SUPPLEMENTAL INFORMATION AND OTHER REPORTING REQUIREMENTS

INSPECTOR GENERAL'S STATEMENT ON MANAGEMENT CHALLENGES AND MANAGEMENT'S RESPONSE

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U.S. Department of State and
Broadcasting Board of Governors
for the
Committee on Government Reform
Subcommittee on National Security, Veterans Affairs,
and International Relations
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Mr. Chairman and Members of this Sub-committee:

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 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.

Office of Inspector General's Operations

OIG's mandate is to identify ways to improve the efficiency and effectiveness of the Department of State's and the BBG's operations, and to detect and prevent waste, fraud, and mismanagement. In the period since we last testified before this sub-committee, we have conducted audits, including reviews of exchange program grants, the Department's financial statements, and of passport office operations. We have inspected a range of embassies in Latin America, Africa, Europe, and Asia. In a number of these inspections we focused on security and intelligence oversight. We place a high priority in assessing how well our embassies are able to respond to threats from terrorism, physical intrusion, intelligence penetration, and crime. We have also conducted investigations that have examined the ethics and accountability of both our employees and program activities, as well as pursued aggressively cases of passport and visa fraud. Our goal is to be proactive in helping the Department address the challenges it faces as the lead agency representing U.S. interests overseas. OIG is committed to strengthening the Secretary of State's ability to pursue the foreign policy objectives of the United States free from the impediments arising from mismanagement, waste and fraud.

I would like to turn now to a more detailed discussion of the management challenges that may be of most interest to this sub-committee.

Improving the Security of Our Staff and Facilities

The protection of American personnel and facilities overseas is one of the most daunting challenges confronting the Department. The nature and degree of the threat to our security are constantly changing. In the wake of the August 1998 bombings of our missions in Nairobi and Dar es Salaam, the Department has re-defined the environment in which our embassies must operate to reflect a high or critical threat from globally operating terrorist organizations. In the aftermath of the bombings, OIG worked closely with the Department to enhance the security of our traumatized staff in the interim facilities that had been selected. Our review of the interim facilities in Nairobi and Dar es Salaam produced a number of recommendations that were adopted by the Department and enhanced significantly the safety of our staff.   However, even with a global threat

that must now be regarded as affecting all our embassies, OIG believes that our people overseas are generally better protected than they were in the days preceding the 1998 bombings. The Department has made real progress in addressing security vulnerabilities. Many of the actions taken were in response to OIG recommendations. It should be underscored, however, that most of our embassies still lack adequate setback. This means that they are still vulnerable to attack from large vehicle bombs or from the terrorists who are ready to sacrifice not only their own lives but also the lives of those within.

Under these conditions, providing for the safety of our people and the security of our buildings must remain a high management priority for the Department. Adequate protection will require billions of dollars and sustained commitment for a number of years before the Department can replace the many chanceries, consulates, and other buildings in which our personnel currently work at risk. The FY 1999 $1.5 billion Emergency Security Appropriation gave the Department the first significant funding in a decade with which to address security weaknesses. These funds allowed us to replace some of our most vulnerable embassies and to make major security modifications to existing facilities by providing for new perimeter walls, blast-resistant windows, shatter-resistant window film, among the other physical security enhancements. The appropriation also covered replacement of our aging armored vehicles, new emergency radios, and the creation of surveillance detection units for each embassy.

Since this major security supplemental, OIG has worked closely with the Department in overseeing these initiatives and looking for ways to improve security. The Department has done a commendable job in getting these new programs underway. As we have reported earlier, in a June 2000 review that looked at 42 embassies, OIG found that none of them met all physical security standards. The lack of adequate setback was the most prevalent deficiency. Addressing the setback question and providing anti-ram perimeter walls will require a major, long-term construction effort. In the interim, the Department has stepped up its pace to correct those vulnerabilities that can be addressed quickly, such as improving the local guard service, lighting, or appropriate alarms at the chancery.

A program of sustained capital investment is essential to ensure the safety of our diplomatic infrastructure in the future. However, such a program will not immediately alter the circumstances of personnel overseas. Over the next five years, the Department will be taxed in its management of projected major construction projects at our posts overseas. Last November, FBO advised OIG that, subject to availability of funding, the Department would like to initiate as many as 15 new projects by the end of fiscal year 2001. Again subject to the availability of funds, as many as 17 would be started in fiscal year 2002. Regardless of the number of proposed projects, construction is expected to remain at significant levels through fiscal year 2005. This will require sustained commitment and attention from the Department's senior management.

In May 2000, Embassy Moscow moved into its new secure chancery after nearly six years of construction to replace an earlier building that had been extensively compromised by Soviet technical intelligence penetration. The Moscow Secure Chancery project was unique in the attention given to security with respect to both its design and construction. Since 1994, OIG has worked in partnership with the Moscow Embassy Building Coordinating Office and the intelligence community to ensure any issues that might compromise security were identified early and corrected. Last fall, OIG completed its last oversight review and concluded that the construction had accomplished its objectives. Without getting into classified detail, I am pleased to note that OIG has worked closely with the Department to take the necessary additional action to provide adequate staffing and support necessary to maintain the secure chancery.

The planned construction for Embassy Beijing presents equally demanding challenges to those faced by the Department in the Moscow project. Once construction agreements are finalized, OIG intends to establish a China Oversight operation, modeled on its Moscow Oversight Team, to conduct ongoing security reviews of the China project from design phase through to final construction.

Other New Embassy Construction

Starting in 1999, OIG has sent small teams to evaluate security in the construction of new embassies and temporary or interim office buildings. I have noted our recommendations with respect to our interim facilities in Nairobi and Dar es Salaam. We also made recommendations regarding the new chancery in Kampala. We have reviewed construction in Luanda and Doha as well as in Pristina, Kosovo. In the case of the Pristina review, OIG commended the Department's efforts to protect our facility and staff.

The significant expansion of embassy construction over the next three years will also tax OIG resources. We are expanding our security oversight to include interdisciplinary reviews of building designs for new chanceries to determine if these designs have the security features necessary to meet the local threat situation. We will be looking for ways to make the building process more efficient as well. Given the costs to the Department, OIG also plans contract and procurement audits as well as construction oversight. OIG, however, will not have the resources to examine each new project with the same level of scrutiny. In close consultation with the Department, we will seek to establish clear priorities in deciding where to focus our efforts, given current funding and personnel constraints.

