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STATE DEPARTMENT

Widespread Management Weaknesses at Overseas Embassies

Statement of Frank C. Conahan, Assistant Comptroller General, National Security and International Affairs Division

\O/T-NSIAD-93-17

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here today to discuss our review of the Department of State's management of its overseas embassies. We reviewed management and administrative control systems to determine the extent problems exist and the status of corrective actions. We conducted fieldwork at 14 embassies and obtained additional information from 80 embassies that responded to a questionnaire that we sent to all 104 embassies where State has assigned 10 or more foreign service officers.

State operates embassies and other posts worldwide at an estimated annual cost of over $1 billion. The embassies support the overseas activities of the State Department and many other U.S. agencies. According to State data, the agency employs about 7,000 U.S. direct-hire personnel and about 40,000 foreign service nationals and foreign national contractors overseas. The embassies manage about $600 million worth of personal property and procure about $500 million in goods, services, and lease properties each year. They also help manage U.S.-owned facilities and other real property worth billions of dollars.

RESULTS IN BRIEF

State's track record in managing its overseas operations has not been good. For years, we and State's Inspector General have identified numerous management deficiencies in real and personal property controls, overseas financial management systems, contracting and procurement practices, and training of administrative staff. Many of these deficiencies have been identified by State as material weaknesses or areas at high risk for fraud, waste, and abuse under the Federal Managers' Financial Integrity Act process.

Our review indicates that management weaknesses continue to reduce the efficiency and effectiveness of overseas operations. The weaknesses include continuing problems in controls over real and personal property; deficiencies in controls over cashiering, accounts receivable, and other financial operations; inadequate contracting and procurement practices; non-compliance with standards for security of unclassified information systems; and inadequate training in management controls and frequent staffing gaps in key U.S. administrative positions.

Although State and its embassies have plans to correct management weaknesses through the Financial Integrity Act process, these plans are, for the most part, reactions to problem areas we and the Inspector General have reported on for years. In our opinion, more attention is needed to correct the long-standing management weaknesses at overseas embassies. We believe that management of overseas operations can be strengthened if the embassies adopt a more proactive approach in identifying opportunities for management improvement and cost reduction and ambassadors and other embassy managers pay more attention to ensuring that solutions are devised and adequate follow-up is provided. Without such a commitment, State's funds and assets will continue to remain unnecessarily vulnerable to fraud, waste, and abuse.

REAL PROPERTY MANAGEMENT WEAKNESSES

For many years, we have reported long-standing problems with States's overseas real estate programs that cause them to be susceptible to waste and mismanagement. These programs, which involve government-owned property worth billions of dollars and hundreds of millions of dollars in annual appropriations, are managed by State's Office of Foreign Buildings Operations. Last year, we reported that program management had suffered from four areas of weakness: lax oversight, inadequate information systems, insufficient maintenance, and poor planning.[1] For example, many of the buildings are in poor condition and State Department officials have previously acknowledged that many of the repairs and costs could have been avoided if routine and preventive maintenance had been done. The Office of Foreign Buildings Operations had initiated many corrective actions that showed promise of improving the management of real property. However, some key improvements were still in the initial stages and will take years to implement. We concluded that commitment to management reform and oversight of embassy activities was needed if the problems were to be corrected. We also noted that the Office of Foreign Buildings Operations may face obstacles in fully implementing its plans for corrective actions.

In our current work, we found that some embassies are not implementing procedures recommended by the Office of Foreign Buildings Operations for optimizing maintenance resources at overseas embassies. Responses to the questionnaire indicated that about 30 percent of the embassies do not conduct annual facility surveys of government-owned and long-term lease facilities and about 10 percent do not have a preventive maintenance program. Most embassies have not prepared an annual inspection summary report, which is a key management tool for the embassies to use in developing long-term facilities maintenance objectives and identifying budget requirements. Inadequate maintenance of overseas properties has been a long-standing deficiency in State's overseas operations, due in part to the lack of compliance with policies and procedures.

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[1] High Risk Series: Management of Overseas Real Property (GAO/HR-93-15, Dec. 1992).

