.8 million less than the \$902.3 million unfunded FSRA Liability at the end of 1999, and marks the seventh consecutive annual decrease due to the continued encouraging financial growth experienced by the FSRDF over the past several years.



The \$1.6 billion Liability to International Organizations consists of \$708.1 million in calendar year 2000 annual assessments and \$900.2 million in accumulated arrears assessed by the UN, its affiliated agencies and other international organizations. These financial commitments mature into obligations only when funds are authorized and appropriated by the Congress.

In 1999 and 2000, Public Laws 105-277 and 106-113 appropriated \$475 and \$244 million, respectively, for arrearages payments. However, provisions of these and other laws prescribe that arrearage payments are not available as budgetary resources until certain conditions are met. Among other things, these provisions generally require that any member's share of the total contributions assessed by the UN for the regular UN budget, specialized agencies, and peacekeeping activities does not exceed 22%, 22% and 25%, respectively. Until such time as these conditions are met or are amended, the amounts of \$475 and \$244 million provided under Public Laws 105-277 and 106-113 are considered unavailable and the financial commitments are reported as an unfunded liability together with other arrearage amounts.

**Ending Net Position.** The Department's Net Position at the end of 2000 on the *Consolidated Balance Sheet* and the *Consolidated Statement of Changes in Net Position* was \$ 8.7 billion, a \$1.5 billion (21%) increase from the previous fiscal year. Net Position is the sum of the Unexpended Appropriations at the end of 2000 and the Cumulative Results of Operations for the fiscal year.

The increase in the Unexpended Appropriations was principally due to amounts received to fund Plan Columbia and UN arrearages.

The increase in Cumulative Results of Operations was mainly the result of the recognition of imputed financing of \$205 million on the settlement of a contingent liability involving a claim paid from Treasury's Judgement Fund, and the \$232.8 million net proceeds of the Foreign Service Retirement Disability Fund (FSRDF). The Cumulative Results of Operations also increased as a result of growth in the International Cooperative and Administrative Support Services (ICASS) component of the Working Capital Fund, the acquisition of capital assets with appropriations, and the sales of real property,

## Results of Operations

The results of operations are reported in the *Consolidating Statement of Net Cost* and the *Consolidated Statement of Changes in Net Position* on pages 58 and 59.

The *Consolidating Statement of Net Cost* on page 58 presents the annual cost of operating the Department's programs by major program and responsibility segment. Each Under Secretary oversees a responsibility segment and carries out their mission or major line of activity. The total cost less any earned revenue for each program is used to arrive at the Net Program Cost of each program.

The programs on the *Consolidating Statement of Net Cost* correlate to the National Interests presented in the *Management's Discussion and Analysis* and *Overview of the DOS Performance Report* sections of this report. Exceptions are the National Interests of National Security, Economic Prosperity, Democracy, and Global Issues. These National Interests are primarily carried out through, and aggregated under **Diplomatic Relations and International Organizations** on the *Consolidating Statement of Net Cost*. "Executive Direction and Other Costs Not Assigned" reflect 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 programs.

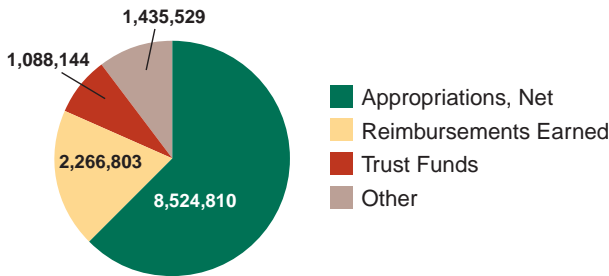
The Department's Total Net Cost of Operations for 2000, after intra-Departmental eliminations, was \$6.5 billion. Diplomatic Relations and International Organizations programs comprise 59% of the Department's Net Cost of Operations and represent the largest investment of program dollars for the Department. Of the \$6.5 billion total Net Cost of Operations, the net cost of operations for the remaining programs run from 7% to 14%.

The *Consolidated Statement of Changes in Net Position* presents items that caused the Net Position section of the *Consolidated Balance Sheet* to change since the beginning of the fiscal year. Appropriations Used totaled \$7.5 billion, comprising 77.3% of the Department's total revenues and financing sources after considering intra-Departmental eliminations of \$1.4 billion. The charts below reflect the funds that the Department was provided during 2000 and how these funds were used.

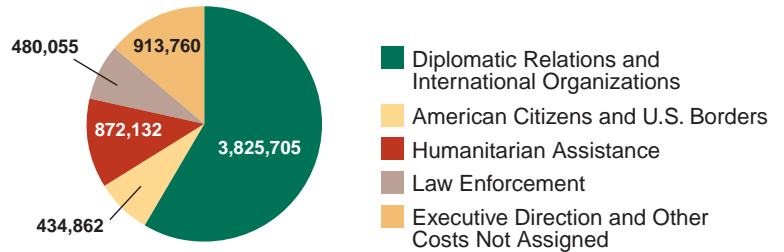
The *Combined Statement of Budgetary Resources* on page 60 provides information on how budgetary resources were made available to the Department for the year and the status of those budgetary resources at fiscal yearend. For the fiscal year, the Department had total budgetary resources of \$13.3 billion. Budget Authority of \$9.6 billion, which consists of \$8.5 billion for appropriations (direct, related and supplemental) and \$1.1 billion financed from trust funds, and spending authority from offsetting collections of \$2.3 billion comprise 89% of the total budgetary resources. The Department incurred obligations of \$11.2 billion for the year. The outlays reflect the actual cash disbursed against the Department's obligations.