Enhancing Emergency Preparedness

The need for more attention to emergency preparedness and the importance of conducting crisis management exercises and emergency drills are issues of concern for OIG. Our inspection teams find that many posts are not conducting mission-wide exercises of all required drills in all facilities. In response to OIG recommendations, the Department issued instructions to all chiefs of mission to conduct these drills. The Secure Embassy Construction and Counter-terrorism Act of 1999 requires that the Department provide crisis management training for mass casualty and mass destruction incidents relating to diplomatic facilities. The Act also mandates a program of instruction in crisis management for personnel at embassies at least annually.

In August 1998, OIG strongly recommended that the Department implement worldwide "duck and cover" drills and install "imminent danger notification alarms" that could be activated by local guards protecting the embassy perimeter. Admiral Crowe's Accountability Report made this its first recommendation. In the more than 60 security oversight inspections we have conducted since then, OIG is encouraged by the progress in implementing these key security initiatives. Last August, OIG further recommended that embassy warning alarms be simplified so that there were only two warning tones: one for immediate "duck and cover," the other for immediate evacuation of the building. The Department is currently developing formal instruction for this change.

OIG recently concluded a comprehensive review of the Surveillance Detection Program and will shortly conclude audits of the Overseas Wireless Program and the Armored Vehicle program. These three new initiatives were also funded under the Emergency Security Appropriation. The OIG commends the speed with which the Department implemented these programs and recognized, in the wake of the 1998 bombings, the need to get new security programs under way quickly. It is now time to tailor these programs more specifically to individual embassy needs. Forthcoming OIG work will recommend that the Department consider whether some of these programs should be adjusted to adapt better to the specific local security environment of our embassies.

Protecting Classified Information

OIG's previous work in this area highlights the protection of classified information, both domestically and abroad, as a continuing challenge for the Department. The Department's antiquated information systems add significantly to the difficulty of this task.

Last September, the Department issued a directive notifying all employees of the revised Information Security Incident Program. The revisions included measures, which strengthened the definition of a security violation, reduced the threshold to initiate administrative actions for security infractions from five violations to three, increased the window of the reporting period in which aggregate security violations would be counted toward a security clearance review from 18 months to three years, and created a Diplomatic Security electronic help desk to assist employees with information security questions. Revisions to the Foreign Affairs Manual included the requirement that all security incidents, whether overseas or domestic, be reported to the Office of Diplomatic Security for adjudication.

In addition to security briefings provided to all new Foreign Service and Civil Service employees, mandatory annual refresher briefings have been initiated for all employees. OIG will soon begin a compliance follow-up review of the Department's policies and procedures for protecting classified information at Main State Headquarters. We are working closely with INR and the intelligence community on ways to improve the security of sensitive compartmented information (SCI) at Main State to ensure that it is protected under the provisions of the DCI's directives. We expect to complete a review of these measures along with an assessment of the Department's escort program by the end of June 2001. OIG will also assess the Department's progress in implementing recommendations to strengthen the Department's disciplinary actions on security incidents and violations.

Improving Information Technology

The Department has made significant improvements in its information technology infrastructure over the past few years. It successfully addressed the Y2K problem, which necessitated the fixing or replacing of hundreds of information systems and hardware devices. Key factors for the Department's success were the strong leadership and commitment demonstrated by the Department's senior managers to ensure that the Department's worldwide operations would continue unimpeded in the Year 2000. OIG will release shortly a report that examines the Department's and the foreign affairs communities' strategies for addressing the Y2K problem and draws lessons for future technology issues from their success. The report concludes that commitment, coordination and collaboration, recognizing and exploiting opportunities for management improvements, monitoring, reporting data, awareness and cultural differences were critical elements of successfully meeting the Year 2000 challenge. In our view the Department should adopt some of the practices it used during its Y2K efforts to address the challenges it faces in the area of information technology. According to the President's Fiscal Year 2002 budget blueprint, the Department anticipates developing a long-term investment strategy for new technology to address the needs of diplomacy. Its elements include modernizing the Department's secure communications capabilities and utilizing new access to the Internet, which offers real advantages with respect to information and communications. The Secretary has stated his intention to make sure that 30,000 desks throughout the Department are wired for unclassified access to the Internet. This is a decisive step in the right direction for the Department over the next couple of years. The success of all of these initiatives will depend on sustained commitment to a long-term effort.

Enhancing Information Security

During the past year, OIG has developed work that demonstrates the difficulties information security represent to the Department's managers. For example, OIG reviewed the Department's plans and policies with respect to cyber infrastructure protection domestically and overseas. Recent OIG work on critical infrastructure protection revealed that the Department has developed a suitable framework for critical infrastructure, but its plan falls short in a number of areas. The plan, for example, does not address the vulnerability of the Department's overseas operations to possible cyber-based infrastructure disruptions. The Department's plan also does not adequately address the requirement to test the security controls of its critical systems at least once every three years. The Department generally agrees with our findings on critical infrastructure and is taking steps to improve its planning and implementation efforts.

OIG will conduct additional work on information security issues this year focused on both domestic and overseas systems. We will assess information security management at embassies as part of our post security inspection efforts. In addition, we will conduct an overall evaluation of the effectiveness of the Department's computer security program, as required by the Government Information Security Reform Act. We intend to consult closely with both the Department and Congress on how best to address the challenge information security presents over the next five years.

Improving Financial Management

Despite significant improvements in this area, financial management remains a major challenge for the Department. As of this fall, the Department had corrected all but one of the ten material weaknesses reported in the 1998 Federal Managers' Financial Integrity Act report. While new weaknesses were subsequently added as a result of the consolidation with USIA, the Department has made real progress in this area. Furthermore, the Department submitted its FY2000 principal financial statements by OMB's March 1 deadline with a clean opinion from OIG that its financial statements were free of material misstatements.

More, however, remains to be done. For instance, in its review of the Department's financial statements, OIG reported one material weakness based on GAO findings that the information system networks for domestic operations, including the financial management systems, which process data using these networks, may be vulnerable to unauthorized access. This weakness was first reported in OIG's opinion on the 1997 financial statements based on penetration tests performed by GAO. While the Department has implemented changes to address GAO's concerns, the network had not been re-tested as of March 1, 2001. The Department is currently making arrangements for an independent evaluation of the network. The Department has also made progress in dealing with significant weaknesses OIG identified with the Paris Financial Service Center's Accounting and Disbursing System, including access vulnerabilities, issues with the internal control environment, and concerns with physical security.

OIG reported significant internal control weaknesses related to the management of unliquidated obligations. While the Department made important improvements in managing these unliquidated obligations, including developing a database to track them, several new programs have been added, which has increased the balance from $1.7 billion as of September 30, 1998, to $3.5 billion as of September 30, 2000. These new programs include the USIA/ACDA consolidation, Plan Colombia, and the emergency security supplemental. In addition, we reported weaknesses related to managerial cost accounting and the Department's financial and accounting systems, both of which constitute an internal control weakness and an issue of noncompliance with several laws and regula-

tions such as the Chief Financial Officers' Act. The Department submitted a remediation plan to OMB in March 2000 to bring its accounting systems into compliance with the Federal Financial Management Improvement Act of 1996. OIG is tracking the Department's progress in implementing this plan.

