



# UNITED STATES DEPARTMENT OF STATE

## MISSION & VALUES

### MISSION

**Create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.**

### VALUES

**Loyalty:** Commitment to the United States and the American people.

**Character:** Maintenance of high ethical standards and integrity.

**Service:** Excellence in the formulation of policy and management practices with room for creative dissent. Implementation of policy and management practices, regardless of personal views.

**Accountability:** Responsibility for achieving United States foreign policy goals while meeting the highest performance standards.

**Community:** Dedication to teamwork, professionalism, and the customer perspective.

CERTIFICATE OF EXCELLENCE  
2001



**CERTIFICATE OF  
EXCELLENCE IN  
ACCOUNTABILITY  
REPORTING**

Presented to the

***Department of State***

**In recognition of your outstanding efforts  
in preparing the Department of State's  
Accountability Report for the fiscal  
year ended **September 30, 2001.****

A Certificate of Excellence in Accountability Reporting is presented  
by the Association of Government Accountants to federal  
government agencies whose annual Accountability Reports or  
Performance and Accountability Reports achieve the highest  
standards in presenting their programs and financial affairs.



John H. Hunsel, CGFM  
Chair, Certificate of Excellence  
in Accountability Reporting Board

Charles W. Culin Jr., CGFM  
Executive Director

**WWW.STATE.GOV/M/RM/RLS/PERFRPT/2002/**

<b>MESSAGE FROM THE SECRETARY</b>	<b>1</b>
<b>MESSAGE FROM THE ASSISTANT SECRETARY FOR RESOURCE MANAGEMENT &amp; CHIEF FINANCIAL OFFICER</b>	<b>2</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>4</b>
Mission and Organization	5
Performance Summary and Highlights	11
President's Management Agenda and Management Challenges	23
Management Controls, Systems and Compliance with Laws	28
Federal Managers' Financial Integrity Act	28
Federal Financial Management Improvement Act	31
Government Management Reform Act – Audited Financial Statements	35
Financial Highlights	38
<b>PERFORMANCE SECTION</b>	<b>48</b>
Introduction	51
Strategic Goal Chapters	52
Illustrative Examples	160
Resources by Strategic Goal	170
<b>FINANCIAL SECTION</b>	<b>174</b>
Independent Auditor's Report	176
Financial Statements	192
Principal Financial Statements	193
Notes to Principal Financial Statements	201
Required Supplementary Stewardship Information – Heritage Assets	240
Required Supplementary Information	245
Combining Schedule of Budgetary Resources	245
Intragovernmental Amounts	247
Deferred Maintenance	249
Working Capital Fund	250
Inspector General	252
Management Challenges Identified by the Inspector General	253
Inspector General Act Amendments – Management Follow-up to OIG Recommendations	257
Supplemental Information and Other Reporting Requirements	260
Federal Civil Penalties Inflation Adjustment Act	261
Debt Management	263
Payments Management	264
<b>APPENDICES</b>	<b>266</b>
■ Annual Performance Goal Results 1999 – 2002	267
■ FY 2002 Key Program Evaluations by Strategic Goal	342
■ Office of the Inspector General Performance Report	357
■ Directory of Key Officials and Senior Management	389
■ Department of State Locations	391
■ Major Department of State Publications	395
■ Glossary of Acronyms	398

## MESSAGE FROM THE SECRETARY



I am pleased to present the Department of State's Performance and Accountability Report for Fiscal Year 2002. This year, for the first time, we combine in one report our audited financial statements and systematic assessments of our performance against the major objectives we set for our agency.

The Department of State's mission is to help the President shape a world of greater security, freedom and prosperity for America's sake and for the sake of people all around the globe who seek to build a better future for themselves and their children.

The men and women of the Department of State have played instrumental roles in the world-wide campaign against terrorism and in our government's efforts to end the proliferation of weapons of mass destruction. We have helped to strengthen our alliances in Europe, Asia and the Western Hemisphere to meet the challenges of the 21st century. We have worked with Russia and China to get beyond hostilities of the past and cooperated with them to help parties in war-torn regions like the Middle East find peaceful ends to conflicts. We continued to promote democracy and respect for human rights on every continent. We have been at the forefront of the global effort to stem the spread of HIV/AIDS. And we have worked to forge a new international consensus on how to help poor countries raise themselves out of poverty through good governance, sound economic, trade and environmental policies, and wise investments in their people.

In conducting our vital foreign policy mission, we have been effective and accountable stewards of the taxpayers' money.

For the sixth year in a row, independent auditors have given our financial statements an unqualified seal of approval. I am also proud to certify that the Department's management control systems meet the requirements of the Federal Managers' Financial Integrity Act. I cannot certify that the Department's financial systems fully comply with provisions of that Act because they do not yet conform to government-wide standards. We have, however, developed a remediation plan for reaching full compliance by Fiscal Year 2004.

We have made every effort to verify the accuracy and ensure the completeness of the financial and performance data presented in this report. In the few instances where information has not been provided, we give specific reasons why.

In last year's report, I noted that with the support of the President and broad bipartisan backing from Congress, we had made significant progress on building institutional capacity in three fundamental areas: human resources, information technology, and embassy construction and security. We must keep the focus on these key areas so that in the demanding years ahead the men and women of the State Department have the means they need to serve our country safely and successfully all across the globe on the front lines of freedom.

A handwritten signature in black ink, appearing to read 'C. L. Powell'.

Colin L. Powell  
*Secretary of State*

## MESSAGE FROM THE ASSISTANT SECRETARY AND CHIEF FINANCIAL OFFICER

For the sixth consecutive year the independent CPA firm, selected by our Inspector General, has issued an unqualified ("clean") opinion on the Department's consolidated financial statements for fiscal year 2002. This is the best possible audit result, and should give confidence to the reader that the financial statements contain reliable information about the Department's accounts. Last year, in recognition of the exceptional quality of these statements along with the full Accountability Report, the Association of Government Accountants awarded the Department the prestigious Certificate of Excellence in Accountability Reporting.



This year for the first time ever, the Accountability Report is combined with the Department's Performance Report to form the *Performance and Accountability Report for Fiscal Year 2002* (Report). Within this document we present the accomplishments of the Department's greatest assets—its people. Working frequently in hostile environments on the forward edge of American foreign policy, these men and women face challenges ranging from protecting our nation's vital interests and securing peace to the new priority of combating and defeating terrorism. From the Report you will not only be able to see how we spend the money of our shareholders—the taxpayers of America—but also how effectively we spend this precious commodity.

Within President Bush's five-point Management Agenda is an aggressive strategy for improving the Federal government's financial management, integrating budget, strategy and performance, and ensuring the careful fiduciary stewardship of the people's money. In support of this, in January of 2002, Secretary Powell established the Resource Management Bureau (RM). Moving quickly, RM is building a new global financial and accounting system with full implementation planned at over 170 embassies worldwide by the end of fiscal year 2003. Financial operations from around the world are being consolidated in new State Department facilities in Charleston, South Carolina. By 2004 the Charleston Financial Service Center will serve as the Department's central location for all global financial operations. RM also has created the Office of Strategic and Performance Planning, with the primary goal of budget and performance integration. Under the leadership of that office, later this year, State and USAID will issue their first ever joint Strategic Plan for fiscal years 2004 to 2009.

The Department also maintains an effective management controls program, which includes clearly defined lines of responsibility, and requires annual assurance statements from our overseas Ambassadors and all Assistant Secretaries. A Management Control Steering Committee (MCSC) made up of senior leadership from the Department, oversees the program. This year the MCSC resolved the remaining three material weaknesses—a first for the Department since the passage of the Federal Managers' Financial Integrity Act. The MCSC did establish a reportable condition regarding the Department's visa process. The Department is working daily to improve all processes associated with the issuance of visas. The creation of a reportable condition around that process reflects our complete commitment that management controls will continue to be a positive catalyst for change.

The Department has continued to address aggressively the information systems security material weakness reported by the Inspector General's office in the auditor's opinion. During 2003 the Department will keep an aggressive certification and accreditation schedule, have a remediation process in place, and implement an independent security-testing program. We are committed to computer security and believe that this material weakness will be resolved in 2003.

Secretary Powell has set a bold course for responsibility and effectiveness in Government. This first-ever Performance and Accountability Report is the measure of that effort to date.

A handwritten signature in black ink, appearing to read "Christopher Burnham". The signature is fluid and cursive, with a large initial "C" and "B".

Christopher B. Burnham  
Assistant Secretary for Resource Management  
and Chief Financial Officer  
February 1, 2003

# ABOUT THIS REPORT

## I. GENERAL

The Department of State's *Performance and Accountability Report for Fiscal Year 2002 (Report)* provides performance and financial information that enables Congress, the President, and the public the ability to assess the performance of the Department relative to its mission and for stewardship of the resources entrusted to it. This *Report* satisfies the reporting requirements of the:

- Chief Financial Officers Act of 1990,
- Federal Managers' Financial Integrity Act of 1982,
- Government Management Reform Act of 1994,
- Government Performance and Results Act of 1993, and
- Reports Consolidation Act of 2000.

## II. CONTENT

### ■ MESSAGE FROM THE SECRETARY OF STATE

The Secretary's message includes an assessment of whether financial and performance data in the *Report* is reliable and complete, and a statement of assurance as required by the Federal Managers' Financial Integrity Act (FMFIA) indicating whether management controls are in place and financial systems conform with government-wide standards.

### ■ MESSAGE FROM THE ASSISTANT SECRETARY FOR RESOURCE MANAGEMENT AND CHIEF FINANCIAL OFFICER

The Assistant Secretary's message includes progress and challenges on improving the Department's financial management, and integrating budget and performance; planned time frames for correcting the material weakness identified in the Independent Auditor's Report; and information on the Department's management controls program under FMFIA.

### ■ MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This is a concise overview of the entire *Report*. The MD&A includes an organizational overview; highlights of most important performance goals and results (positive and negative) for FY 2002; a brief analysis of financial performance; a brief description of systems, controls, and legal compliance; a summary description of FMFIA material weaknesses and non-conformances; and other "most important" information such as the Department's progress in implementing the President's Management Agenda and addressing the management challenges identified by the General Accounting Office and the Inspector General.

The MD&A is supported and supplemented by detailed information contained in the *Performance Section*, *Financial Section* and *Appendices*.

### ■ PERFORMANCE SECTION

This section contains the annual program performance information required by the Government Performance and Results Act of 1993 (GPRA) and combined with the Appendices, includes all of the required elements of an annual program performance report as specified in OMB Circular A-11, *Preparing, Submitting, and Executing the Budget*. This section contains a more detailed discussion and analysis of FY 2002 performance results. The results are presented by Strategic Goal with a chapter covering each Strategic Goal. This section may be read in conjunction with two of the appendices contained in this report, *Annual Performance Goal Results 1999-2002* and *FY 2002 Key Program Evaluations by Strategic Goal*. For more information on this section, please contact the Office of Strategic and Performance Planning at (202) 647-0300.

### ■ FINANCIAL SECTION

This section contains the Department's financial statements and related Independent Auditor's Report; the Inspector General's summary of the most serious management and performance challenges facing the agency and a brief assessment of the agency's progress in addressing those challenges; and other agency-specific statutorily required reports pertaining to the Department's financial management.

For more information on this section, please contact the Office of Financial Policy, Reporting, and Analysis at (202) 261-8620.

### ■ APPENDICES

This section contains more detailed information on the Department's performance results for FY 1999 - FY 2002 (including trend data), the sources and reliability of the Department's performance data, and FY 2002 Program Evaluations. The Office of Inspector General 2002 Performance Report also is presented. Other appendices provide information on Department locations, key staff and publications along with a glossary of acronyms.

FISCAL YEAR 2002 PERFORMANCE AND ACCOUNTABILITY REPORT

MANAGEMENT'S  
DISCUSSION  
AND ANALYSIS

## MISSION AND ORGANIZATION

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

### Department of State Mission Statement

Create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.

The Department's mission statement guides its personnel, who carry out foreign affairs programs and activities. Department employees are also guided by a set of values.

### DEPARTMENT OF STATE VALUES

#### Loyalty

Commitment to the United States and the American people.

#### Character

Maintenance of high ethical standards and integrity.

#### Service

Excellence in the formulation of policy and management practices with room for creative dissent.  
Implementation of policy and management practices, regardless of personal views.

#### Accountability

Responsibility for achieving United States foreign policy goals while meeting the highest performance standards.

#### Community

Dedication to teamwork, professionalism, and the customer perspective.



## Department of State National Interests and Strategic Goals

**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.

- **Regional Stability** – Ensure that local and regional instabilities do not threaten the security and well-being of the United States or its allies.
- **Weapons of Mass Destruction** – Reduce the threat of Weapons of Mass Destruction.

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

- **Open Markets** – Open world markets to increase trade and free the flow of goods, services and capital.
- **U.S. Exports** – Expand U.S. exports to \$1.2 trillion early in the 21st century.
- **Global Economic Growth** – Increase global economic growth and stability.
- **Economic Development** – Promote broad-based, sustainable growth in developing countries and transitional economies.

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

- **American Citizens** – Protect the safety of American citizens who travel and live abroad.
- **Travel & Migration** – Facilitate travel to the United States for foreign visitors, immigrants, and refugees, while deterring entry by those who abuse or threaten our system.

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

- **Countering Terrorism** – Reduce international terrorist attacks, especially on the United States and its citizens.
- **International Crime** – Minimize the impact of international crime on the United States and its citizens.
- **Countering Illegal Drugs** – Reduce the entry of illegal drugs into the United States.

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

- **Democracy & Human Rights** – A worldwide community of democracies where human rights, including worker rights, and religious freedom are universally respected.

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

- **Humanitarian Assistance** – Prevent or minimize the human costs of conflicts and natural disasters.

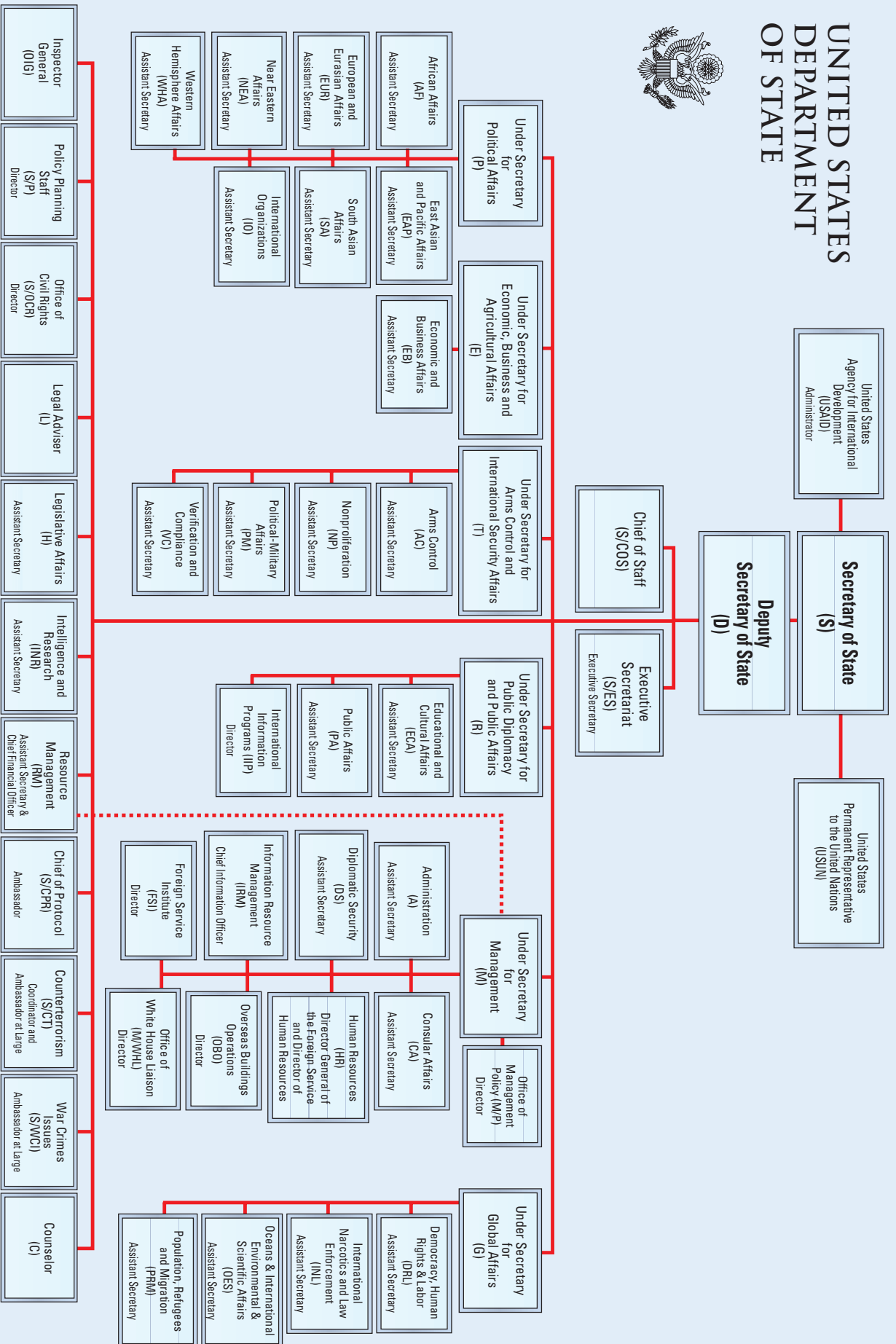
**Global Issues: Environment, Population and Health** – To improve the global environment, foster a healthy and educated world population, and protect human health.