The *Combined Statement of Financing* provides a reconciliation between the resources available to the Department to finance operations and the net costs of operating the Department's programs. Some operating costs, e.g., depreciation, do not require direct financing sources.

**Where Funds Come From**  
(Dollars in Thousands)



**Where Funds are Spent - Net Program Costs**  
(Dollars in Thousands)



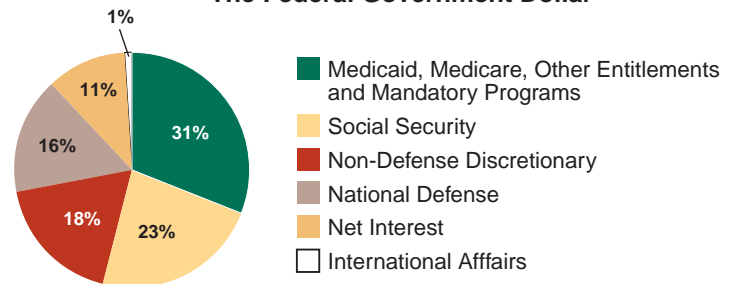
## Budgetary Issues

The amount in the Federal budget to fund International Affairs, encompassing a number of Federal agencies, is 1% of the Total Federal Government Dollar as reflected in the chart. The Department's funding related to International Affairs amounts to just a fraction of 1%.

The 2000 Department of State Appropriations Act of \$5.9 billion included the appropriations that finance the administration of foreign affairs (\$4.039 billion), contributions to international organizations and activities (\$1.730 billion), international commissions (\$0.049 billion), and other related appropriations (\$0.054 billion).

The administration of the foreign affairs appropriations primarily funds the operating budgets of the Department of State, including providing the basic platform for conducting the U.S. Government's diplomatic activities around the world, as well as building and maintaining the infrastructure that supports most U.S. Government operations overseas. In addition, the Department continues to rely on Machine Readable Visa, Expedited Passport, and other consular services user fee collections to help meet consular workload demands and invest in modern and responsive information technology systems.

**The Federal Government Dollar**



In 2000, the Department received appropriations that provided for "current services" operations for the first time in many years as well as specific increases in funding for security enhancements. The operating budget had been essentially flat since 1993, while the buying power of appropriated funds had been eroded by more than 20% due to inflation alone. During this period, the Department faced large challenges from continually increasing demand for consular services, greater numbers of crises to manage, increases in difficult-to-support overseas posts, and changing global threats from terrorism, narcotics trafficking and international crime, and weapons of mass destruction. Within these funding levels, the Department was able to meet challenging policy demands (including Middle East peace negotiations, operations in the Balkans, and negotiations with North Korea), complete the conversion and modernization of systems required for the Year 2000 rollover, and begin the implementation of a program of worldwide security upgrades.

The Department's 2000 appropriations reflected, for the first time, the integration of the Department of State, the Arms Control and Disarmament Agency, and the United States Information Agency into a foreign policy apparatus designed to meet the demands of a new era of international relations. This integration presented enormous budgetary, accounting, and systems challenges for the Department. The Department combined budgets, converted and paid over 4,000 "new" employees, and updated our budgeting and funds control systems to reflect the new structure. To help pay for the cost of the reorganization (office moves, space renovation, and systems integration), Congress approved the reprogramming of prior year funding balances to carry out the integration.

The Department's 2000 appropriations included \$254 million in the operating budget and \$314 million in the capital construction budget to continue the program of worldwide security upgrades which began after the bombings at embassies in Nairobi, Kenya and Dar Es Salaam, Tanzania. This provided funding to continue programs started with the 1999 \$1.4 billion emergency supplemental to upgrade facility security. Specifically, the Department hired additional local guards, purchased security equipment, and embarked on an embassy construction program, as well as hired, trained, and deployed additional security professionals worldwide.

In 2001, Congress appropriated over \$1 billion to maintain security levels, upgrade perimeter security, and continue the construction of secure facilities for the Department's overseas missions.

The 2001 appropriations again reflect a turnaround in the funding trends for the Department. The 2001 Department of State Appropriations Act total \$6.6 billion, an increase of \$700 million over 2000 appropriations. These funding levels allow the Department to continue the program of worldwide security upgrades, fund mandatory wage raise and inflation adjustments overseas and domestically, improve perimeter security and hire additional security professionals, implement recommendations of the Overseas Presence Advisory Panel to increase training and develop a common information technology platform for all U.S. Government agencies overseas, and to pay the U.S. assessed contributions to international organizations including the United Nations and UN peacekeeping operations.

At the time of this report, only a 2002 current services budget has been developed. Thus, it is premature to discuss what initiatives the Department will seek for the upcoming fiscal year. The incoming Administration will be formulating its 2002 policy budget in the next few months. However, it is important that the trend of increases for the Department continue so that the United States has an adequate foreign policy platform and can pursue America's foreign policy agenda.

## **Limitation of Financial Statements**

The accompanying financial statements are prepared by management to report the financial position and results of operations of the Department of State pursuant to the requirements of Title 31 of the United States Code section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with the formats prescribed in OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended, these statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and ongoing operations are subject to the enactment of appropriations.

The Department also issues financial statements for its Foreign Service Retirement and Disability Fund (FSRDF), International Cooperative Administrative Support Services (ICASS) and the International Boundary and Water Commission (IBWC). The complete, separately-issued FSRDF, ICASS and IBWC Annual Financial Reports are available from the Department's Bureau of Financial Management and Policy, Office of Financial Policy, Reporting and Analysis, 2401 E Street, Room H1500, Washington, D.C., 20037, (202) 261-8620.