Strengthening Chiefs of Mission Authority

The OPAP, Carlucci, and Stimson Reports have a common theme in strongly recommending the strengthening of chiefs of mission authority to direct, coordinate and oversee activities of all agencies operating under the embassy's umbrella. This includes foreign assistance programs, intelligence activity and law enforcement operations. Over the past two years, OIG has placed particular emphasis on enhancing ambassadors' authority and has worked with the Department to clarify chiefs of mission responsibilities.

Each of our post inspections evaluates the effectiveness of the ambassador in managing post operations and coordinating the activities of all agencies at post. Among the areas examined are intelligence and law enforcement operations. OIG reports have resulted in major improvements in training for chiefs of mission as well as recommendations for enhancing oversight and coordination at specific posts. In fiscal year 2001, OIG has tailored its inspection program specifically to assess how well ambassadors are overseeing and coordinating intelligence and law enforcement activities at missions with large counter-narcotics programs or law enforcement activities. OIG places particular emphasis on the importance of the 1996 Memorandum of Understanding in clarifying responsibilities. In addition, the projected re-issuance of the President's Letter of Instruction to chiefs of mission will be an important step in underscoring the responsibility of our ambassadors as the President's representatives for coordinating and supervising all U.S. Government activities at post. The President's instruction will also highlight ambassadors' responsibility for the safety and security of all official personnel not under the authority of a theater command.

The importance of coordinating USG programs and operations is particularly obvious for a number of key policy initiatives like the anti-narcotics programs in Latin America. In July 2000, OIG issued a report that reviewed aspects of our counter-narcotics effort in Colombia. Significantly, OIG concluded that despite the increased spraying of drug crops and the expenditure of over $100 million during fiscal years 1997 through 1999, the overall effectiveness of the eradication effort is uncertain. A major policy management concern for the Department is the challenge of providing effective oversight of the drug programs in Latin America, particularly in light of the recent appropriation of $1.3 billion in U.S. assistance to Colombia.

OIG has work under way to assess chief of mission oversight and his or her ability to coordinate the activities of the several agencies involved in narcotics operations. OIG plans to review specific aspects of Plan Colombia in coordination with GAO.

Managing Federal Assistance

The Department oversees the administration and management of a number of federal assistance activities, such as those mentioned above that relate to narcotics programs, as well as programs dealing with population, refugees and migration. These activities are funded through the Department. Increasingly, Economic Support Fund activities, traditionally handled by USAID, are being managed by the Department in cases of countries where there is no USAID operation. As a result of consolidation with the U.S. Information Agency, the Department is now responsible for a wide variety of educational and cultural programs totaling over $200 million.

The Department has responsibilities for managing and providing oversight for significant grants and other federal programs in areas where, in the past, its responsibilities were largely confined to policy formulation and implementation. OIG acknowledges the Department's efforts to address this important new function. OIG is currently working with the Department's managers to identify the scope and magnitude of assistance programs under its purview and the Department's capacity to manage them. OIG will assist the Department in establishing uniform policies and procedures for issuing and managing these funds.

Strategic and Performance Planning

As we reported in our most recent "Semi-annual Report to Congress," overall, the Department's strategic planning process is improving, although it does not yet fully comply with the Government Performance Results Act. OIG has highlighted the need for improved performance information in the Department's bureau-level plan. The Department has still not developed overall priorities for its strategic goals and consequently has no overall basis for allocating resources to those priorities.

Although the fiscal year 2001 Performance Plan is more comprehensive than its predecessors, it still falls short of adequately addressing shortcomings found in previous years. OIG found that the fiscal year 2001 plan provides more detail and uses a format that attempts to capture more of the performance goals and measures. However, the fiscal 2001 Performance Plan lists performance goals and measures by bureau, which does not readily translate to an assessment of the Department's performance as a whole. The plan lacks adequate discussion of interagency coordination, resource allocation, data limitations and data verification/validation.

One major planning challenge for the Department is to develop outcome-oriented annual performance goals and associated measures. This will require attention from the Department's senior managers in setting priorities and developing overall annual performance goals and measures that can be used to assess the Department's progress in meeting its strategic goals. Without senior management engagement, bureaus and embassies will remain frustrated with what they regard as a "paper exercise." Decision-makers will be limited in their ability to determine the effectiveness of their programs. OIG will continue to identify areas where the Department can improve its planning efforts so that the Department can fully comply with the Results Act.

Human Resource Challenges

In response to the challenges of attracting, retaining and training employees, the Department has undertaken several new initiatives. For example, the Department plans to extend the standard tour of duty for Foreign Service personnel at non-differential posts from three to four years. There will, of course, be exceptions for posts where conditions argue for retaining the three-year tour-of-duty. The new tour-of-duty will allow the Department to take fuller advantage of language and other specialized training and may result in some cost savings. Additionally, we reviewed the Civil Service to Foreign Service Hard-To-Fill Program and concluded that, overall, the program has been a useful expedient in reducing the impact of serious Foreign Service staffing shortages. The program has also broadened professional experiences for participating Civil Service employees.

One of the biggest retention problems for the Department — and one which is growing — is dual-career couples. This includes tandem couples, where both are in the Foreign Service, and couples where the other spouse has a career outside the Foreign Service. The Department continues to grapple with providing career opportunities and other support to dual-career couples.

However, the Department needs to devise ways of dealing with the divisions among its three distinct workforce components: the Civil Service, the Foreign Service, and Foreign Service Nationals. Divisions exist as well between State Department staff and the overseas staff of other agencies. As a result of our work in inspections, OIG believes that the Department should examine ways to integrate better the Foreign and Civil Services. One direction the Department should consider is greater assignment integration. The Department should also expand training and professional opportunities for both services. OIG will continue to monitor closely the Department's effort to develop a personnel structure more responsive to its needs.

The Department has made some improvements in its ability to project intake requirements for Foreign Service personnel and to calculate Foreign Service promotion opportunities. The Department has been using an Overseas Staffing Model and has recently completed the Diplomatic Readiness Plan for its human resource needs. A domestic staffing model to complement the Overseas Staffing Model is being prepared. The Department believes that this will greatly improve its ability to match resources with needs. However, OIG is still concerned that the Department's workforce planning remains fragmented. It lacks linkages to strategic planning processes, and is focused almost exclusively on the American Foreign Service component of its workforce. As a result, the Department is still poorly positioned to define and defend the personnel requirements it needs to implement U.S. foreign policy objectives and strategies. More work is needed to develop comprehensive workforce planning strategies and the tools to implement them. OIG will continue to encourage the Department to move in this direction as rapidly as its resources permit.