- **Environment** – Secure a sustainable global environment to protect U.S. citizens and interests from the effects of international environmental degradation.
- **Population** – Achieve a healthy and educated world population.
- **Health** – Improve global health for a more secure world.

**Diplomatic Activities:**

- **Mutual Understanding**  
Improve and strengthen the international relations of the United States by promoting better mutual understanding between the people of the United States and the peoples of the world through educational and cultural exchange.
- **Human Resources**  
An optimum number, distribution, and configuration of the Department's workforce both domestic and overseas under the highest quality leadership employed in response to the foreign policy priorities identified in the strategic plan.
- **Information Resources**  
Fully modernized, secure, and advantageous IT infrastructure and information systems, relying largely on commercial services and approaches, supporting the mission of the Department of State and the international community.
- **Infrastructure and Operations**  
Establish and maintain infrastructure and operating capabilities that enable employees to pursue policy objectives and respond to crises.

# UNITED STATES DEPARTMENT OF STATE



10/15/02

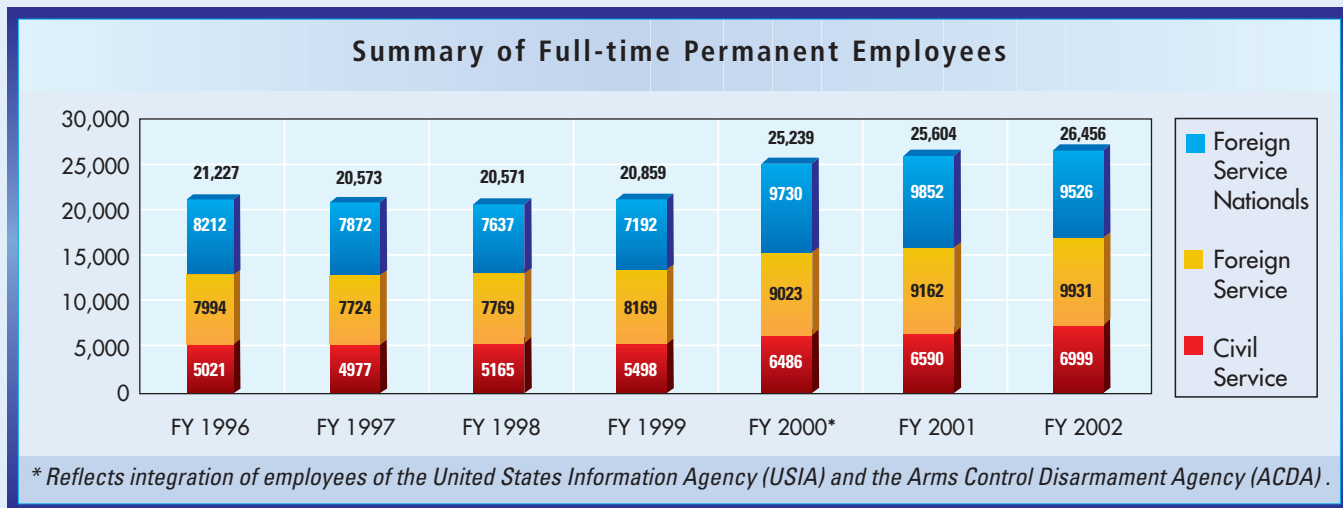
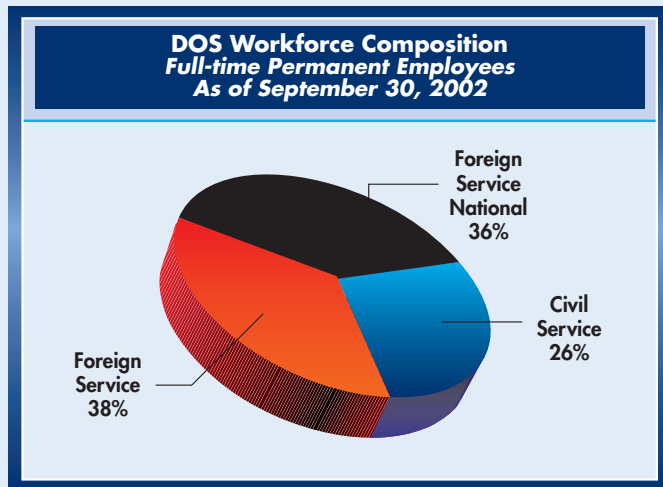
The Department, the oldest and most senior cabinet agency, was established in 1789 to advise the President on formulating and executing foreign affairs. The Secretary of State heads the Department and serves as the President’s principal advisor on the conduct of foreign relations. The Deputy Secretary and six Under Secretaries aid the Secretary of State, serving as the Department’s corporate board on foreign policy. Each specializes in one of the following areas: political affairs; economic, business and agricultural affairs; arms control and international security; global affairs; public diplomacy and public affairs; and management.



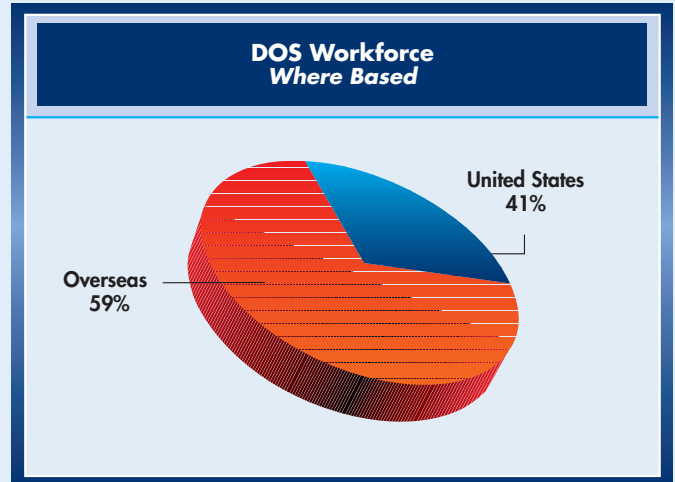
The work of Department employees has an impact on the American people here and abroad. Expertise in languages, understanding of foreign cultures, and the ability to manage complex issues and programs are essential elements of this work.

*President George W. Bush addresses the employees of the Department in Washington, D.C. on October 4, 2001, praising all State Department employees for their efforts in safeguarding the freedom of the United States. AFP Photo/Manny Ceneta*

The Department’s workforce reflects the diversity of America and consists of approximately 26,500 employees in the Civil Service and the Foreign Service, and includes Foreign Service Nationals in the 162 countries where the United States is represented. The Department also 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; 13 passport agencies; five offices that provide logistics support for overseas operations; 22 security offices; and three 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, which are each responsible for a specific geographic region of the world. The regional bureaus and the overseas posts are supported by domestic offices (referred to as functional bureaus), which provide policy guidance, program management and administrative expertise in matters such as economics, intelligence, human rights, finance, administration, information management, personnel, training, medical services, consular services, and security programs.

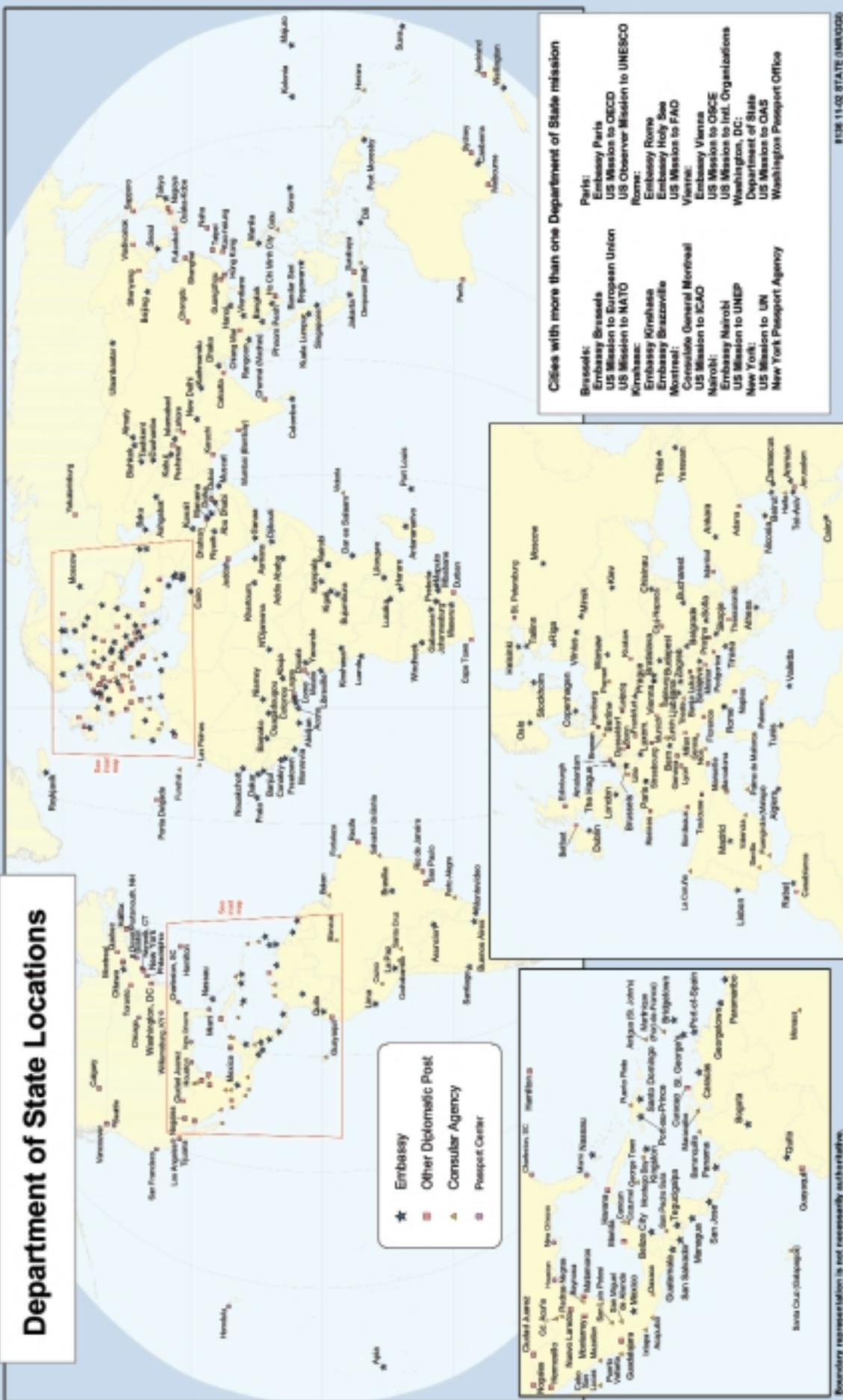


In each Embassy, the Chief of Mission (usually an Ambassador) is responsible for coordinating and managing all U.S. Government functions in the host country. The President appoints each Ambassador, whom the Senate confirms. Chiefs of Mission report directly to the President through the Secretary. The 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 abroad, and supports Presidential and Congressional delegations visiting the country.



*Since 1789, the Department of State has been located in 17 buildings in New York City, Philadelphia, and Washington, D.C. The Department's present home is 2201 C Street, N.W., Washington, D.C. On January 5, 1957, President Eisenhower joined Secretary Dulles to lay the cornerstone. The President used the same trowel that George Washington used to lay the cornerstone of the U.S. Capitol in 1793. This "New State" building was completed in 1961. It adjoined the "Old State" building that was constructed in 1939.*





## PERFORMANCE SUMMARY AND HIGHLIGHTS

The Department uses performance planning and measurement to ensure that the organization reaches its objectives and goals. In accordance with the Government Performance and Results Act (GPRA) and the Reports Consolidation Act, the Department is, for the first time, submitting a combined Performance and Accountability Report that includes both program performance results and financial statements for Fiscal Year (FY) 2002. This section presents a summary of the Department's performance results for FY 2002.

During FY 2002, the Department carried out its mission through the pursuit of 20 strategic goals which articulate three-to-five year outcomes that the Department will strive to achieve in world affairs. The Department pursued one-year outcomes and priorities through activities and programs expressed in 42 annual performance goals. Annual goals include specific targets designed to achieve specific performance results.

### IMPROVEMENTS IMPLEMENTED FOR FY 2002 PERFORMANCE REPORTING

The FY 2002 Performance Section incorporates five major improvements to enhance its usefulness to the Department's leadership, workforce, and external stakeholders.

**1. Comprehensive Strategic Goal Information:** The Department presents a robust analysis of its progress on each strategic goal in five distinct sections:

- ◆ Strategic Goal Overview and Public Benefit
- ◆ Strategic Goal Summary of Results Achieved
- ◆ Summary of Key Results and Impact
- ◆ Performance Results by Indicator and Target
- ◆ Program Evaluations and Management Challenges

**2. Improved Performance Indicators and Targets:** During FY 2002, the Department evaluated its performance indicators and targets. The Department has worked to replace many of the poor indicators and targets with ones that more accurately reflect progress on issues, provide a better measurement of success, and focus on where resources are spent. In this document, the Department is reporting on all indicators initially submitted in the FY 2002 Performance Plan, and has identified those which have been replaced in future plans.

**3. Performance Ratings by Result:** The Department developed and implemented a rating methodology to assist program managers with the evaluation of performance results in comparison to targets. This analytical tool includes specific instructions and objective performance assessment parameters for program managers to use when assigning a rating for a given result. Based on these parameters, managers assigned a performance rating that reflects the extent to which a given target was achieved. Rating information at the result level provides a more accurate gauge of program performance.

#### 4. Performance Trends and Details of FY 2002 Results

In addition to the main report that contains a summary of each strategic and annual performance goal, the Department has included a detailed appendix that shows performance trends using a baseline of 1999 (or later, if appropriate). This section of the appendix contains four key elements, as provided by program managers for each reported 2002 result.

- ◆ Data reliability of reported performance result
- ◆ Data availability of reported performance result
- ◆ Reasons for a reported performance result shortfall
- ◆ Nature and depth of collaboration with other agencies

#### 5. Summary of Program Evaluations

In any given fiscal year, several organizations perform in-depth assessments of the Department's programs, which benefit the Department because they provide managers with objective assessments of performance and specific recommendations for improvement.