The Department's senior managers acknowledge the importance of job-related training and longer-term professional education as essential for achieving both organization goals and for individual career advancement. Unfortunately, resources for this purpose still lag far behind the need. The Department believes that it requires approximately 1,200 positions and $100 million for full staffing and to create a "personnel float" that could be used to release employees from jobs for essential training and as well as providing greater flexibility to respond to crises. While the OIG has not verified these figures, it is clear to us that training continues to suffer because of serious understaffing problems.

OIG believes that the Department's Foreign Service Institute is fulfilling well its role as the premiere training facility for America's foreign affairs agencies. It recently established a very promising program for leadership management and training that should do much to overcome many of the leadership-related problems that OIG finds as a result of its inspection and audit field work. FSI has also pioneered successful programs for distance learning. In response to OIG recommendations, FSI carried out a creative merger of the Career Transition and Overseas Briefing Centers, which reduced staff by three full-time positions at a savings of approximately $200,000.

In an inspection of an important geographic bureau, OIG found an absence of good workforce management, difficulty in recruiting and retaining officers and clerical staff and a need to increase project management skills. Understaffing led to gaps in recruitment. This bureau was being forced to rely in a number of cases on rehired annuitants, contractors, and interns to compensate for the lack of full-time employees. Officers were spending unnecessarily long hours drafting and clearing papers without sufficient guidance to ensure that were relevant to policymakers. This pattern can be found elsewhere in the Department and overseas.

OIG inspected 18 missions and a regional bureau in the last year. Those reviews revealed some problems at post arising from the initial phase of Department/USIA consolidation. Other systemic issues included the administrative difficulties faced by embassies in supporting a growing number of U.S. direct-hire staff, primarily from other agencies. Chronic staffing shortages and poor facilities, particularly in a number of African posts, continue to affect embassy operations.

FSN Retirement System

Many Foreign Service National employees do not have adequate retirement plans. Often, the local social insurance systems to which embassies and the FSNs contribute do not provide the benefits promised. This is especially true for FSNs in developing countries where the absence of legal and financial safeguards, with resulting corruption, make pension promises meaningless. In order to assist our FSNs, OIG supports the Department's efforts to establish an alternative pension plan to ensure adequate retirement incomes within the limits of local practice. The FSN pension issue and the problem it represents for our embassies have been cited in many post inspection reports throughout the last decade. Most recently, a discussion of this problem appeared in inspections of Bamako, Mali, Dakar, Senegal, and Sarajevo, Bosnia-Herzegovina completed last fall.

In response to OIG recommendations, the Department has explored a variety of ways to establish an alternative FSN retirement plan, including establishing an off-shore retirement account, but has encountered significant legal difficulties related to the technical aspects of managing retirement funds. OIG would fully support a legislative initiative by the Department to resolve this issue.

Improving American Citizen Services

The Department places a great importance on providing services to American citizens abroad. Recently, the Department contracted out a survey to assess customer satisfaction and intends to identify areas where improvements can be made. OIG looks forward to working with the Bureau of Consular Affairs to assist in the process of evaluating progress by consular officers in eliminating the problems that will be identified in the survey. Although a high priority, the protection of Americans residing overseas is often complicated by poor communications infrastructure. In OIG inspections of consular services at embassies, one of the issues examined is the embassy's warden system used for contacting American citizens in emergencies. In general, we find that embassies take this responsibility very seriously.

Consular Operations and Border Security

Because many consular positions are filled with entry-level Junior Officers, Foreign Service under-staffing and a decline in recruitment rates in the middle to late '90s have had an adverse affect on consular operations. These staffing constraints have not only reduced the ability of consular offices to meet all the needs of American citizens, but have also had a negative impact on visa operations, particularly at small posts. Recent OIG inspections in West Africa, for example, revealed that inadequate training and support for first-tour officers in consular positions has led to lapses in non-immigrant visa management at some posts. OIG recommendations to counter this problem have led to the establishment of new regional consular officer positions to improve oversight of these small posts, and the development of new training programs specifically designed for entry level officers at one officer posts. The Bureau of Consular Affairs has been pro-active in upgrading training for its consular officers and in circulating information among its consular sections on patterns of fraud. Perhaps, one of the most serious obstacles to countering visa fraud is the lack of a fully integrated lookout system between the Department and INS. A more fully integrated system would utilize advances in electronic storage and retrieval of visa records and make visa fraud easier to deal with.

Broadcasting Board Of Governors (BBG)

OIG will shortly issue a report reviewing BBG's compliance with the Foreign Affairs Reform and Restructuring Act of 1998, which mandated its transition to independence. As of October 1999, USIA was merged into the Department of State and BBG became an independent federal entity. BBG independence did not result in any significant broadcasting changes. However, BBG made a number of organizational changes to incorporate some functions previously performed by USIA (e.g., legal counsel, contracting, security and civil rights). Notwithstanding, several operational issues remain unresolved with the Department of State in connection with independence. We found that BBG and the Department have not come to agreement on a Memorandum of Understanding on future operating arrangements between the two parties. Two key areas that continue to hinder resolution of the MOU include BBG's level of support for the Department's interactive and other diplomacy programming and the extent of chief of mission authority over VOA correspondent travel overseas. Lack of resolution of these issues is delaying important communications to overseas posts concerning how the new BBG and the Department will work together. OIG's report recommends that BBG and the Department finalize outstanding operational agreements and resolve their differences.

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MANAGEMENT'S RESPONSE TO OIG STATEMENT ON MANAGEMENT CHALLENGES

During 2000, the Department of State made considerable progress on each of its management challenges. State's Office of Inspector General (OIG) and the General Accounting Office (GAO) have provided substantive reviews of these areas, and the Department continues to work diligently to address these pressing needs.

Improving Worldwide Security

Worldwide threats and incidents challenge the Department of State on a scale never before experienced. Terrorism, espionage, cyberterrorism, transnational crime, and other unexpected issues confront the Department simultaneously. The implementation of a series of comprehensive security upgrades and countermeasures, in response to the U.S. embassy bombings in August 1998, has reduced the vulnerability of our embassies and consulates.

As vital and symbolic extensions of the United States in foreign lands, our embassies and employees abroad will always operate at some degree of risk. However, the integration of proven security upgrades and countermeasures to protect our employees are an integral part of the Department of State's goals. Though we have decreased their vulnerability, there are still major improvements needed at our embassies and consulates, e.g., completion of technical security upgrades through the

Department's Bureau of Diplomatic Security in coordination with the Office of Foreign Building Operations to support perimeter security efforts and support a major capital construction effort to build more secure facilities abroad.

The worldwide upgrades and countermeasures provided through the Emergency Security Appropriation (ESA) included deployment of security professionals to augment security at our diplomatic missions along with the enhancement of physical security including additional barriers, reinforced perimeter walls, bollards, closed circuit TV cameras, video recording equipment, hardened guard booths, vehicle barriers, bomb detection equipment, shatter-resistant window film, armored vehicles, walk-through metal detectors and x-ray equipment, and installation of additional alarm and public address systems. Additionally, the Department established mandatory inspections of all vehicles entering U.S. diplomatic facilities, negotiated with host governments to close streets or change traffic patterns in front of the U.S. mission and increase their security presence at our facilities worldwide, established surveillance detection teams, expanded anti-terrorism assistance training to aid foreign police, enhanced training for security professionals, created a chemical bio-logical weapons countermeasures program based upon education, training and equipment, and embarked upon an ambitious field training program that deploys mobile security training teams to each U.S. post on a biannual schedule.

Enhancing Information Security and Improving Information Technology

During 2000, the Department expended significant efforts to ensure that State's information technology (IT) systems were protected from unauthorized access, modification or disclosure. The Department undertook several simultaneous initiatives aimed at strengthening State's IT security posture, successfully addressing and bringing to closure a number of material weaknesses reported under the Federal Managers' Financial Integrity Act (FMFIA). Those weaknesses were Mainframe Contingency Planning, Mainframe Security, IT Modernization and Information Systems Security. Additionally, improvements made in the area of IT security were sufficiently salient to merit a change in the grade Congress awarded to State's IT security posture from a "C" to a "B." The Department has also developed an agency-wide Systems Security Program Plan thereby satisfying a major weakness reported by the GAO as a result of its 1998 Computer Security Audit of the Department. State also continued to work to connect its entire workforce to a single, large-scale network linked to the Internet and the World Wide Web. The flagship program of this modernization effort is the ALMA (A Logical Modernization Approach) initiative that has improved links to the unclassified system (OpenNet) for all overseas posts. ALMA directly addresses two of the Department's biggest IT problems: unreliable e-mail and antiquated computer equipment. The ALMA and OpenNet infrastructure provides a platform that will yield substantial future benefits for the Department.

Financial Management

Over the past two decades, Congress has enacted a statutory framework to reform the financial management of the government. Significant pieces of this framework include the FMFIA, the Chief Financial Officers Act of 1990 (CFO Act), the Government Management and Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996 (FFMIA). Like many agencies, the Department has had difficulties in meeting all of these requirements.

The Department has made considerable progress. Since fiscal year 1997, the Department has received unqualified ("clean") opinions on its agencywide financial statements, and produced an annual accountability report. Since fiscal year 1995, the number of financial management material weaknesses has been reduced from nine to none. In addition, the Department submitted its 2000

financial statements to OMB by the required March 1st deadline. The 2000 financial statements received an unqualified opinion, marking the fourth consecutive year that an unqualified opinion has been rendered on the Department's annual financial statements. While the Department has made progress, several significant issues exist as identified in the Inspector General's report. These issues include the security of the Department's information systems networks for domestic operations, the management of unliquidated obligations, the adequacy of the Department's financial systems, and outstanding OIG audit recommendations including the management of the Working Capital Fund (WCF).

The Department's Management Control Steering Committee (MCSC), with the concurrence of the Inspector General, approved the closure of the material weakness for Information Systems Security for the 2000 FMFIA Report. This was based on the fact that the processes, controls and administration of the Department's information systems security program have been significantly enhanced since this problem was identified in 1997. However, whether these improvements prevent unauthorized access and abuse of the Department's information systems network for domestic operations needs to be independently validated. Until this independent validation is performed, the Auditor's Report on the Department's annual financial statements will continue to report that the Department's information systems networks for domestic operations are potentially vulnerable to unauthorized access. The Department, working with the OIG and the GAO, will have an independent review of system security vulnerabilities performed in FY 2001. The independent validation will serve, in some respects, as a Corrective Action Review (CAR). The Department requires that a CAR be conducted in the year immediately following the closure of any material weaknesses. Future steps regarding this issue will depend on the results of the independent validation.

To resolve the issue of unliquidated obligations, the Department implemented the Unliquidated Obligation System to facilitate the reconciliation, reporting, analysis and oversight of unliquidated obligations worldwide. The Department expects to use this new management tool to substantially address the IG concerns regarding the management of unliquidated obligations.

The Department has also made progress on its long-standing weaknesses in financial systems, and currently meets two of the three requirements mandated by the FFMIA. However, these systems will not substantially comply with FFMIA until the Department complies with Federal financial management systems requirements. To achieve compliance, the Department established a FFMIA Remediation Plan (Plan) that has been approved by OMB. This plan, which includes the establishment of a worldwide financial management system by replacing our overseas financial systems, calls for the Department to achieve substantial compliance by the end of 2003. During 2000, the first year of the Plan, the Department completed seven of the 12 initiatives identified in the plan.

The Department continues to work diligently to address all outstanding OIG recommendations and concerns. The MCSC, with the concurrence of the IG, approved for the 1999 FMFIA Report the closure of the material weakness for accounting for the WCF. The Department is working to build upon this success and continue to improve the management of the WCF. For example, the WCF reported a small profit for the fiscal year ended September 30, 2000.

Managing Foreign Assistance

The Department expends more than $1 billion annually for programs carried out through assistance instruments such as grants, cooperative agreements, bilateral agreements and transfers, but does not have standardized financial policies, systems or procedures to manage these programs. The integration of the former United States Information Agency (USIA), which had a substantial

level of grants, has increased the Department's exposure in this area. Further, the level of expenditures will increase as a result of monies received for Plan Columbia and transfers from USAID and other Federal agencies.

To improve the administration of the Department's Federal assistance programs (hereafter referred to as grants), and provide for better management of the over $1 billion in assistance awarded annually, the Department recently approved the establishment of a new Office of Grants Financial Management (Office) within the Bureau of Financial Management and Policy (FMP) and a Department Grants Management Steering Committee (GMSC). The Office and the GMSC will begin operations during 2001.

The Office will provide leadership in the financial management of grants through policy development, oversight and training. The Office will have functional responsibility for administering Department-wide financial policies and regulations related to grants, oversight of the fiscal aspects of the Department's grant operations, establishing standards for improved grants financial management information and reporting systems, and developing grants financial management training programs.