Detailed information on selected Program Evaluations and the Program Assessment Rating Tool (PART) reviews completed during FY 2002 is provided beginning on page 338. Scores received on these PART reviews ranged from 80 percent for the Military Assistance to New NATO and NATO Aspirant Nations program to 52 percent for the Security Assistance to Sub-Saharan Africa program.

This summary of program assessments enables the Department to track key findings and recommendations of program evaluations. Moreover, these data will help the Department determine whether program managers have incorporated the recommendations for improvement into their strategies for achieving performance goals in the future. This will also improve program performance and increase program manager accountability for attaining desired performance levels.

HIGHLIGHTS OF THE DEPARTMENT'S MOST IMPORTANT RESULTS AND OUTCOMES

**D**uring FY 2002, the Department responded on many levels to the challenges the United States is facing. Highlights of the most important performance results and continuing challenges are shown below by strategic goal:

HIGHLIGHTS OF THE DEPARTMENT'S MOST IMPORTANT RESULTS AND OUTCOMES	
POSITIVE RESULTS	CONTINUING CHALLENGES
<b>REGIONAL STABILITY</b>	
<ul style="list-style-type: none"> <li>◆ New NATO capabilities developed for rapid response force.</li> <li>◆ Creation of three Afghan National Army battalions is the first step in a long-term effort to develop an indigenous security capacity for Afghanistan.</li> <li>◆ African Union provided personnel to further Congolese peace process; war in Sierra Leone effectively over, and U.S. contributions to African-sponsored peacekeeping operations ensured that troops can meet demands of peacekeeping operations.</li> <li>◆ Kosovo elections led to coalition government, multi-ethnic Assembly.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Limited progress on "Cross-Strait" dialogue to reduce tension between China and Taiwan.</li> <li>◆ War between India and Pakistan avoided, but no progress made with regard to implementing Confidence Building Measures.</li> <li>◆ Chinese non-participation in UN Register of Conventional Arms Transfers.</li> </ul>
<b>WEAPONS OF MASS DESTRUCTION</b>	
<ul style="list-style-type: none"> <li>◆ Central European countries developing strengthened export controls.</li> <li>◆ Negotiated a new Goods Review List in May 2002 as part of the new Iraq export-control regime. Led diplomatic efforts with the other permanent members of the UN Security Council to sustain a Security Council consensus that UN inspectors will have unambiguous rights to inspect anywhere, anytime in order to ensure that Iraq is fully disarmed.</li> <li>◆ Continued progress made with Russia on plutonium disposition and cessation of production.</li> <li>◆ Cumulative engagement of 26,000 former Russian and NIS WMD scientists in developing civilian technologies.</li> <li>◆ Presidents Bush and Putin signed the Moscow Treaty in May 2002 reflecting the dramatic shift from Cold War rivalry to partnership based on the principles of mutual security, trust, and cooperation; codified reductions in U.S. and Russian strategic nuclear warheads by the end of 2012 to between 1,700 and 2,200 – about one-third of current levels.</li> <li>◆ Established the basis for a "New Strategic Framework" that includes a new approach to deterrence; withdrew from ABM treaty thereby removing legal obstacle to pursuing alternative approaches to developing an effective missile defense system.</li> <li>◆ Four nations joined Chemical Weapons Convention; the United States implemented its obligations. The most positive result is changing the leadership of the Organization for the Prohibition of Chemical Weapons in order to resolve its financial and administrative crisis and resume conducting necessary inspections.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Russia still exporting technology to Iran.</li> <li>◆ North Korean exports destabilize already volatile regions of the Middle East, North Africa and South Asia.</li> <li>◆ North Korea admitted to secret uranium enrichment program for nuclear weapons, in violation of Agreed Framework.</li> <li>◆ The Conference on Disarmament failed to resume negotiations on Fissile Materials Cutoff Treaty, due in part to Chinese opposition.</li> </ul>



**HIGHLIGHTS OF THE DEPARTMENT'S MOST IMPORTANT RESULTS AND OUTCOMES**

**POSITIVE RESULTS**

**CONTINUING CHALLENGES**

**COUNTERING TERRORISM**

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>◆ One hundred and seventy-nine states have reported to the UN Security Council on their efforts to implement UN Security Council Resolution 1373, which imposed binding obligations on all states to suppress and prevent terrorism.</li> <li>◆ Five additional organizations designated as Foreign Terrorist Organizations; over two hundred persons and/or entities designated under Executive Order 13224 for providing financial support or other services to terrorists.</li> <li>◆ Forty-eight organizations listed under the Terrorist Exclusion List, thereby making it more difficult for terrorists to raise and move money, increasing the amount of terrorist assets blocked, and preventing designated persons from entering the United States.</li> <li>◆ Cooperation with Pakistan and China increased through diplomatic engagement, which resulted in direct FBI in-country follow-up on stalled cases in Pakistan and the establishment of an FBI Legal Attaché Office in Beijing.</li> </ul> | <ul style="list-style-type: none"> <li>◆ The United States remains vulnerable to continued terrorist attacks and needs to do more to increase security at home and abroad of U.S. citizens and interests.</li> <li>◆ The Department will work to strengthen three programmatic areas:                         <ul style="list-style-type: none"> <li>◆ Anti-Terrorism Assistance Training</li> <li>◆ Terrorist Interdiction Program</li> <li>◆ Technical Support Working Group.</li> </ul> </li> </ul> |
|--|--|

**HUMANITARIAN ASSISTANCE**

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>◆ Over two million refugees and over six hundred thousand internally displaced persons (IDPs) voluntarily returned to Afghanistan following the ousting of the Taliban regime.</li> <li>◆ The USG played a leading role in a multilateral effort to meet critical protection and assistance needs in Afghanistan and for Afghan refugees who remained in neighboring countries.</li> <li>◆ The USG was the largest single donor to international humanitarian organizations in FY 2002. The Department contributed over \$140 million to international and NGO partner organizations assisting Afghan refugees and IDPs.</li> <li>◆ With strong U.S. support, international and NGO partner organizations, such as the UN High Commissioner for Refugees and the International Committee of the Red Cross, were able to provide critical assistance in return transportation, shelter, food, water, public health, sanitation, education, economic activity and capacity building to returning refugees and IDPs.</li> </ul> | <ul style="list-style-type: none"> <li>◆ An additional 2.5 million refugees and IDPs are expected to return to Afghanistan in 2003 and 2004.</li> <li>◆ Reintegration assistance is required to anchor returnees and minimize increasing urbanization in Afghanistan.</li> <li>◆ Critical protection and assistance gaps remain as the country begins to rebuild after years of conflict and drought. Extraordinary efforts still are necessary to respond to the urgent humanitarian needs of the Afghan people, which include emergency shelter and winterization assistance, public health care, primary education, economic assistance and environmental rehabilitation.</li> <li>◆ Continued efforts are required to increase donor burden-sharing to meet these needs.</li> <li>◆ The international community needs to ensure that relief strategies contribute to the development of Afghanistan and to individual self-sufficiency.</li> </ul> |
|---|--|

**TRAVEL AND MIGRATION**

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>◆ Improved the systems that help identify terrorists and criminals among visa applicants.</li> <li>◆ Issued a supplemental visa application form for all men aged sixteen to forty-five from every country in the world.</li> <li>◆ Tightened visa interview requirements for applicants from countries that are state sponsors of terrorism.</li> <li>◆ Required more security checks for groups of visa applicants from specific countries.</li> <li>◆ Provided INS with real-time access to visa issuance data.</li> <li>◆ Created and deployed the Interim Student and Exchange Visitor Authentication System to provide electronic verification of such visitors when they apply to enter the United States</li> </ul> | <ul style="list-style-type: none"> <li>◆ The Department is implementing a comprehensive strategy to strengthen U.S. border and homeland security through efforts focused on information, infrastructure, and integrity:                         <ul style="list-style-type: none"> <li>◆ Information: Enhance data sharing activities with other agencies and increase the effectiveness and efficiency of namecheck systems.</li> <li>◆ Infrastructure: Strengthen consular services by implementing modern systems, equipment replacement programs, and redundant connectivity for visa issuance; maximize use of two domestic visa centers.</li> <li>◆ Integrity: Improve visa documents by using biometric identifiers and enhancing information storage and retrieval capabilities; expand training of consular and anti-fraud personnel.</li> </ul> </li> </ul> |
|--|---|

**HIGHLIGHTS OF THE DEPARTMENT'S MOST IMPORTANT RESULTS AND OUTCOMES**

**POSITIVE RESULTS**

**CONTINUING CHALLENGES**

**OPEN MARKETS**

- ◆ WTO launched new round in Doha.
- ◆ China and Taiwan joined WTO.
- ◆ Chile and Singapore Free Trade Agreements concluded by early 2003.

- ◆ The target for completion of the WTO Doha round of negotiations and of the FTAA is January 1, 2005.
- ◆ China took concrete steps to remove trade barriers and open its markets, but some shortfalls remain in areas of interest.
- ◆ Morocco, Central America, the Southern African Customs Union and Australia identified as partners for FTAs. Negotiations for a Free Trade Area of the Americas continue.

**ECONOMIC DEVELOPMENT**

- ◆ In March 2002, the President announced establishment of a Millennium Challenge Account (MCA) to support the development efforts of countries that have created the conditions for growth and poverty reduction by governing justly, investing in the people, and promoting economic freedom.
- ◆ As an essential element in the war on terrorism, the United States has provided over \$900 million since October 1, 2001, to stabilize and rebuild Afghanistan and built an international coalition for the reconstruction of Afghanistan that has so far pledged more than \$5.2 billion.
- ◆ The United States provided significant support and assistance to front-line states in the region, including Pakistan and the Central Asian Republics.

- ◆ Implementation of the Millennium Challenge Account (MCA): With Congressional approval, funding will begin in 2004, and, with increases in the budget, full funding of \$5 billion will be reached in 2006.
- ◆ The United States must continue to lead efforts to support the new Afghan government and key "frontline states."

**MUTUAL UNDERSTANDING**

- ◆ Based on independent evaluations, 91 percent of foreign participants in exchange programs have gained a greater understanding of the United States. Greater understanding translates into changed attitudes and better, more peaceful relations between the United States and other countries.
- ◆ On one targeted initiative following the events of 9/11, 100 journalists, senior and mid-level officials, and religious and youth leaders from 20 countries with significant Muslim populations attended programs on professionally-related topics and American civic life.
- ◆ Numerous alumni of the Department's varied exchange programs gained prominent positions in 2002, including the current President of Afghanistan and the current Prime Minister of Turkey.

- ◆ The events of 9/11 underscored the need to communicate America's values more effectively to younger and wider audiences throughout the world.
- ◆ The Department plans to expand the scope of its public diplomacy to broaden audience reach and deepen the impact of public diplomacy initiatives.

**ENVIRONMENT AND HEALTH**

- ◆ At the World Summit on Sustainable Development (WSSD), the U.S. launched over 20 partnership initiatives aimed at poverty reduction, protecting the environment and improving the lives of people.
- ◆ The Global Fund is operational; Fund established to fund research to fight AIDS, tuberculosis, and malaria. By the end of 2002, countries, the private sector and individuals had pledged over \$2 billion to the Fund, and Fund had approved \$378 million in grants to fight the three diseases.

- ◆ USG must follow up on commitments made at the WSSD through active engagement with governments, civil society, the private sector and multilateral organizations.
- ◆ As chair of the Global Fund Board, USG will work to ensure the success of the Fund, by instituting accountability mechanisms and obtaining adequate financial support.

**COUNTERING ILLEGAL DRUGS**

- ◆ Sprayed more than 122,000 hectares of coca cultivation in Columbia (over 430 metric tons of cocaine), an increase of 45 percent over last year's record.

- ◆ Defeat narco-terrorist groups, the Revolutionary Armed Forces of Columbia (FARC) and United Self-Defense Forces of Columbia, (AUC).

**DEMOCRACY AND HUMAN RIGHTS**

- ◆ Established the U.S.-Afghan Women's Council to assist Afghan women in obtaining skills and education needed to regain their rightful place in society.
- ◆ Established office to monitor and combat trafficking in persons; FY 2002 results include the implementation of the Trafficking Victims Protection Act.

- ◆ Security situation continues to be a major factor affecting women's progress in Afghanistan.

**PERFORMANCE RATING METHODOLOGY**

The Department created a rating methodology that enabled program managers to evaluate systematically progress toward the targets set in the FY 2002 Performance Report. This allowed managers to assign a performance rating to each result based on the following criteria:

PERFORMANCE RATING CRITERIA					
Performance Rating	Significantly Below Target	Slightly Below Target	On Target	Above Target	Significantly Above Target
<b>Criteria to Facilitate Rating Choice</b>	1 Missing the FY 2002 target by a significant margin 2 Significantly overspending the FY 2002 budget 3 Missing critical deadlines by a large margin 4 Significant impairment of a program's ability to achieve the FY 2003 performance target, thus requiring adjustment downward 5 A significant modification needed for FY 2003 Means and Strategies	1 Missing the FY 2002 target 2 Overspending the FY 2002 budget 3 Missing critical deadlines by a slight margin 4 Slight impairment of a program's ability to achieve the FY2003 performance target, but little or no decrease in FY 2003 target is anticipated 5 Little or no change needed for FY 2003 Means and Strategies	1 Meeting the FY 2002 target 2 Spending "on budget" 3 Meeting critical deadlines 4 No change in program's ability to achieve the FY 2003 target and no change in FY 2003 target is anticipated 5 No change needed for FY 2003 Means and Strategies	1 Exceeding the FY 2002 target 2 Spending slightly under the FY 2002 budget 3 Meeting critical deadlines early 4 Enhancing a program's ability to achieve the FY 2003 target such that an incremental upward adjustment in the FY 2003 target is anticipated 5 Some change for FY 2003 Means and Strategies may be initiated	1 Exceeding the FY 2002 target by a large margin 2 Spending significantly under budget 3 Meeting critical deadlines by a large margin 4 Improving a program's ability to achieve the FY 2003 target such that some, upward adjustment of the FY 2003 target is anticipated 5 Some changes in FY 2003 Means and Strategies are anticipated

This methodology represents an important step toward using a standard tool to evaluate the Department's work. However, to interpret correctly the numerical analysis of the report, it is important to understand the following:

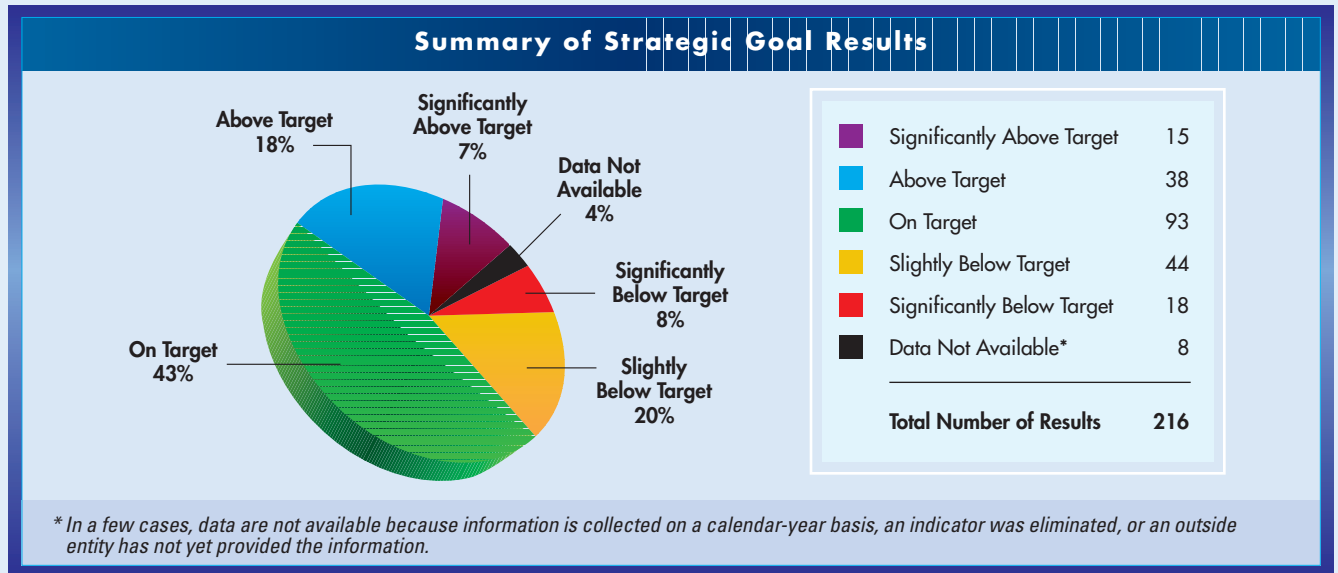
- ◆ No Weighted Average: In the FY 2002 Performance Report, all targets for each annual goal were weighted equally. In future years, the Department intends to assign a weight to each performance target shown in the Performance Plan and apply those weights to the performance results presented in the Report.

**PERFORMANCE GOAL OF THE OFFICE OF THE INSPECTOR GENERAL**

The OIG has established a performance goal for evaluating the Department's progress in terms of measuring performance and linking its goals to budget. The OIG currently incorporates the assessment of performance into its traditional audits and inspections related to programs being reviewed. The OIG will give priority to those goals and measures related to achieving the President's Management Agenda initiatives, areas identified by the OIG as serious management and performance challenges, and areas identified by the Department as key performance measures.

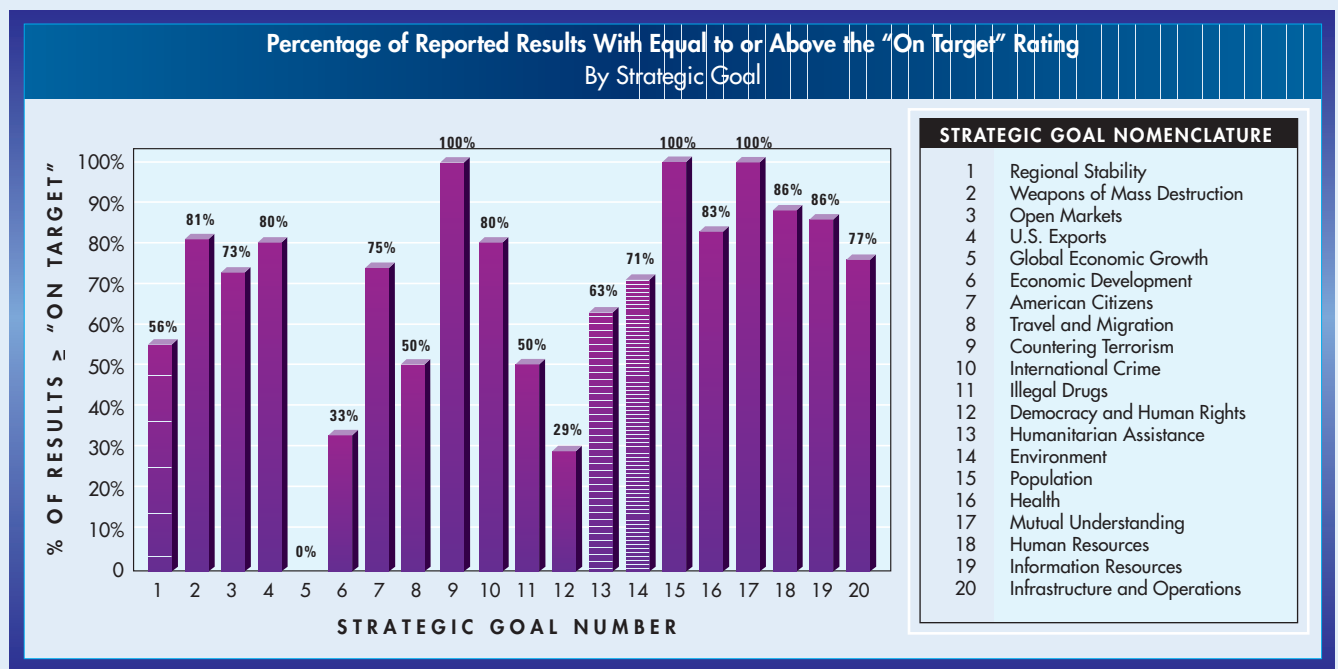
### SUMMARY OF FY 2002 STRATEGIC GOAL RESULTS

The following pie chart shows the ratings distribution for all performance results reported in FY 2002. As shown, 68% of the results were "on target" or above.



The bar chart below shows the percentage of results attained that were above and below the "on target" rating for each strategic goal. The greater the percentage of results equal to or greater than "on target", the better. In brief,

- Strategic Goals which met 100 percent of performance targets:
  - ◆ Countering Terrorism
  - ◆ Population
  - ◆ Mutual Understanding
- Performance shortfalls were most prevalent for the following Strategic Goals:
  - ◆ Global Economic Growth
  - ◆ Economic Development
  - ◆ Democracy and Human Rights



SUMMARY OF FY 2002 ANNUAL PERFORMANCE GOAL RESULTS

The table below shows performance results for each of the Department’s FY 2002 annual performance goals. The inverted black triangle represents the average of all performance ratings assigned to results associated with the Annual Performance Goal. The numbers below the rating scale show how the ratings were distributed among the reported results. The chart depicts data for “reported results” (i.e., targets for which data were available). In some instances, for a given annual performance goal, the number of reported results might be less than the number of targets because data was unavailable to produce a results rating.

Strategic Goal	Annual Performance Goal (Total Number of Targets)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Slightly Below Target	On Target	Above Target	Significantly Above Target
1 Regional Stability	U.S. Ties with neighbors and key allies are close, strong, utilized, and effective. 4 Targets					
	Foster stable and secure regional partners. 3 Targets					
	Develop and utilize effective conflict prevention/conflict resolution tools. 9 Targets					
	Contain and resolve outstanding regional conflicts. 2 Targets					
2 Weapons of Mass Destruction	Weapons of mass destruction and their means of delivery are contained; proliferation to other countries and terrorists is prevented, contained, or reversed. 10 Targets					
	Reduction of weapons of mass destruction stockpiles, materials, infrastructure; essential foreign support or toleration for U.S. weapons development. 3 Targets					
	Foreign governments work with the United States to strengthen existing agreements and negotiate new multilateral nonproliferation and arms control commitments to reduce the weapons of mass destruction threat. 9 Targets					
	Effective verification practices are in place; compliance with arms control and nonproliferation treaties, agreements, and commitments is verified. 8 Targets					
	International nuclear cooperation is promoted under stringent nonproliferation and safety standards. 6 Targets					

Strategic Goal	Annual Performance Goal (Total Number of Targets)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Slightly Below Target	On Target	Above Target	Significantly Above Target
<b>3</b> Open Markets	A robust international framework for free trade in goods, services, and investment ensures the openness of international markets for new technologies. <i>11 Targets</i>					
<b>4</b> U.S. Exports	U.S. companies compete successfully for worldwide sales. <i>7 Targets; 2 No Data Available</i>					
<b>5</b> Global Economic Growth	Countries around the globe adopt and maintain growth-oriented economic policies; economic crises are less likely and less severe. <i>3 Targets</i>					
<b>6</b> Economic Development	Developing and transition economies experience broad-based, sustainable economic growth. <i>4 Targets; 1 No Data Available</i>					
<b>7</b> American Citizens	U.S. citizens have the information, services, and protection they need to reside or travel abroad. <i>2 Targets</i>					
	Timely and effective passport issuance, with document integrity assured. <i>2 Targets</i>					
<b>8</b> Travel and Migration	Timely and effective visa issuance; reduction of visa fraud. <i>2 Targets</i>					
<b>9</b> Countering Terrorism	Reduced danger of terrorist attacks on American citizens and interests; effective international cooperation and efforts curtail the capabilities of would-be terrorists and punish known offenders. <i>5 Targets</i>					
<b>10</b> International Crime	More effective criminal justice institutions and law enforcement in targeted countries. <i>5 Targets</i>					
	Transnational cooperation and action to counter crime. <i>5 Targets</i>					
<b>11</b> Countering Illegal Drugs	Reduced foreign cultivation of opium poppies, coca and marijuana. <i>4 Targets</i>					
	Criminal justice sectors of foreign governments break up major drug trafficking organizations and effectively investigate, prosecute and convict major narcotics criminals. <i>2 Targets</i>					

Strategic Goal	Annual Performance Goal (Total Number of Targets)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Slightly Below Target	On Target	Above Target	Significantly Above Target
<b>12</b> Democracy & Human Rights	New democracies move toward political and economic stability; authoritarian regimes carry out liberalizations. <i>4 Targets</i>					
	Greater respect for human rights around the world. <i>5 Targets; 1 No Data Available</i>					
	Greater observation and protection of worker rights; reduction of child labor; elimination of sweatshops producing goods for the U.S. market. <i>3 Targets</i>					
	Worldwide acceptance of freedom of religion and conscience. <i>3 Targets</i>					
<b>13</b> Humanitarian Assistance	Equal access to protection; effective and coordinated assistance; and promotion of durable solutions (including voluntary repatriation) for refugees and victims of conflict. <i>2 Targets; 1 No Data Available</i>					
	Mitigation, preparedness, and early warning of natural disasters and complex emergencies. <i>2 Targets</i>					
	Elimination of deployed landmines and reduction of civilian casualties in mine-affected countries. <i>5 Targets</i>					
<b>14</b> Environment	Donor countries and international financial institutions support U.S. positions and efforts to make trade and environment policies mutually supportive. <i>5 Targets</i>					
	International treaties and agreements that protect the environment are negotiated, implemented, and enforced. <i>8 Targets</i>					
	International financial and multilateral institutions and donor countries provide greater development assistance dealing with key environmental issues. <i>11 Targets</i>					
<b>15</b> Population	Improved reproductive health, reduced incidence of maternal mortality and other problems that particularly threaten women, universal access to primary and secondary education, and appropriate governmental reaction to world demographic changes. <i>3 Targets</i>					
<b>16</b> Health	Increased political and financial commitment to health. <i>6 Targets</i>					

Strategic Goal	Annual Performance Goal (Total Number of Targets)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Slightly Below Target	On Target	Above Target	Significantly Above Target
<b>17</b> Mutual Understanding	Improve and strengthen the international relations of the United States by promoting better mutual understanding between the people of the United States and peoples of the world through educational and cultural exchanges. <i>1 Target</i>					
<b>18</b> Human Resources	The Department will hire and retain an adequate number of talented, diverse Foreign and Civil Service and Foreign Service National employees. <i>2 Targets</i>					
	Develop and implement training and professional development programs and make them available to all full-time employees throughout their careers. <i>5 Targets; 1 No Data Available.</i>					
	Current and new work-life programs improve the quality of the workplace for all employees and the quality of life of Foreign Service employees and their dependents abroad. <i>1 Target</i>					
<b>19</b> Information Resources	Secure, advantageous, commercial-quality information technology (IT) supports the full range of international affairs activities of the United States. <i>7 Targets</i>					
<b>20</b> Infrastructure and Operations	Protection of personnel and information involved in diplomatic pursuits. <i>9 Targets</i>					
	Safe, secure, and functional facilities serving domestic and overseas staff. <i>8 Targets</i>					
	Adequate funding to achieve the Department's foreign policy and diplomatic readiness goals is founded on results-oriented budgeting, effective financial management systems and demonstrated financial accountability. <i>15 Targets</i>					
	Better business practices and increased focus on customers ensure excellence in the provision of administrative and associated services. <i>5 Targets; 2 No Data Available</i>					



## FUTURE PERFORMANCE REPORTING IMPROVEMENTS

**B**eginning with FY 2004, the Department's planning process will benefit from three key improvements:

**New Strategic Planning Framework:** The Department has substantially revised its strategic planning framework to represent more effectively the changing international environment and bring greater clarity, direction, and alignment to its vision and overall priorities. In addition, the State Department and USAID will prepare a joint FY 2004-2009 Strategic Plan by the end of FY 2003. The combined plan and all future planning documents will utilize the new framework which will be based on four concise strategic objectives:

- ◆ **Protect the Nation**
- ◆ **Advance Sustainable Development and Global Interests**
- ◆ **Promote International Understanding**
- ◆ **Strengthen Diplomatic and Program Capabilities**

Within these four strategic objectives, the number of strategic goals has been reduced from twenty to twelve. This strategic planning framework will be the guiding structure for the new FY 2004 - FY 2009 Strategic Plan, as well as the annual planning documents beginning with the FY 2004 Annual Performance Plan.



**Automation of Mission and Bureau Performance Planning:** Each year, the Department's diplomatic missions and Washington-based bureaus submit Mission Performance Plans (MPPs) and Bureau Performance Plans (BPPs) respectively that describe their policy and program goals and priorities, resource requirements, performance indicators, and annual targets. During the past year, the Department has taken key steps to improve the MPP and BPP, both in terms of substance and process. Preparation and submission have been automated through the development and worldwide deployment of web-based, on-line applications. Missions, bureaus, and senior decision-makers now have the advantage of modern, automated tools to facilitate cross-mission and cross-bureau search capability, data-mining and analysis. The on-line applications will be used worldwide in the FY 2005 MPP and BPP processes.

**FY 2004 Performance Plan Provides Greater Accountability:** The Department's FY 2004 Performance Plan, submitted in draft form to OMB, will instill a greater level of accountability by requiring managers to provide means and strategies for each performance target within each annual performance goal. This level of detail will provide information to senior leadership on how specific targets will be achieved and will improve the quality of performance targets. It will also serve as a building block for integrating the performance planning and budgeting processes.

## THE PRESIDENT'S MANAGEMENT AGENDA AND MANAGEMENT CHALLENGES

### THE PRESIDENT'S MANAGEMENT AGENDA INITIATIVES

The Department has made substantial progress on each of the five President's Management Agenda (PMA) initiatives. As of December 2002, the Department achieved three "green" and two "yellow" scores for progress on implementation, based on OMB's scorecard evaluation. With respect to overall status, the Department has made significant improvements in several areas, even though the overall scores for status remain "red." The following is a brief overview of the status of PMA in the Department:

 Progress	STRATEGIC MANAGEMENT OF HUMAN CAPITAL	 Status
<ul style="list-style-type: none"> <li>◆ <b>OVERVIEW:</b> The President's first management reform initiative is to build, sustain, and effectively deploy a skilled, knowledgeable, diverse, and high-performing workforce that is aligned with mission objectives. This is key to making the government "citizen-centered." The goal is to have a workforce that will adapt quickly in size, composition, and competencies to accommodate changes in mission, technology, and labor markets.</li>   <li>◆ <b>PROGRESS:</b> The Department has successfully implemented the first year of the Diplomatic Readiness Initiative, designed to ensure adequate human resources through a more streamlined and aggressive hiring process. The Department also has implemented a mandatory leadership and management training initiative and emphasized those skills in performance requirements. The Department revalidated the Overseas Staffing Model and has completed the first phase of the Domestic Staffing Model and began development of a Civil Service Succession model that will provide a comprehensive approach to determining the optimal size, allocation, and organization of the domestic and overseas workforces. This workforce planning tool also will facilitate analysis for competitive sourcing decisions. An integrated strategic workforce plan will be developed and integrated with the mission and bureau level strategic planning processes. The use of OPM's Human Capital Assessment and Accountability Framework (HCAAF) to assess human capital activities is another important step ensuring management accountability and evaluation of progress in this area.</li>   <li>◆ <b>UPCOMING ACTION AND POTENTIAL CHALLENGES:</b> The Department will continue to work with OPM and OMB and use the HCAAF as the basic guide for implementing this PMA objective. The Department will continue to implement the Diplomatic Readiness Initiative and expand the leadership and management training initiative. Plans are also underway for Completion of Phase two of the Domestic Staffing Model and the piloting of a succession planning model for the Civil Service. In FY 2003, the Department will also develop a Human Resources Management accountability system and produce a comprehensive workforce plan.</li> </ul>		



Progress

## COMPETITIVE SOURCING



Status

- ◆ **OVERVIEW:** This PMA initiative is aimed at achieving efficient and effective competition between public and private sources, simplifying and improving the procedures for evaluating sources, and better publicizing the activities subject to competition.
- ◆ **PROGRESS:** The Department has developed a comprehensive management and competition plan outlining the target of competing 586 FTE, which exceeds the OMB goal of 306 FTE that would represent 15 percent of the 2000 Federal Activities Inventory Reform (FAIR) Act inventory. The Department has committed \$2 million in FY 2003 to fund the initiative, and a program manager has been selected to provide overall leadership of competitive sourcing throughout the Department. Other actions include revising the Foreign Affairs Manual, publicizing competitive sourcing to all Department employees, notifying unions, and awarding two Blanket Purchase Agreements for study support.
- ◆ **UPCOMING ACTION AND POTENTIAL CHALLENGES:** The Department is implementing its Competitive Sourcing Plan and is hiring a Competitive Sourcing Program Manager to develop a detailed communications plan. Two major studies are underway; contractor support is being arranged for preliminary analysis and business/feasibility studies. In addition, the Department will coordinate one direct conversion effort.