The GMSC will operate in many respects similar to the Department's Management Control Steering Committee (MCSC). The MCSC has been highly successful the last few years at reducing the Department's number of reported material weaknesses from 20 in 1994 to three at the end of 2000, including two "inherited" from USIA in the integration. The GMSC will assist in establishing uniform policies and procedures for issuing and monitoring grants, determining and establishing grants management objectives, and overseeing the grants management processes for the Department. The GMSC will consist of those offices that play a major role in approving and administering grant expenditures and include a representative from the OIG in a consultation capacity.

Strategic Planning

The Department undertook significant measures to dramatically improve its strategic and performance planning during 2000. The Strategic Planning Management Team, composed of officers from the Secretary's Office of Resources, Plans and Policy, the Office of Management Policy and Planning and the Bureau of Financial Management and Policy, developed a new, more streamlined format for the Department's planning products. This structure, which featured performance goals from various Bureaus under each of the 20 Strategic and Diplomatic Readiness Goals, was unveiled in the 2001 Performance Plan and received accolades for its significant improvement over previous plans.

The new layout fell short, however, in its failure to integrate cross-cutting activities that are managed by multiple Bureaus. This deficiency was addressed with the creation of multi-Bureau goal teams in 2000 that assembled to develop single performance goal sheets for each Strategic and Diplomatic Readiness Goal. These 20 teams, chaired by deputy assistant secretaries (or an equivalent officer) and managed by Bureau coordinators, were coached by a member of the Strategic Planning Management Group. All goal teams met and produced strong draft goal sheets in 2000 or early 2001, demonstrating an increased level of understanding and commitment to performance management throughout the Department. Strategic planning is an iterative process, and the State Department will work to continue improving its efforts to fulfill the spirit and letter of the Results Act in future years' planning efforts.

Human Capital

The GAO has pointed out that the Department needs to develop a human resource strategy that is in line with State's mission, an issue that will become increasingly important as Civil Service "baby boomer" retirements begin to surge in the next decade. The complexities of the integration with USIA and Arms Control and Disarmament Agency (ACDA), and the "Y2K" preparations slowed the development of an integrated Department Workforce Plan. The first element of the Department's human resource strategy, the Diplomatic Readiness Plan has been completed and distributed. The Bureau of Human Resources plans to have a first-ever Domestic Staffing Model developed within the next twelve months. It will be the domestic equivalent of the Overseas Staffing Model that was generated in 1996. This model will include the Foreign Service and Civil Service.

Consular Operations—Improving Visa Operations

The United States continues to be an attractive destination for immigrants as well as foreign tourists. While visa processing remains a significant challenge for the Department, State took a number of important steps during 2000 to address this issue. The Border Biometric Program, which was initiated in 1998, requires that every newly issued Border Crossing Card be machine-readable and contain a fingerprint. In 2000, State expanded its capacity to process applications to all 12 posts throughout Mexico, as well as four locations along the U.S. border. The Department is developing a pilot program to produce cards at posts in Mexico, reducing the time required to get cards to applicants. The National Visa Center at Portsmouth, New Hampshire, which suffers from staffing shortages and other management difficulties due to the sheer number of immigrant visa applications, will soon have its workload reduced. With an eye to the future, the Department developed the new Kentucky Consular Center and prepared its staff to handle the diversity visa lotteries for 2002 and beyond. The site was identified, purchased, renovated and opened within a 10-month period while creating some 50 jobs in a region of Kentucky with historically high unemployment rates.

MANAGEMENT FOLLOW-UP TO OIG RECOMMENDATIONS

This information on the Department of State's follow-up on the status of audit recommendations covers 2000. It includes information on the status of recommendations more than one year old without final management decisions, and the dollar value of those reports in which funds could be put to better use or costs could be disallowed.

During 2000, the Department of State tracked 41 audit reports that were more than one year old and included a total of 159 recommendations for which final action was not taken to bring closure to the reports. These audits contain over $1.5 million in disallowed costs and recommended actions which when implemented could result in up to $8.3 million being better used. The Department is working to bring closure to the 41 audits and recognizes that the follow-up actions and compliance to the recommendations are essential to improving the effectiveness and efficiency of program operations.

Management Statistical Summary

41 Audits Over One Year Old Requiring Final Action

Program Area	Number of Audit Reports	Number of Audit Recommendations
Counter Intelligence	3	8
Financial Management	9	40
Information Management	1	3
Security Oversight	15	67
Support Programs	3	10
Property Management and Procurement	7	17
Contracts and Grants	3	14
TOTALS	**41**	**159**

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

On October 1, 1999, there were six audits with recommendations to put funds to better use, with a dollar value of $8.3 million, in which management had not taken final action. During the year, an additional audit was completed which included a recommendation of $70,000 being put to better use. Therefore, on September 30, 2000, there were seven audits with recommendations to put funds to better use awaiting final action with a dollar value of $8.3 million.

Status of Audits of Disallowed Costs

On October 1, 1999, there were two audits with management decision on which final action had not been taken, with a dollar value of disallowed costs totaling $1.5 million. Since no activity occurred during the year, the balance at September 30, 2000 remained at $1.5 milliion.

Funds Put to Better Use and Disallowed Costs in Audit Reports

	Number of Audit Reports Identifying Funds Put to Better Use	Amount of Funds Put to Better Use	Number of Audit Reports Identifying Disallowed Costs	Amount of Disallowed Costs
Beginning Balance	6	$8,275,718	2	$1,545,000
New Audits	1	70,000	-	-
Implemented Actions	-	-	-	-
Ending Balance	7	$8,345,718	2	$1,545,000

PENDING MATERIAL WEAKNESSES AND NONCONFORMANCES

The following is a brief description of and actions being taken to correct three pending material weaknesses and one material nonconformance.

Pending Material Weaknesses

Inadequate Administrative Staffing Overseas

The Department suffers from an acute shortage of skilled Foreign Service administrative staff overseas. This shortage is especially critical in light of the increase in staffing levels of the other agencies who have staff overseas and who rely on the Department for administrative support without a proportionate increase in Departmental administrative support levels. The shortage of administrative personnel is believed to be a root cause of other weaknesses in administrative areas.

A two-track approach is being taken to determine administrative staffing levels and ensure that funding is available to support overseas administrative activities. First, using the Overseas Staffing Model (OSM), the Department will identify the criteria for determining administrative staffing levels by Post. The OSM sets forth a base level of administrative staffing, with additional positions provided to meet special needs. Administrative staffing levels at Posts will be directly linked to workload measurement indicators. To ensure resources are available, a direct link will be established between the administrative requirements, and each agency's proportional cost for the support.