Progress

## IMPROVED FINANCIAL PERFORMANCE



Status

- ◆ **OVERVIEW:** This PMA initiative will achieve improved accountability to the American people through audited financial statements, more accurate benefit and assistance payments, improved management controls, and installation of financial systems that produce timely, accurate and useful financial information.
- ◆ **PROGRESS:** The Department is aggressively addressing the improved financial performance standards and has completed and reported on a detailed plan of action including milestones and measures referenced to the OMB established core criteria. Implementation of the new Regional Financial Management System (RFMS) is well underway, with conversion of forty-four posts in FY 2002 (which represents 25 percent of overseas activity in dollar terms). This new system complies with Federal financial systems requirements and replaces the two legacy overseas accounting and disbursing systems. The Department issued its first-ever mid-year (i.e., March 31, 2002) interim financial statements. The Department's FY 2001 Financial Statements were timely and received an unqualified opinion, marking the fifth consecutive unqualified opinion. The Department's FY 2001 Accountability Report, which included the financial statements, received the Association of Government Accountants prestigious Certificate of Excellence in Accountability Reporting. The Department resolved all remaining material weaknesses resulting in the first time since its inception that the Department has no outstanding material weaknesses to report under the FMFIA. Accordingly, the Secretary has issued an unqualified Statement of Assurance for FY 2002 regarding the Department's systems of management control – a core criteria for obtaining a "green" status on this initiative. Progress is also being made on consolidating and streamlining worldwide financial operations. The Department's operations at the Financial Service Center (FSC) in Paris are being relocated to the Charleston, South Carolina and Bangkok, Thailand FSCs. Certain functions were transferred in 2002, and the remaining functions will be transferred by December 2003. In addition, during FY 2002, American Payroll and Foreign Service Annuitant functions were relocated from Washington, D.C. to the Charleston FSC.
- ◆ **UPCOMING ACTION AND POTENTIAL CHALLENGES:** Future actions for this initiative include full implementation of RFMS worldwide by the end of FY 2003, timely issuance of the FY 2002 combined Performance and Accountability Report containing an unqualified ("clean") audit opinion on the Department's Financial Statements, issuing timely quarterly financial statements for FY 2003, and on-going consolidation of worldwide financial operations to the Charleston FSC. The Department and USAID will conduct a feasibility study to assess integration of financial systems and to determine where financial management collaboration between the two agencies can be expanded.



Progress

## EXPANDED ELECTRONIC GOVERNMENT



Status

- ◆ **OVERVIEW:** The goal of this initiative is to make it simpler for citizens to receive high-quality service by expanding the federal government's effective use of electronic technologies. This includes support of information technology projects that offer performance gains across agency boundaries, such as e-procurements, e-grants, and e-regulation.
- ◆ **PROGRESS:** The Department is focusing on improving IT security by certification and accreditation of all systems by the end of FY 2004, by developing an enterprise architecture to guide IT investments and improve business processes, and by improving the capital planning process for IT investments. Also, State and USAID are exploring how to collaborate and improve coordination on parallel IT systems. FY 2004 Agency Capital Plans and Business Cases (OMB Exhibit 300s) submissions are being revised to reflect budget decisions and strengthen those considered "at-risk". They were submitted to OMB in January 2003.
- ◆ **UPCOMING ACTION AND POTENTIAL CHALLENGES:** Following completion of the UDCE, the Department will ensure National Institute of Standards and Technology security evaluations are conducted on all Department programs and systems. The Department will also develop security corrective action plans for any programs and systems with security weaknesses, and submit a Plan of Action and Milestones to correct those weaknesses to OMB. The Department will complete the C&A plan to improve system certification progress and submit it to OMB. The Department and USAID will develop a plan for a joint Enterprise Architecture, and identify opportunities for collaboration and consolidation of financial management and IT systems. The Department will use OMB's detailed assessment and roadmap to develop and submit a PMA e-government scorecard improvement plan to OMB.



Progress

## BUDGET AND PERFORMANCE INTEGRATION



Status

- ◆ **OVERVIEW:** The Budget and Performance Integration initiative is designed to improve the performance and management of the federal government. It is one of the most challenging initiatives – seeking to link performance to budget decisions and improve performance tracking and management. Ultimately, the goal is to have better control over resources and greater accountability for their results.
- ◆ **PROGRESS:** The Department reorganized and consolidated its budget and strategic planning functions into one new Resource Management Bureau to improve coordination and achieve greater effectiveness. Significant progress has been made to link resources in planning and budgeting to achieve strategic and performance goals. Specifically, the Department has restructured the FY 2004 Performance Plan to better convey the linkages among policy priorities, budgetary decisions, and program outcomes. The Department has also worked with OMB to evaluate program effectiveness using the Program Assessment Rating Tool (PART) and is working to improve program manager accountability by incorporating PART elements into existing planning and budgeting processes. Efforts are underway to automate the Mission and Bureau Performance Plan (MPP and BPP) processes to streamline performance information with direct linkage to resources. These content and process improvements along with the identification and examination of existing programs to leverage best practices have resulted in movement toward a culture change in the Department with respect to strategic planning and budgeting. During FY 2003, the FY 2004 - FY 2009 strategic plans for State and USAID will be integrated into one formal plan.
- ◆ **UPCOMING ACTION AND POTENTIAL CHALLENGES:** The Department continues to develop attainable goals and tangible performance measures that accurately track its progress. The Department has restructured and strengthened the FY 2002 Performance Report with key improvements that better evaluate results. Closer examination of Foreign Assistance funds and linkages to performance also will be undertaken. The Department and USAID plan to integrate the two agencies' strategic plans into one consolidated FY 2004-FY 2009 plan to ensure closer collaboration on policy and management issues. Developing and implementing a new Central Financial Planning System will be a critical step in tracking and verifying actual performance data and linking it to Department-wide financial resources.



## MANAGEMENT CHALLENGES AND RESPONSES

The Government Accounting Office (GAO) and the Department's Office of the Inspector General (OIG) have identified several similar Management Challenges (MCs). Many of the areas of improvement cited by GAO, OIG, and the Office of Management and Budget (OMB) have been addressed through accomplishment of the Department's FY 2002 annual performance goals; others are being addressed through accomplishment of FY 2003 goals. The table on the following page shows the MCs by program area, as well as the actions taken by the Department in response to the MCs.

MANAGEMENT CHALLENGES IDENTIFIED BY GAO AND OIG	
PROGRAM AREA	CHALLENGES AND ACTIONS
<b>Financial Management</b>	<p style="text-align: center;"><b>FINANCIAL MANAGEMENT</b></p> <ul style="list-style-type: none"> <li>◆ The Department is implementing the new Regional Financial Management System (RFMS) overseas to replace two legacy systems. RFMS, when fully implemented, will comply with Federal financial systems requirements. Conversion was completed at 44 posts in FY 2002, representing 25 percent of overseas activity in dollar value terms.</li> <li>◆ For the sixth consecutive year, the Department's FY 2002 Financial Statements received an unqualified opinion. In addition, the Department's FY 2001 Accountability Report received the Association of Government Accountants' prestigious Certificate of Excellence in Accountability Reporting.</li> <li>◆ The process of transferring significant portions of financial operations to Charleston, South Carolina, has resulted in reduced overseas presence, improved computer security and improved business processes.</li> <li>◆ For the first time, the resolution of all remaining material weaknesses has resulted in the Department having no outstanding material weaknesses to report under the Federal Managers' Financial Integrity Act (FMFIA).</li> </ul>
<b>Counterterrorism /Homeland Security</b>	<p style="text-align: center;"><b>VISA PROCESSING AND BORDER SECURITY</b></p> <ul style="list-style-type: none"> <li>◆ Developed an automated case-tracking system that enhanced U.S. border security by preventing the fraudulent use of lost or stolen passports, and expanded the Foreign Lost and Stolen Passport Database.</li> <li>◆ Created a new non-immigrant visa (NIV) to prevent its alteration and duplication; began cooperation with the Virginia DMV to share information on fraudulent foreign documents; and improved document-fraud training for Diplomatic Security agents and Social Security Administration investigators.</li> <li>◆ Increased data sharing with the intelligence and law enforcement communities and increased input by other USG agencies into the Department's name check database.</li> <li>◆ Compiled a "Law Enforcement Package" that Diplomatic Security field offices, Passport agencies and other Department offices may provide to state and local law enforcement contacts and banks or other businesses requesting general guidance on assessing U.S. visas and passports as identity documents.</li> <li>◆ Began participation in the EU fraudulent documents working group, sharing information on smuggling trends, fraud patterns, and document fixers.</li> <li>◆ Electronically verified the legitimate entry of foreign students and exchange visitors through the Interim Student and Exchange Authentication System.</li> <li>◆ Provided over one million photographs of visa applicants to the National Institute of Standards and Technology to use in their facial recognition evaluation tests and continued work on biometric identifier standards and electronic systems.</li> </ul>
<b>Strategic and Performance Planning</b>	<p style="text-align: center;"><b>STRATEGIC AND PERFORMANCE PLANNING</b></p> <ul style="list-style-type: none"> <li>◆ Created a new Office of Strategic and Performance Planning dedicated to improving strategic and performance planning.</li> <li>◆ Created a new strategic planning framework that the Department and USAID will share in their joint FY 2004 – FY 2009 Strategic Plan.</li> <li>◆ Revised the structure of the FY 2003 and FY 2004 Performance Plans to make them more reader-friendly, including outlining the benefit to the American public, presenting performance indicators and targets for each annual performance goal, and outlining the resources the Department anticipates spending on each strategic goal.</li> <li>◆ Developed a rating tool for program managers to evaluate performance results achieved, as compared to targets.</li> </ul>

**MANAGEMENT CHALLENGES IDENTIFIED BY GAO AND OIG *Continued***

PROGRAM AREA	CHALLENGES AND ACTIONS
<p><b>Technology</b><sup>1</sup></p>	<p style="text-align: center;"><b>INFORMATION SECURITY</b></p> <ul style="list-style-type: none"> <li>◆ Ninety-five percent of the 1999 Emergency Security Budget Amendment projects met the FY 2002 target, resulting in heightened security at primarily lower-threat posts to meet standards formerly required only at high and critical threat posts, as provided under the Amendment.</li> <li>◆ Of the Department's 177 diplomatic posts, 58 percent received technical security equipment upgrades.</li> <li>◆ A comprehensive intrusion detection system designed to protect the Department's Sensitive But Unclassified information network is fully operational in all locations.</li> <li>◆ IT security certification and accreditation is the top priority for FY 2003 and 2004. All systems will be certified and accredited by the end of FY 2004.</li> </ul>
	<p style="text-align: center;"><b>ENHANCING OVERSEAS COMMUNICATIONS</b></p> <ul style="list-style-type: none"> <li>◆ The Department has completed major improvements to classified and unclassified communications systems, such as the Classified Connectivity Program and OpenNet Plus programs. By the end of FY 2003, virtually all personnel at both overseas and domestic posts will have access to modern, highly-efficient, classified and unclassified networks and the Internet.</li> <li>◆ The Department has expanded connectivity to overseas posts, enabling bureaus to publish content directly on internal network Web sites.</li> <li>◆ The State Messaging and Archive Retrieval Toolset (SMART) program will replace State's cable-based messaging system in 2004. When implemented, SMART will greatly expand the ability of individual users to manage communications flow and access State archives.</li> </ul>
	<p style="text-align: center;"><b>KNOWLEDGE MANAGEMENT</b></p> <ul style="list-style-type: none"> <li>◆ The Office of eDiplomacy, established in July 2002, is developing a knowledge management (KM) program for the Department.</li> <li>◆ The Department's Center for Administrative Innovation is working to identify, disseminate, and encourage adoption of best practices from posts, bureaus, and external organizations.</li> </ul>
<p><b>Human Resources</b><sup>1</sup></p>	<p style="text-align: center;"><b>RIGHTSIZING</b></p> <ul style="list-style-type: none"> <li>◆ The Department is working closely with OMB on the OMB-led rightsizing initiative in the President's Management Agenda.</li> <li>◆ In August 2002, the Department distributed to all European and Eurasian posts an OMB-prepared rightsizing questionnaire, based on the GAO's Paris Rightsizing Framework.</li> <li>◆ Based on responses, and in consultation with GAO, OMB will develop and apply a rightsizing methodology to agencies' future overseas staffing requests and staffing at existing posts.</li> <li>◆ The FY 2004 budget request includes a capital surcharge program covering all agencies, which will help management more clearly understand and consider the costs and implications of sending staff overseas.</li> </ul>
<p><b>Protection of People and Facilities</b></p>	<p style="text-align: center;"><b>OVERSEAS BUILDING SECURITY</b></p> <ul style="list-style-type: none"> <li>◆ Specific long-term goals, short-term goals, and performance indicators identified in the PART, which were taken from the FY 2004 Overseas Buildings Operations (OBO) Bureau Performance Plan (BPP), will be integrated into the FY 2005 BPP.</li> <li>◆ During the BPP reviews with the Deputy Secretary, there will be an assessment of the progress made on enhancing the Capital Security Construction Program.</li> <li>◆ Fifteen capital construction projects are currently under construction, seven of which will be completed in FY 2003.</li> <li>◆ The FY 2004 budget request includes a capital surcharge program covering all agencies, which will help management more clearly understand and consider the costs and implications of sending staff overseas.</li> </ul>

<sup>1</sup> Also identified as a government-wide "High-Risk" area

## MANAGEMENT CONTROLS, SYSTEMS AND COMPLIANCE WITH LAWS AND REGULATIONS

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) requires that agencies establish management control and financial systems that protect the integrity of federal programs and operations. It also requires that the head of the agency provide an Annual Assurance Statement on whether the agency has met this requirement. The Secretary of State's 2002 Annual Assurance Statement is provided in the Secretary's letter at the beginning of this report.

#### Management Control Program

The Management Control Steering Committee (MCSC) oversees the Department's management control program. The MCSC 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 Advisor. Individual assurance statements from Ambassadors assigned overseas and 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' personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the Office of the Inspector General and/or the General Accounting Office conduct reviews, audits, inspections, and investigations.