An OSM update was recently completed as of October 2000. The OSM continues to project a need for more administrative positions overseas than the Department can fund. The results of the update will be used to guide resource allocations for 2001 and out-year budget submissions. Administrative requirements are being met through the institution of programs to allow Foreign Service specialists, Civil Service employees and eligible American family members to compete for and fill specific administrative positions overseas.

Integration of Grants Tracking Systems

The 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 and these systems are not integrated with the Central Financial Management System. Integration will eliminate redundant record keeping, simplify coordination, and provide accurate and consistent data on grant costs and recipients.

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, including program evaluation and follow-up with alumni, and integrate the information needs of overseas posts and private-sector partners throughout the U.S. via e-mail and web interfaces to the central exchanges database. The exchanges database now includes solicitation, proposal, and grants modules that are in production in the Executive Office and one program office, and will be installed in the remaining program offices in 2002.

The budget staff and grants division will access the database and supplement the data in these modules, rather than creating duplicate solicitation and proposal records. The requirements analysis for the grants office is complete and development of a grants module for the exchanges database is targeted for completion by June 2001. Also planned is an interface from the exchanges database to the Central Financial Management System that will use updated commitment data to generate a record of obligations. This will eliminate a major source of past inconsistencies. The Department anticipates completing this project in 2002.

Exchange Visitor Information System (EVIS)

The EVIS system contains information on the organizations designated by the Department of State to conduct educational and cultural exchange programs and on the foreign nationals who have participated as exchange visitors within these programs. The system is a crucial management tool for the administration and oversight of designated program sponsors. Data discrepancies were found in EVIS. Some forms used to collect data for entry into the system were incomplete. When critical fields were incomplete, forms were returned for special handling. The reliability of the information is of utmost concern since data is extracted from the database and used to respond to queries from the White House, the Congress, and the public.

In 1996, the Congress mandated the Immigration and Naturalization Service to develop, in cooperation with the Departments of State and Education (and the former USIA), an automated system to collect information relating to non-immigrant foreign students and exchange visitor program participants. A pilot program was developed and tested, and the information collected is being used to develop a national system. The national system will enable the Department to acquire complete data on the participants in the Exchange Visitor Program almost instantaneously. In lieu of filling out a form, sponsors will enter data directly into an electronic database. The system will also require the sponsor to provide data in all fields on the electronic input before submission. As a result, the Department will have access to more timely and accurate data and will eventually be able to eliminate the need for a vendor to collect the data.

Pending Material Nonconformance

Financial and Accounting Systems

The Department identified and acknowledged serious weaknesses in its financial management systems. When first reported, the Department was burdened with managing six financial management systems throughout the world in support of its domestic bureaus, overseas posts and other

overseas agencies. The financial management systems nonconformance includes the following five weaknesses: deficiencies in data quality, noncompliance with the Joint Financial Management Improvement Program (JFMIP) core requirements, ineffective interfaces, inadequate documentation and audit trails, and inadequate support of mission performance.

Significant progress has been made over the past few years to improve our financial management systems worldwide. The Department has reduced the number of financial systems from six to three, reduced the number of post-level financial systems from nine to two, reduced regional level systems from three to two, defined a standard account code structure applicable across all financial systems, and re-centralized disbursing offices from 21 to three. For the third consecutive year, the independent auditors have issued an unqualified opinion on the Department's financial statements. Other ongoing progress includes improvements of system security, continued development of the Regional Financial Management System, development of business continuity and recovery plans for financial operations at Financial Service Centers, and the implementation of property management systems.

DEBT COLLECTION IMPROVEMENT ACT

Debt Management

Outstanding debt, net of allowances, increased from $24.5 million in 1999 to $28.9 million in 2000. Receivables consist of debts owed to the International Boundary and Water Commission and amounts owed for Repatriation Loans, medical, travel advances, proceeds from the sale of real property, and other miscellaneous receivables.

2000 Debt Management Activities
(Dollars in Thousands)

Receivables – Beginning FY Balance	$	33,252
Total New Receivables		100,915
Total Collections		(114,370)
Total Adjustments		9,452
Total Written-Off		(303)
Total Receivables – End of FY	$	28,946
Aging Schedule of Receivables:		
Current	$	20,653
Delinquent:		
30 days		222
60 days		28
90 days		503
180 days or less		329
181 to 365 days		1,172
> 365 days		6,039
Total Delinquent Debt		8,293
Total Receivables	$	28,946

The majority of the receivables over 365 days delinquent are $3.2 million for the Repatriation Loan Program. These are loans given to destitute American citizens stranded overseas to allow them to return to the United States. The loans are given only if the individual cannot obtain funds from relatives, friends, employers, or any other source. The Department acts as the lender of last resort. The loan becomes delinquent 60 days after repatriation to the United States. Due to their poor economic situation, most of these individuals are unable to repay the loans on time.

2000 Accounts Receivable and Total Debt Outstanding
(In Thousands)

Type of Receivable	Principal	Percentage of Total Debt Outstanding
International Boundary and Water Commission Receivables	$13,903	48.0
Repatriation Loans	3,951	13.7
Proceeds of Sale of Assets	1,791	6.2
Travel Advances	799	2.8
Miscellaneous	8,502	29.3
Total	$28,946	100.0

The Department uses installment agreements, salary offset, and restrictions on passports as tools to collect its receivables. Collections are also received by the Department from its cross-servicing agreement with the Department of the Treasury (Treasury).

In 1998, the Department entered into a cross-servicing agreement with the Department of the Treasury for collection of delinquent receivables. In accordance with the agreement and the Debt Collection Improvement Act of 1996 (Public Law 104-134), the Department referred 572 accounts to Treasury for cross-servicing in 2000. During the first quarter of 2000, there was a moratorium on referrals to Treasury due to the need to ensure that the Department's systems were Year 2000 compliant. This resulted in a significant decrease in the number of submissions to the Treasury. Of the $680,000 delivered to Treasury for cross-servicing, $80,442 (12%) was collected.

Receivables Referred to the Department of the Treasury for Cross Servicing

	FY 2000	FY 1999
Number of Accounts	572	1,678
Amounts Referred (In Thousands)	$680	$1,885

FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENT ACT

The Federal Civil Penalties Inflation Adjustment Act of 1990 established annual reporting requirements for civil monetary penalties assessed and collected by Federal agencies. Civil penalties are defined as any non-criminal penalty, fine or other sanction for which a given dollar amount or maximum amount is specified by Federal law, and which is assessed or enforced by an agency as a result of an administrative proceeding or civil action in the Federal courts. The Department is collecting outstanding civil monetary penalties from Delft Instruments, N.V., Boeing Company, Security Assistance International, Raytheon Company, A & C International Trade, Inc., and Lockheed Martin Corporation, as explained below.