To be considered a material weakness in management control systems for FMFIA reporting purposes, the problem should be significant enough that it meets one or more of the FMFIA Material Weakness Criteria. The chart to the right describes the criteria that the Department uses for the FMFIA review.

Each year, Department organizations with material weaknesses are required to submit plans to correct those weaknesses to the MCSC 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.

#### FMFIA MATERIAL WEAKNESS CRITERIA

- ◆ Significantly impairs the fulfillment of the Department's mission.
- ◆ Deprives the public of needed services.
- ◆ Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets, or conflicts of interest.
- ◆ Merits the attention of the Secretary, the President, or a relevant Congressional oversight committee.
- ◆ Is of a nature that omission from the report could reflect adversely on the Department's management integrity.

### 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, 2002. This evaluation provided reasonable assurance that the objectives of the FMFIA were achieved in FY 2002.

The MCSC voted to close the Department’s three remaining material weaknesses – Inadequate Administrative Staffing Overseas, Integration of Grants-Tracking Systems, and Exchange Visitor Information System (EVIS). Since there are no outstanding material weaknesses, the Secretary has provided an unqualified Statement of Assurance for FY 2002 regarding the Department’s systems of management control.

During the last five years, the Department has made significant progress by reducing the number of material weaknesses from 12 to zero, including the closure of 14 and the addition of two. This is the first time since the inception of the FMFIA that the Department has no outstanding material weaknesses – a significant accomplishment. In addition, there are no items specific to the Department on the General Accounting Office’s High Risk List, and there has not been any since 1995. The following table shows the Department’s success during the past five years with correcting and closing its material weaknesses.

NUMBER OF MATERIAL WEAKNESSES BY FISCAL YEAR				
Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of Fiscal Year
1998	12	2	-	10
1999	10	7	-	3
2000	3	2	2*	3
2001	3	-	-	3
2002	3	3	-	0

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



The actions taken to correct and close the three previously reported material weaknesses are provided in the table below.

<b>SUMMARY OF FMFIA MATERIAL WEAKNESSES CLOSED IN FY 2002</b>			
<b>Material Weakness</b>	<b>Corrective Actions</b>	<b>Target Correction Date</b>	<b>Diplomatic Activity</b>
<p><b>Inadequate Administrative Staffing Overseas</b></p> <p>The Department suffers from an acute shortage of skilled Foreign Service administrative staff overseas. This shortage is especially critical due to the increased staffing levels of other foreign affairs agencies, which 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.</p>	<p>An Overseas Staffing Model (OSM) has been developed to identify the criteria for determining administrative staffing levels by post. The OSM sets forth a base level of administrative staffing, and provides additional positions to meet special needs. To ensure that adequate resources are available, a direct link is established between the administrative requirements and each agency's proportional cost for the support.</p> <p>During FY 2002, the Department hired above attrition to meet the requirements identified in the Diplomatic Readiness Initiative. Administrative requirements are being met in part by instituting programs that allow Foreign Service specialists, Civil Service employees, and eligible American family members to compete for specific administrative positions overseas.</p>	Closed 2002	Diplomatic Activities – Human Resources
<p><b>Integration of Grants Tracking Systems</b></p> <p>Multiple systems that track grant awards in support of international educational and cultural exchange programs are not fully integrated or linked to the Central Financial Management System. Integration would eliminate redundant record keeping, simplify coordination, and provide accurate and consistent data on grant costs and recipients.</p>	<p>An integrated system has been developed to track grant-funded exchange projects and their participants from beginning to end. There are three components. The program office grants-tracking system is being expanded to cover all offices in the bureau. The Grants Management Information System was installed in November 2002. The Commitment system is fully implemented. These three applications share data with one another through a single, common database.</p>	Closed 2002	Mutual Understanding
<p><b>Exchange Visitor Information System (EVIS)</b></p> <p>Data discrepancies were found in EVIS. EVIS contains information on the organizations designated by the Department that conduct educational and cultural exchange programs and on the Foreign Nationals who have participated as exchange visitors in these programs.</p>	<p>A pilot program has been developed and tested. The Department has been working in full cooperation with the Immigration and Naturalization Service and the Department of Education to develop and implement a National system. The system uses electronic forms to capture and report data collected and will enable the Department to acquire complete data on exchange visitor program participants. The National system will be implemented in 2003.</p>	Closed 2002	Mutual Understanding

For financial systems, 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 the Federal financial management systems requirements, and reports this area as a material nonconformance. Therefore, the Secretary is unable to certify that our financial systems fully comply with requirements of the FMFIA at this time. The Department has developed a remediation plan to resolve this issue by Fiscal Year 2004. Further information on this remediation plan can be found in the Federal Financial Management Improvement Act section below.

The table below provides the Department’s corrective action plan for addressing the one remaining material non-conformance and the targeted correction date.

SUMMARY OF OPEN FMFIA NONCONFORMANCE			
Material Nonconformance	Corrective Actions	Target Correction Date	Diplomatic Activity
<p><b>Financial and Accounting Systems</b>                      The Department has identified substantial weaknesses in its financial management systems. When first reported, the Department was burdened with managing six financial management systems worldwide, which support 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 JFMIP core requirements, ineffective interfaces, inadequate documentation and audit trails, and inadequate support of mission performance.</p>	<p>Significant progress has been made over the past few years to improve 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; decreased regional level systems from three to two; defined a standard account code structure that is applicable across all financial and feeder systems; and, re-centralized disbursing offices from 21 to three. The new Regional Financial Management System is operational in 44 overseas posts as of October 1, 2002 and is scheduled for full implementation by the end of FY 2003. Attaining substantial compliance with Federal financial management systems requirements is the focus of the Department’s Remediation Plan, which was established with OMB. For more detail on financial systems improvements and compliance with the Federal Financial Management Improvement Act of 1996, see the following section.</p>	<p>September 2003</p>	<p>Diplomatic Activities – Infrastructure and Operations</p>

**FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT**

The Federal Financial Management Improvement Act of 1996 (FFMIA) is designed to improve Federal financial management by requiring that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. Under FFMIA, agencies’ financial management systems must comply substantially with three requirements: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the U.S. Government Standard General Ledger (SGL). FFMIA also requires that the Independent Auditor’s Report on the agency’s annual financial statements report whether the agency’s financial management systems comply with the three requirements.

In 2002, the Department continued to maintain substantial compliance with the SGL and Federal accounting standards. However, as indicated in the Independent Auditor’s Report and as agreed by State management, State is not in substantial compliance with the following Federal financial management systems requirements: timely and useful information; systems security; and business continuity/contingency planning. Finally, the SGL is not the source of information for certain elements of the financial statements.

If an agency's financial systems do not comply with FFIA requirements, the agency (in consultation with OMB) must establish a remediation plan. The Department established its initial Remediation Plan (Plan) with OMB in March 2000 in response to the Independent Auditor's Report on the 1999 financial statements. The Department submitted an updated Plan to OMB in November 2001 in response to the Independent Auditor's Report on the 2000 financial statements. The November 2001 Plan, consistent with the March 2000 submission, identifies twelve initiatives to be accomplished by Fiscal Year 2004 that would result in substantial compliance.

During 2002, the Department continued to make significant progress towards implementing the Plan. The Independent Auditor's Report shows that the Department has reduced the overall degree of noncompliance. The Department has completed eight of the twelve initiatives the Department identified to achieve FFIA compliance, and completing the remaining four initiatives in the Plan is a top priority.

The cornerstone of the Plan is implementation of the Regional Financial Management System (RFMS). Development and implementation of RFMS, approved by State's Information Technology Program Board in June 1998, will support State's goal of integrating and standardizing worldwide financial and information systems, and conforms with OMB Circular A-127 requirements to establish a single, integrated financial management system. RFMS (1) reduces the number of overseas financial systems from two to one; (2) incorporates State's standard account code structure; and (3) standardizes financial transactions to enable budget and performance integration between RFMS and State's Central Financial Management System (CFMS), which will result in consistent processing and recording of financial data worldwide.



*The first checks are printed from the new RFMS disbursing system.*

RFMS is on-schedule for implementation worldwide by the end of FY 2003. RFMS is comprised of a custom-developed disbursing system and an off-the-shelf accounting system. A major milestone was achieved on October 31, 2001 when the first pilot post (Embassy Lima) began offering the full range of financial services under RFMS. By September 30, 2002, the new RFMS was operational in 44 overseas posts.



*Richard Ivy, United States Disbursing Officer, presents checks for approval to Keith Koehler, FSN Payroll Unit Chief.*

The following table provides a summary of the Plan, encompassing the eight initiatives that have been completed to-date, which includes the three initiatives completed on schedule during FY 2002. The second table provides the status on the four open initiatives remaining to be completed under the remediation plan.

**COMPLETED INITIATIVES TO ACHIEVE FFMIA COMPLIANCE**

<b>Initiatives</b>	<b>Diplomatic Activity</b>	<b>Status</b>	<b>Description</b>
<b>Initiatives Mainframe Access Controls Security</b>	Diplomatic Activities – Infrastructure and Operations	Complete	Mainframe security for access controls was enhanced, enabling the MCSC, with the concurrence of the IG, to vote for closure of the FMFIA material weakness for Information Systems Security. The processes, controls, and administration of State’s information systems security program have been significantly improved since this problem was identified in 1997.
<b>CFMS Security Improvements</b>	Diplomatic Activities – Infrastructure and Operations	Complete	New policies, procedures, and security profiles were established. CFMS security awareness training was developed and provided to over 900 users of CFMS.
<b>CFMS Mainframe Contingency Plan</b>	Diplomatic Activities – Infrastructure and Operations	Complete	Two fully operational mainframe computer facilities have been established: the center in the Harry S Truman Building in Washington, D.C., and the Beltsville Information Management Center in Beltsville, MD. If a disaster strikes one of these two facilities, critical mainframe operations could be moved to the other site, in a diminished but workable capacity.
<b>Paris FSC Mainframe Contingency Plan</b>	Diplomatic Activities – Infrastructure and Operations	Complete	A contingency plan was developed to provide appropriate contingency relief and disaster recovery for the FSC Paris mainframe using the domestic mainframe computers.
<b>Unliquidated Obligation System and Procedures</b>	Diplomatic Activities – Infrastructure and Operations	Complete	The Unliquidated Obligation System facilitates the reconciliation, monitoring, reporting and oversight of unliquidated obligations worldwide. Data in the system is analyzed in various strata, and reports are produced to review and manage open items.
<b>CFMS Enhancements:</b> <b>1. Project Cost Accounting System</b>	Diplomatic Activities – Infrastructure and Operations	Complete	The Project Cost Accounting System (PCAS) captures costs associated with capital improvements and construction projects, and reports these costs in State’s SGL.
<b>2. Fixed Assets: Phase I – Real Property</b>	Diplomatic Activities – Infrastructure and Operations	Complete	State implemented the Fixed Assets System, an integrated module within CFMS, to account for the real property elements of land, buildings and structures. Data from this new module automatically updates the SGL account for Property, Plant and Equipment. The CFMS general ledger is now the primary source of information on these elements for financial reporting.
<b>3. Fixed Assets: Phase II – Personal Property</b>	Diplomatic Activities – Infrastructure and Operations	Complete	State implemented an automated process to capture the financial aspects of personal property assets. This process involves receiving data from several property systems, updating the Fixed Assets System subsidiary, and computing and reporting depreciation. This information is interfaced and recorded into CFMS.
<b>Enhanced Interfaces</b>	Diplomatic Activities – Infrastructure and Operations	Complete	The overseas to CFMS interface was reengineered as part of the RFMS project. The new re-engineered interface provides overseas transactions on a daily basis at the accounting line level of detail and the creation of transaction category documents in CFMS to record the accounting impact of the overseas transactions. The creation of a transaction at the accounting line level of detail for the overseas transactions enables the synchronization of available fund balances and standard general ledger accounts for overseas allotments in RFMS and CFMS. It also provides for daily reporting of funds status and an adequate level of detail based on available information from the posts to provide assurance, track discrepancies, and meet internal and external reporting requirements.
<b>Financial Reporting Software</b>	Diplomatic Activities – Infrastructure and Operations	Complete	The Financial Reporting Software fulfills the FACTS II reporting requirements mandated by Treasury and streamlines the compilation, consolidation and reporting for financial statements.

**REMAINING INITIATIVES TO ACHIEVE FFMIA COMPLIANCE**

<b>Initiatives</b>	<b>Diplomatic Activity</b>	<b>Completion Date</b>	<b>Description</b>	<b>Status 9/30/2002</b>
<b>Regional Financial Management System (RFMS)</b>	Diplomatic Activities – Infrastructure and Operations	September 2003	RFMS supports State’s goal to establish and maintain a single, integrated financial management system. RFMS will (1) replace and reduce the number of overseas regional systems from two to one, (2) incorporate State’s standard account code structure, and (3) standardize financial transactions between RFMS and CFMS, which will result in consistent processing and recording of financial data worldwide.	<b>On schedule.</b> Completed disbursing module IV&V and RFMS; finished updates to RFMS software documentation and procedures, and production simulation. Implemented in 44 posts by September 30, 2002.
<b>Business Continuity Plans</b>	Diplomatic Activities – Infrastructure and Operations	September 2003	State must always be prepared to deal with a broad range of crises, ranging from natural disasters to political instability to terrorist attacks. Financial processes and financial management systems must be safeguarded should any of our business centers be faced with a crisis.	<b>On schedule.</b> RFMS Contingency and Continuity Plan under development.
<b>Information Systems Network Security</b>	Diplomatic Activities – Infrastructure and Operations	September 2003	State is implementing a comprehensive framework and process for lifecycle management of IT security. The framework and process will provide continual evaluation and improvement.	<b>On schedule.</b> Developed a Systems Security Program Plan; adopted the National Information Assurance Certification and Accreditation Program (NIACAP); established a Configuration Control Board; and implemented an ongoing penetration testing program.
<b>Central Financial Planning System (CFPS) Statement of Net Cost Module</b>	Diplomatic Activities – Infrastructure and Operations	September 2003 Statement of Net Cost Module	As presented in the Department’s updated FY 2004 OMB A-300 business case, CFPS is the implementation of five distinct development modules that will together enable more timely and accurate reporting on linking spending, costs, and budgeted resources to performance information. Specific to improving financial management systems and performance, the CFPS Statement of Net Cost Module will provide the ability to associate costs and revenues to strategic goal by organization, be used to produce the Statement of Net Cost, and allow for substantial compliance with managerial cost accounting standards.	<b>On schedule.</b> The Department has successfully completed the first three activities of the CFPS project: 1) Functional & Technical Requirements; 2) Business Model Concept; and 3) Mission Performance Plan Module (Release 1).  In FY 2003, the Department will focus on completing the Statement of Net Cost Module.

## GOVERNMENT MANAGEMENT REFORM ACT - AUDITED FINANCIAL STATEMENTS

**T**he Government Management Reform Act (GMRA) of 1994 amended the requirements of the Chief Financial Officers (CFO) Act of 1990 by requiring an annual preparation and audit of agency-wide financial statements from the 24 major executive departments and agencies. The statements are to be audited by the Inspector General (IG), or an independent auditor at the direction of the IG. An audit report on the principal financial statements, internal controls, and compliance with laws and regulations is prepared after the audit is completed.

The Department's 2002 financial statements received an unqualified opinion – the best possible result of the audit process. This year marks the sixth consecutive year that the Department's financial statements have achieved such an opinion. However, in relation to internal control, the Independent Auditor's Report cites as a material weakness the Department's information systems security for networks in domestic operations. In addition, the Report found three reportable conditions: (1) inadequacy of the Department's financial management systems, (2) management of unliquidated obligations, and (3) implementation of Managerial Cost Accounting Standards. The Independent Auditor's Report also states that the Department's financial management systems are non-compliant with laws and regulations, including the FFMIA.

The definition of material weaknesses previously discussed in the FMFIA section differs from the definition that the independent auditors use to assess and report on internal controls in their audits. Under standards issued by the American Institute of Certified Public Accountants, material weaknesses in internal control are defined as reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Reportable conditions are significant, though not material, deficiencies, in the design or operation of internal control that could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The table on the following pages summarizes the weaknesses in internal control and compliance with laws and regulations cited in the FY 2002 Independent Auditor's Report, as well as the actions taken to resolve the problems. The Department has continued to address aggressively the Information System Network Security material weakness and believes that this weakness will be resolved in Fiscal Year 2003.

**SUMMARY OF INTERNAL CONTROL WEAKNESSES AND NONCOMPLIANCE WITH LAWS AND REGULATIONS**  
*(Refer to Independent Auditor's Report Section — Pages 179 to 188)*

<b>Material Weakness</b>	<b>Corrective Actions</b>	<b>Target Correction Date</b>	<b>Diplomatic Activity</b>
<p><b>Information System Network Security</b></p> <p>Information system networks for domestic operations are vulnerable to unauthorized access. Consequently, other systems, including the Department's financial management systems, which process data using these networks, may also be vulnerable. This weakness was first reported based on penetration tests performed by the General Accounting Office (GAO) and was also cited in the audit opinion of the 1997 financial statements.</p>	<p>Mainframe security for access controls was enhanced, enabling the MCSC to close the FMFIA material weakness for Information Systems Security. The processes, controls, and administration of State's information systems security program have been significantly enhanced since this problem was first identified in 1997. The Department has created a strong perimeter defense — through firewalls, virus protection, and intrusion detection — and has sound personnel procedures to ensure cleared and trained personnel at all levels.</p> <p>In response to two vulnerability reviews of State's network infrastructure, the Department established a Vulnerability Assessment Working Group. The Group is charged with analyzing the reviews and developing a risk mitigation plan of action with appropriate milestones.</p> <p>In addition to addressing the issues identified in penetration tests, State is developing a comprehensive framework and process for lifecycle management of IT security. The framework and process will allow for continual evaluation and improvement. The Chief Information Officer is reassessing the Certification and Accreditation (C&amp;A) Program plan with the goal of completing accreditation of general support systems and major applications by FY 2004.</p>	<p>September 2003</p>	<p>Diplomatic Activities – Information Resources</p>

**SUMMARY OF INTERNAL CONTROL WEAKNESSES AND NONCOMPLIANCE WITH LAWS AND REGULATIONS**  
*(Refer to Independent Auditor's Report Section — Pages 179 to 188)*

Reportable Conditions	Corrective Actions	Target Correction Date	Diplomatic Activity
<p><b>Management of Unliquidated Obligations</b></p> <p>The Department's internal control process related to managing undelivered orders is inadequate. It lacks a structured process for reconciling and deobligating funds in a timely manner, which may result in the loss of those funds.</p>	<p>The Department has made significant improvements in this area. The Unliquidated Obligation System was implemented in 2000. The system is updated periodically for detailed unliquidated obligation data and facilitates the reconciliation, monitoring, reporting, and oversight of unliquidated obligations worldwide. Data in the system is analyzed to facilitate the review and management of open items. Using this analysis and review, new software routines will be implemented in FY 2003 to remove unliquidated obligations where appropriate.</p>	<p>September 2003</p>	<p>Diplomatic Activities – Infrastructure and Operations</p>
<p><b>Compliance with Managerial Cost Accounting Standards (MCAS)</b></p> <p>While the Department complies with certain aspects of the Statement of Federal Financial Accounting Standards #4, it does not have an effective process to routinely collect managerial cost accounting information, establish outputs for each responsibility segment, or allocate all support costs.</p>	<p>The Department is making reasonable progress in implementing MCAS, but acknowledges that additional work is needed to fully comply with these standards. To substantially address MCAS requirements, the Department is developing the Central Financial Planning System which is included in the FFIA Remediation Plan (pages 31-34).</p>	<p>September 2003</p>	<p>Diplomatic Activities – Infrastructure and Operations</p>
<p><b>Financial and Accounting Systems</b></p> <p>See discussion below.</p>	<p>See description below.</p>		<p>Diplomatic Activities – Infrastructure and Operations</p>
Material Noncompliance with Laws and Regulations	Corrective Actions	Target Correction Date	Diplomatic Activity
<p><b>Financial and Accounting Systems</b></p> <p>The Department has identified and acknowledged serious weaknesses in its financial management systems. When first reported, the Department was charged with overseeing six financial management systems that support 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 JFMIP core requirements; ineffective interfaces; inadequate documentation and audit trails; and inadequate support of mission performance.</p>	<p>Significant progress has been made over the past few years to improve financial management systems worldwide. For more detail on the Financial and Accounting Systems corrective actions, refer to summary of open FMFIA nonconformance on page 31; and Federal Financial Management Improvement Act on pages 31-34.</p>	<p>September 2003</p>	<p>Diplomatic Activities – Infrastructure and Operations</p>



## FINANCIAL HIGHLIGHTS

The Department's financial statements, which appear on pages 192 through 251, received for the sixth straight year an unqualified audit opinion issued by the independent accounting firm of Leonard G. Birnbaum and Company. Preparing these statements is part of the Department's goal to improve financial management and to provide accurate and reliable information that is useful for 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 accounting principles generally accepted in the United States of America (GAAP). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

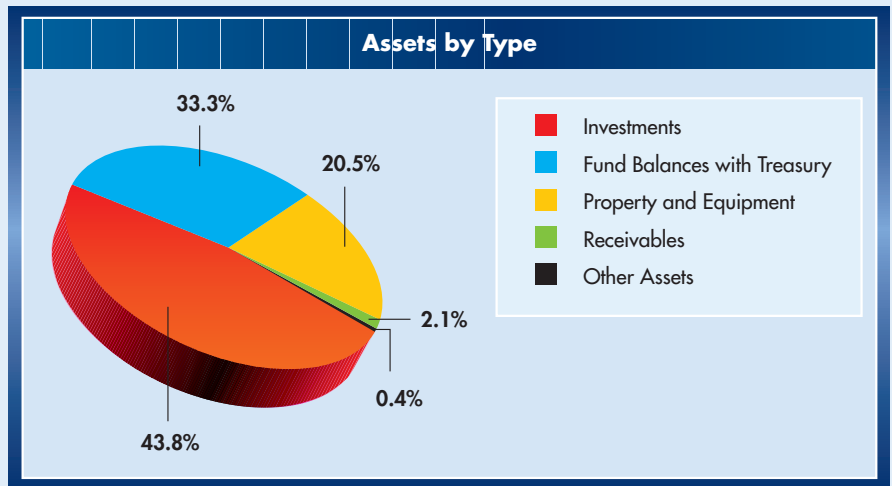
### OVERVIEW OF FINANCIAL POSITION

**Assets.** The Consolidated Balance Sheet on pages 193 and 194 shows the Department had total assets of \$26.8 billion at the end of 2002. This represents an increase of \$2.6 billion (10.8%) over the previous year's total assets of \$24.2 billion. The increase is primarily the result of increases of \$1.3 billion in Fund Balances with Treasury, \$629.4 million in property and equipment, and \$544.3 million in investments in the Foreign Service Retirement and Disability Fund (FSRDF). The increase in Fund Balances with Treasury primarily resulted from a \$3.7 billion increase in 2002 budget authority.

The Department's assets reflected in the Consolidated Balance Sheet are summarized in the following table (*dollars in thousands*):

	2002	2001
Investment, Net	\$11,750,737	\$11,206,403
Fund Balances with Treasury	8,937,139	7,652,119
Property and Equipment, Net	5,499,850	4,870,466
Accounts, Loans & Interest Receivable, Net	552,508	403,329
Other Assets	99,923	91,516
<b>Total Assets</b>	<b>\$26,840,157</b>	<b>\$24,223,833</b>

Investments, Fund Balances with Treasury and Property and Equipment comprise 98% of total assets for 2002, which is the same as the 2001 percentage of 98%. Investments consist almost entirely of U.S. Government Securities held in the FSRDF.

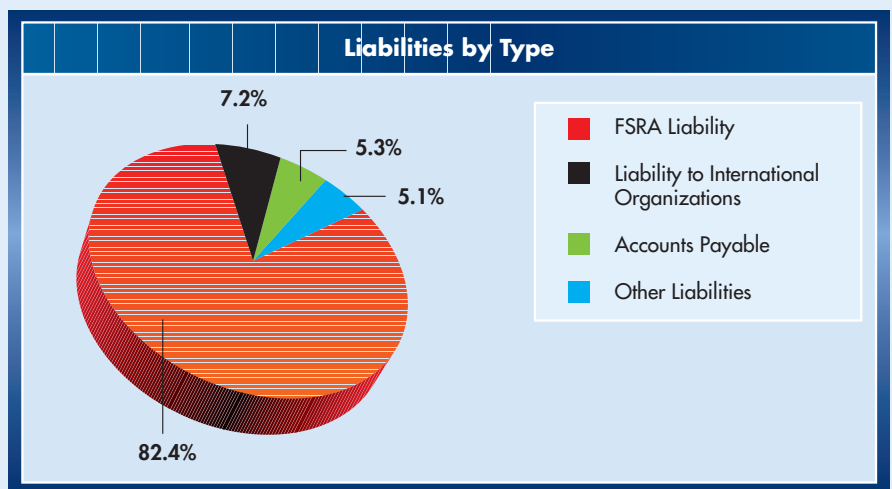


**Liabilities.** The Department had total liabilities of \$14.8 billion at the end of 2002, which is reported on the Consolidated Balance Sheet and summarized in the following table (*dollars in thousands*):

	2002	2001
Foreign Service Retirement Actuarial Liability	\$12,211,800	\$11,766,900
Liability to International Organizations	1,065,172	1,650,006
Accounts Payable	784,799	823,818
Other Liabilities	762,632	569,753
<b>Total Liabilities</b>	<b>\$14,824,403</b>	<b>\$14,810,477</b>

The Foreign Service Retirement Actuarial (FSRA) Liability of \$12.2 billion and the Liability to International Organizations of \$1.1 billion comprise 90% of the Department's total liabilities.

Of the total liabilities, \$1.8 billion (12%) were unfunded, i.e., budgetary resources were not available to cover these liabilities. The \$1.8 billion is primarily comprised of the \$1.1 billion Liability to International Organizations, and the unfunded portion of the FSRA Liability of \$324.7 million, which represents the amount by which the \$12.2 billion FSRA Liability exceeds the FSRDF's net assets available to pay the liability. The \$324.7 million unfunded



portion of the FRSA Liability is \$100.2 million less than the \$424.9 million unfunded FRSA Liability at the end of 2001, and marks the ninth consecutive annual decrease due to the continued financial growth experienced by the FSRDF.

The \$1.1 billion Liability to International Organizations consists of \$761.6 million in calendar year 2002 annual assessments, and \$303.5 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 Congress.

As of September 30, 2002, a total of \$926 million had been appropriated by Congress for payment of U.S. arrearages. These amounts, however, were made available subject to certifications by the Secretary of State that certain legislative requirements were met. A payment of \$100 million in arrearages was made in FY 2000; a payment of \$475 million and a credit of \$107 million were made FY 2002; and payments totaling \$211.9 million were made in early FY 2003. Thus, \$32.1 million of appropriations for arrearage payments remain.

**Ending Net Position.** The Department's Net Position at the end of 2002 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was \$12.0 billion, a \$2.6 billion (27.6%) increase from the previous fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations at the end of 2002.

The growth in Unexpended Appropriations was principally due to the increase in budget authority received to rebuild the Department's diplomatic platform.

The increase in Cumulative Results of Operations resulted mainly from the \$629.4 million increase in property and equipment. The Cumulative Results of Operations also increased as a result of growth in the Working Capital Fund, and net proceeds of the FSRDF.

## RESULTS OF OPERATIONS

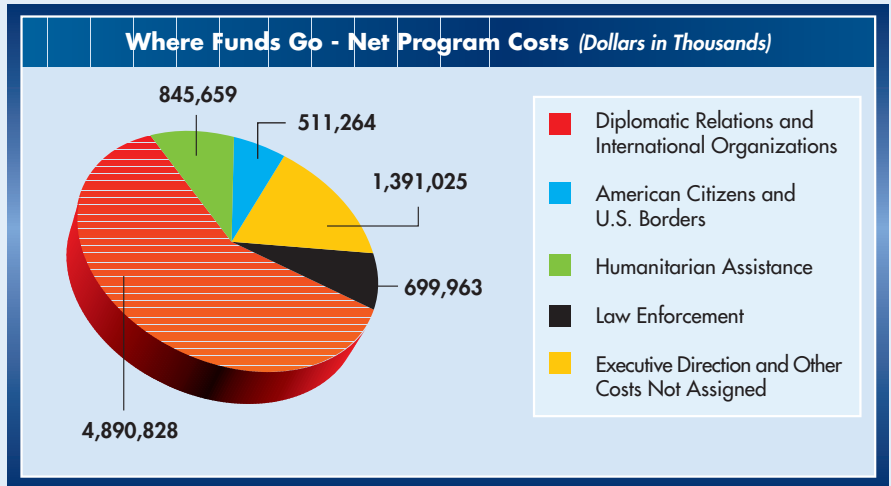
**T**he results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position on pages 195 and 196.

The Consolidated Statement of Net Cost on page 195 presents the annual cost of operating the Department's major programs. The total cost less any earned revenue for each program is used to determine the Net Program Cost. A Consolidating Schedule of Net Cost is presented in Note 18. The schedule displays the program costs by responsibility segment. Each Under Secretary oversees a responsibility segment and carries out their mission or major line of activity.

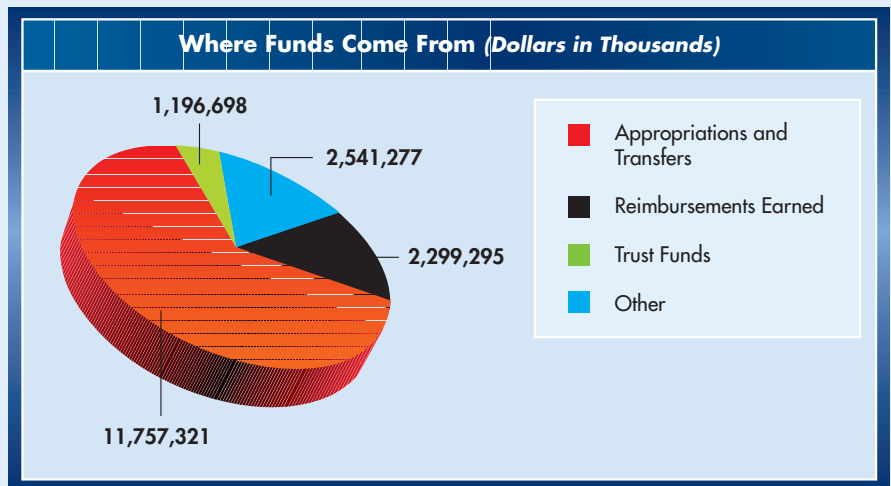
The programs on the Consolidated Statement of Net Cost correlate to the National Interests represented in the "Management's Discussion and Analysis" section of this report and in the Department's 2002 Performance Report. Exceptions are the National Interests of National Security, Economic Prosperity, Democracy, and Global Issues. These National Interests are carried out through, and presented collectively under, "Diplomatic Relations and International Organizations" on the Consolidated 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 2002, after intra-departmental eliminations, was \$8.3 billion. "Diplomatic Relations and International Organizations" represents the largest investment for the Department at 59% of the Department's Net Cost of Operations. The net cost of operations for the remaining programs varies from 6% to 17%.