## CIVIL MONETARY PENALTIES
ASSESSMENTS AND AMOUNTS COLLECTED

COMPANY NAME	DATE ASSESSED	AMOUNT ASSESSED	VIOLATION	INITIAL PAYMENT	ANNUAL PAYMENT
DELFT INSTRUMENTS, N.V.	8/22/1997	$300,000	Concealing a material fact involving the transfer of U.S origin defense articles to Iraq and Jordan.	$200,000	$20,000 for five subsequent years
BOEING COMPANY	9/29/1998	$7,500,000	Reportedly exporting defense articles (technical data) and defense services to Russia, Ukraine, Norway, and Germany without the required approvals from the Department.	$3,500,000	$800,000 for five subsequent years
SECURITY ASSISTANCE INTERNATIONAL	6/3/1999	$10,000	Misrepresenting the facts of an export application by falsifying the signature of an empowered official, failing to maintain necessary records, aiding, abetting and permitting others to avoid the registration requirement, and failing to register as a broker.	$4,000	$3,000 for next two years
RAYTHEON COMPANY	10/28/1999	$500,000	Exporting defense articles and technical data to Canada without the required approvals from the Department, and in other circumstances, violating the terms and conditions of approvals provided by the Department.	$500,000	_____
A&C INTERNATIONAL TRADE, INC.	3/14/2000	$100,000	Knowingly and willfully exporting a defense article (pressurized pepper gas system) to the People's Republic of China without applying or obtaining the required approval from the Department.	$33,333.34	$33,333.33 for next two years
LOCKHEED MARTIN CORPORATION	6/13/2000	$8,000,000	Exporting defense articles and defense services in violation of the terms or conditions of other approvals that were provided by the Department, making proposals for the transfer of defense services, and by omitting material facts from export license applications.	$1,500,000	$1,500,000 for three years and $2,000,000 due in year four.

PROMPT PAYMENT ACT

Timeliness of Payments

The Prompt Payment Act (PPA) requires Federal agencies to pay their bills on time or, if payment is made late, an interest penalty must be paid to vendors. The Department continues to show improvement in paying its bills on time.

— 94% of invoices were paid timely versus 93% in 1999

— 3% of invoices required interest penalties to be paid versus 4% in 1999

Timeliness of DOS Payments FY 1998 – FY 2000
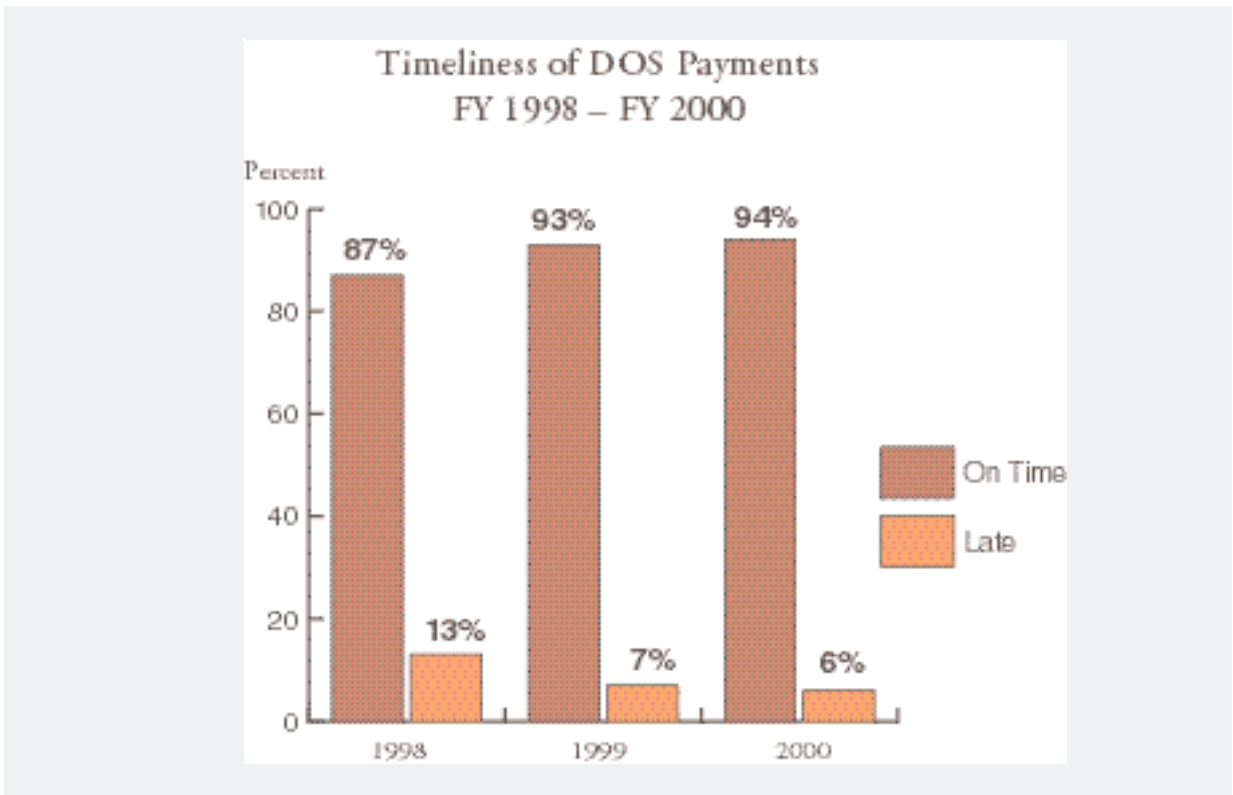
Selected Payment Data

	2000	1999	1998
Number of Payments Reported	611,306	417,041	270,026
Interest Paid ($000)	1,559	1,346	1,126
Interest Under $1 Not Due ($000)	10	10	15
Interest Due But Not Paid ($000)	-	18	-
No. of Procurement Card Transactions	42,016	34,088	27,208

Electronic Payments

The Department has been successful in aggressively pursuing issuing its payments electronically. Across the Department in 2000, 69% of all payments were made electronically. Domestically, 96% of payments were made electronically, exceeding the 75% EFT goal established for 2000 by Treasury. The Department processed 45% of its 2000 overseas payments electronically, a 3% increase from 1999.

EFT and Check Payment Volumes

Payment Type	2000		1999	
	Number	Percent	Number	Percent
Domestic EFT	1,132,299		991,544	
Overseas EFT	609,234		490,914	
EFT Subtotal	1,741,533	69	1,482,458	67
Domestic Checks	46,396		54,230	
Overseas Checks	749.598		668,567	
Checks Subtotal	795.994	31	722,797	33
Total Payments	2,537,527	100	2,205,255	100