The Consolidated Statement of Changes in Net Position presents the accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year. Appropriations Used totaled \$9.9 billion, comprising 81.2% of the Department's total revenues and financing sources after considering intra-departmental eliminations of \$1.5 billion. The charts reflect the funds that the Department received during 2001 and how these funds were used.

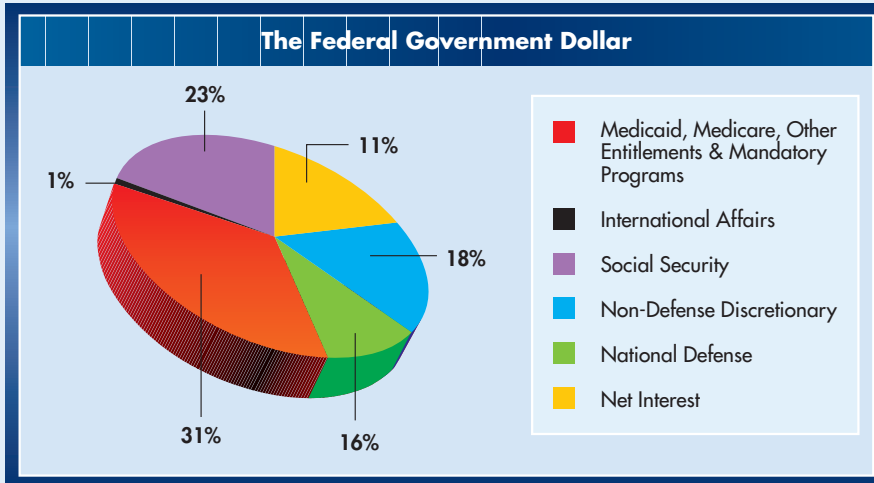


The Combined Statement of Budgetary Resources on pages 197-198 provides information on how budgetary resources were made available to the Department for the year and their status at fiscal year-end. For the fiscal year, the Department had total budgetary resources of \$17.8 billion, an increase of 27.4% from 2001 levels. Budget Authority of \$12.9 billion - which



consists of \$11.8 billion for appropriations (direct, related, and supplemental) and transfers, and \$1.1 billion financed from trust funds - comprise 73% of the total budgetary resources. The Department incurred obligations of \$15.2 billion for the year, a significant increase (31%) over \$11.6 billion of obligations incurred during 2001. The outlays reflect the actual cash disbursed against the Department's obligations.

The Combined Statement of Financing reconciles the resources available to the Department to finance operations with the net costs of operating the Department's programs. Some operating costs, such as depreciation, do not require direct financing sources.



## BUDGETARY ISSUES

The amount in the Federal budget to fund International Affairs, which encompasses several 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%.

Public Estimates on Foreign Policy Issues		
Topic	U.S. Perception	Reality
Percentage of U.S. Budget going to foreign aid	20 percent	Less than 1 percent

*Reproduced with permission from FOREIGN POLICY # 126 (September/October 2001). Copyright 2001 by the Carnegie Endowment for International Peace.*

The FY 2002 Department of State's budget of \$7.814 billion included the appropriations that finance the administration of foreign affairs (\$5.971 billion); contributions to international organizations and activities (\$1.724 billion); international commissions (\$61 million); other related appropriations (\$58 million); and several foreign assistance programs (\$818 million). The administration of

foreign affairs appropriations primarily funds the operating budgets of the Department of State. These appropriations fund 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 (MRV), Expedited Passport, and other user fee collections to enhance the nation's border security and help meet consular workload demands, and to invest in modern, responsive information technology systems. These resources are essential to accomplishing two overriding objectives of the President's foreign policy: to win the war on terrorism and to protect Americans at home and abroad.

In FY 2002, the Department received appropriations and transfers from the Emergency Response Fund that targets funding to the Department's highest priority policy and management requirements and ensures the Department is properly organized, equipped, and manned to conduct America's foreign policy. FY 2002 represented a significant increase in the Department's resources and the first fiscal step in efforts to align both the organization for and the conduct of America's foreign policy with the dictates of the 21st Century. Within these funding levels, the Department continued current operations and met the Department's highest priorities, including embassy construction, security, information technology, and hiring new people. FY 2002 levels also included funding critical to address emergent facilities and operating requirements that arose as a result of the September 11 terrorist attacks, including reopening the mission in Kabul, Afghanistan; reestablishing an official presence in Dushanbe, Tajikistan; and increased security and personnel protection demands at home and abroad.

For our major operating appropriation, Diplomatic and Consular Programs (D&CP), the Department was funded at \$3.78 billion and included the first year of a multi-year Diplomatic Readiness Initiative (DRI) strategy to recruit, hire, train, and deploy additional professionals around the world. The appropriation and transfers, along with increases in MRV fee spending, also supported hiring 883 new employees (above anticipated attrition) including 360 new diplomatic readiness positions, 51 new security positions to mitigate identified information security vulnerabilities overseas, 12 counter-terrorism positions, 71 new consular positions to address border security workload increases, and 389 new security professionals. With increased D&CP funding, the Department funded programs to create a work environment to attract and retain talent within a highly competitive economy.

The Department's FY 2002 funding included \$1.517 billion for Embassy Security, Construction and Maintenance to manage the Department's real property assets and provide U.S. diplomatic and consular missions with secure, safe, and functional facilities. This funding included \$1.059 billion for security capital construction and compound security projects and \$458 million for ongoing operations. The Department also received \$535 million for Worldwide Security Upgrades within the Diplomatic and Consular Programs appropriations (including \$30 million from the Emergency Response Fund and \$18 million from the 2002 Supplemental) to continue the perimeter security enhancement program for 232 posts; improve technical, counterintelligence and domestic security programs; and fund the 389 new security professionals. This funding also sustains security programs begun with the FY 1999 emergency supplemental such as worldwide guard protection, physical security equipment and technical support, information/systems security, and personnel and training.

The Department's FY 2002 funding for the Capital Investment Fund included \$210 million to provide modern information technology to every Department employee, including secure access to the Internet for all of our employees and modern classified systems. This included funding for OpenNet Plus providing complete web access for all State desktops by mid-FY 2003 and providing classified connectivity and email to every eligible post by FY 2004, laying the foundation for modernizing our outmoded cable system.

The Department's FY 2003 budget request continues to support the Department's priorities to support the War on Terrorism and build diplomatic readiness. The request includes \$1.3 billion for enhanced security and the War on Terrorism, including \$755 million to design and/or construct secure facilities, additional site acquisition, and compound security projects; \$553 million to upgrade worldwide security readiness including increased guard protection, chem/bio defense, and facility protection measures; and \$52 million to consolidate the Department's anti-terrorism training programs for both Diplomatic Security and coalition law enforcement personnel, by establishing a new Center for Anti-Terrorism Security Training (CAST).

The request also includes funding to support hiring 631 additional Americans, including 134 security professionals and support staff; 399 new hires to meet the highest priority diplomatic readiness staffing needs; and 98 new consular positions to enhance Border Security and ensure the security of U.S. visas and passports. The request continues to support the Department's information technology program with a request for \$177 million for the Capital Investment Fund, which would continue the investment in state-of-the-art IT systems worldwide, including extending classified connectivity to every post requiring it and expanding desktop Internet access to all Department employees.

## LIMITATION OF FINANCIAL STATEMENTS

**M**anagement prepares the accompanying financial statements to report the financial position and results of operations for the Department of State pursuant to the requirements of Chapter 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 01-09, *Form and Content of Agency Financial Statements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same books and records.

These statements should be read with the understanding 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 International Cooperative Administrative Support Services (ICASS) and the International Boundary and Water Commission (IBWC). The complete, separately-issued ICASS and IBWC Annual Financial Reports are available from the Department's Bureau of Resource Management, Office of Financial Policy, Reporting and Analysis, 2401 E Street, Room H1500, Washington, DC, 20037; (202) 261-8620.

## M I L E S T O N E S   O F   A M E R I C A N   D I P L O M A C Y

**1778:** Treaty of Alliance with France, engineered by Benjamin Franklin, enabled the fledgling republic to continue its struggle for independence.

**1783:** Treaty of Paris-Great Britain recognized American independence and control over western lands as far as the Mississippi.

**1795:** Jay's Treaty required Great Britain to remove troops from northwestern frontier; Pinckney's Treaty with Spain opened mouth of Mississippi River to U.S. navigation.

**1803:** Louisiana Purchase removed foreign control of Mississippi's mouth and doubled U.S. territory.

**1819:** Adams-Onis Treaty with Spain, transferring Florida, extended the U.S. to present boundaries in southeast.

**1823:** Monroe Doctrine established U.S. policy of opposing European intervention or new colonization in Western Hemisphere.

**1842:** Webster-Ashburton Treaty with Great Britain delimited northeastern U.S. (Maine) boundary.

**1846:** Oregon Treaty with Great Britain extended U.S. sole dominion to the Pacific.

**1848:** Treaty of Guadalupe-Hidalgo, ending 1846-48 war with Mexico, confirmed U.S. claim to Texas and completed U.S. expansion to Pacific.

**1867:** Alaska purchase ended Russian territorial presence and completed U.S. expansion on North American mainland.

**1898:** Treaty of Paris, at end of Spanish-American War, transferred to the United States Puerto Rico, Guam, and the Phillipines, expanding U.S. power into the Pacific.

**1918:** Allies and Germany accepted Wilson's 14 points as basis for just and lasting peace ending World War I.

**1945:** U. S. and 50 other countries founded the United Nations.

**1947:** Truman Doctrine asserted U.S. policy of containing Soviet expansion through economic and military aid to threatened countries.

**1947:** Inter-American Treaty of Reciprocal Assistance (Rio treaty) committed the U.S. and Latin American republics to aid one another to resist military aggression.

**1947:** Marshall plan of aid to Europe set foundation for economic cooperation among industrial democracies.

**1948:** Ninth International Conference of American States created the Organization of American States (OAS) to intensify U.S. and Latin American collaboration in all fields.

**1948:** NATO, first U.S. alliance concluded in peacetime, provided integrated force for defense of Western Europe and North America.

**1963:** Limited Nuclear Test Ban Treaty, first major-power agreement regulating atomic weapons testing, banned explosions in the atmosphere, in outer space and under water.

**1967:** Non-Proliferation Treaty, now signed by 110 governments, banned the spread of atomic weapons.

**1972:** Strategic Arms Limitation Talks (SALT) agreements with U.S.S.R. prescribed mutual limitations on defensive and offensive weapons and established SALT as a continuing process.

**1972:** President Nixon's February visit to China followed Secretary Kissinger's earlier negotiations in Peking, marking first important step in the process of normalizing relations with the People's Republic of China.

**1979:** U.S. established diplomatic relations with the People's Republic of China ending 30 years of nonrecognition.

**1979:** Israel-Egypt Peace Treaty (Camp David Accords) ended 30 years of conflict between the two countries and provided possible framework for comprehensive peace in the Middle East.



M I L E S T O N E S   O F   A M E R I C A N   D I P L O M A C Y   *C O N T I N U E D*

**1986:** The U.S. Congress implemented strong economic sanctions against South Africa, which helped to bring an end to apartheid in 1991.

**1989-1991:** As President George H.W. Bush stated a desire to integrate the Soviet Union into the community of nations, the Cold War ended when communist regimes collapsed across Eastern Europe and the Soviet Union disintegrated.

**1990-1991:** In response to the Iraqi invasion of Kuwait, the United States built an international coalition to defend Saudi Arabia and, after United Nations approval, to eject Iraq from Kuwait through Operation Desert Storm.

**1992:** Representatives of more than 175 nations, including the United States, met at the Earth Summit in Rio de Janeiro, which produced a treaty on climate change and was the largest international meeting on the environment ever convened.

**1994:** The North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico took effect and the United States joined another structure that promoted global free trade, the World Trade Organization.

**1995:** The General Framework Agreement for Peace in Bosnia and Herzegovina ended the Bosnian civil war by providing for NATO troops to serve as peacekeepers.

**2001:** The United States led a global coalition that fought a war against terrorism in the wake of the September 11 terrorist attacks in New York and Washington D.C.

## I N T E R E S T I N G   H I S T O R I C A L   N O T E S

**SEWARD'S ABORTIVE INITIATIVE**

At the beginning of President Lincoln's Administration in April 1861, the new Secretary of State, William H. Seward of New York, proposed to end domestic political strife over the all-consuming question of slavery by pursuing an active foreign policy, one that might lead to declarations of war against France or Spain, thus uniting domestic factions against a foreign threat. Seward even volunteered himself as the principal prosecutor of such a policy. The President tactfully rebuffed this extraordinary proposal. Thereafter, Seward, subordinated himself to the President and served him loyally and effectively.

**THE HULSEMANN-WEBSTER EXCHANGE**

In 1850 the Austrian chargé in Washington, the Chevalier Hulsemann, who strenuously objected to supposed American interference in the domestic affairs of Hungary, communicated an insulting message to the Department of State. His Government, he stated, had "deemed it proper to preserve a conciliatory deportment making ample allowance for the ignorance of the Cabinet of Washington on the subject of Hungarian affairs and its disposition to give credence to the mendacious rumors which are propagated by the American press."

To this statement Secretary of State Daniel Webster replied in kind: "Nothing will deter either the Government or the people of the United States from . . . forming and expressing their own opinions freely and at all times upon the great political events which may transpire among the civilized nations of the earth. Their own institutions stand upon the broadest principles of civil liberty; and believing those principles . . . to be . . . in fact the only principles of government which meet the demands of the present enlightened age, the President has perceived with great satisfaction that in the constitution recently introduced into the Austrian Empire many of these great principles are recognized and applied."



## DEPARTMENT OF STATE HISTORY

### WHY IS IT CALLED THE DEPARTMENT OF STATE?

**O**n September 15, 1789, Congress passed “An Act to provide for the safekeeping of the Acts, Records, and Seal of the United States, and for other purposes.” This law changed the name of the Department of Foreign Affairs to the Department of State because certain domestic duties were assigned to the agency. These included:

- ◆ Receipt, publication, distribution, and preservation of the laws of the United States;
- ◆ Preparation, sealing, and recording of the commissions of Presidential appointees;
- ◆ Preparation and authentication of copies of records and authentication of copies under the Department’s seal;
- ◆ Custody of the Great Seal of the United States;
- ◆ Custody of the records of the former Secretary of the Continental Congress, except for those of the Treasury and War Departments.

Other domestic duties that the Department was responsible for at various times included issuance of patents on inventions, publication of the census returns, management of the mint, control of copyrights, and regulation of immigration. Most domestic functions have been transferred to other agencies. Those that remain in the Department are: preparation and authentication of copies of records and authentication of copies under the Department’s seal, storage and use of the Great Seal, performance of protocol functions for the White House, drafting of certain Presidential proclamations, and replies to public inquiries.

### WHO WAS THE FIRST U.S. DIPLOMAT?

Benjamin Franklin was the first U.S. diplomat. He was appointed on September 26, 1776 as part of a commission charged with gaining French support for American independence. He was appointed Minister to France on September 14, 1778 and presented his credentials on March 23, 1779, becoming the first American diplomat to be received by a foreign government. Franklin was one of three Commissioners who negotiated the peace treaty with Great Britain, and continued to serve in France until May 17, 1785.

### WHEN WAS THE FIRST U.S. TREATY SIGNED?

The first U.S. treaty to be signed was the Treaty of Amity and Commerce with France that was signed in Paris on February 6, 1778.

### WHAT IS THE OLDEST DIPLOMATIC PROPERTY OWNED BY THE UNITED STATES?

The oldest diplomatic property owned by the United States is the U.S. Legation building in Tangier (see page 205). The Sultan of Morocco made a gift of the building in 1821. It served as the U.S. Consulate and Legation until 1956. It is currently preserved as a museum and study center.