Another continuing problem is that embassies are not fully meeting overseas housing standards. In 1989 we reported[2] that one of every three of the embassy housing units in the seven countries we visited was overstandard. In response to the problem, State changed the standards in June 1991. Now, 2 years later, embassies responding to our questionnaire estimated that, on average, almost one out of five housing units currently exceed the 1991 standards. Sixty-two percent of the responding embassies now estimate that it will take at least 2 more years to be in full compliance with the 1991 standards.

WEAK CONTROLS OVER PERSONAL PROPERTY

Weaknesses in personal property[3] management have long been a problem at embassies. For a quarter of a century, we and the Inspector General have identified serious deficiencies. In 1983, State first reported personal property management as a material weakness under the Financial Integrity Act process. In 1987, a report by the Committee on Government Operations,[4] based on a study by this Subcommittee, stated that despite repeated promises of corrective actions, State's management of personal property remained unsatisfactory. Our review indicates that although some improvements have been made, significant management deficiencies continue at many embassies.

For example, we found that in less than 2 years, the Embassy in Mexico lost office equipment, household furnishings, and other nonexpendable personal property valued at $120,000.[5] We noted that although the magnitude of the losses suggested the possibility of theft or malfeasance, the Embassy essentially "swept the problem under the rug" because its records were so poorly kept that it could not identify how or where the items were lost or which employees should be held responsible. The Embassy also did not report the missing property to State, as required by Department regulations.

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[2]State Department: Management of Overseas Real Property Needs Improvement (GAO/NSIAD-89-116, Apr. 13, 1989).

[3]Personal property includes furniture, equipment, supplies, appliances, and machinery and refers to all property not otherwise classified as land, land improvement, buildings, and structures, which are referred to as real property.

[4]The State Department's Management of Nonexpendable Personal Property: Long-Standing Deficiencies Remain Uncorrected (Nov. 1987).

[5]State Department: Management Weaknesses at the U.S. Embassy in Mexico City, Mexico (GAO/NSIAD-93-88, Feb. 8, 1993).

Control weaknesses at other embassies further indicate that State needs to give more attention to personal property management:

-- During a 1992 inventory, the Embassy in Russia could not account for about $19,000 in expendable property. The shortages were not reported to the property survey board for action. In addition, nearly $14,000 in nonexpendable property, such as silverware, china, and crystal, was missing from the Ambassador's residence based on inventories conducted between 1989-91.

-- Examples of weaknesses at the Embassy in Panama have included (1) lack of quarterly verifications of inventory records, (2) inadequate separation of duties among property management personnel, (3) long-standing difficulties in implementing State's automated nonexpendable personal property system, (4) identification of property valued at $74,000 during the 1991 inventory that was not in the Embassy's records, and (5) loss of over $90,000 of property in the 1990-92 time period.[6]

-- Inadequate controls at the Embassy in Grenada have resulted in the accumulation of furniture, vehicles, and other items in excess of needs. Although the Embassy has only three U.S. staff, it had six vehicles and its warehouse contained 49 household chairs and 29 tables.

These are not isolated problems. In response to our questionnaire, 15 embassies acknowledged inventory shortages in excess of 1 percent of total nonexpendable inventory, which is the threshold set by State, above which formal action by property survey boards is required. Eleven embassies reported that they have not fully implemented State's automated nonexpendable personal property system. State first identified inadequate personal property management as a material control weakness in 1983 and its original target date for corrective action was 1989. State now plans to complete corrective actions, such as implementing necessary policies and procedures and instituting a worldwide automated equipment data base, by 1995.

WEAK CONTROLS OVER CASHIERING, ACCOUNTS RECEIVABLE, AND OTHER FINANCIAL FUNCTIONS

State's worldwide disbursing and cashiering activities are also at high risk to fraud, waste, and abuse. Billions of U.S. dollars and foreign currency equivalents are vulnerable, including cashiering

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[6]State Department: Management Weaknesses at the U.S. Embassies in Panama, Barbados, and Grenada (GAO/NSIAD-93-190, July 9, 1993).

operations under the purview of U.S. disbursing officers. This material weakness was first reported by State in 1984 and the target date for corrective action has slipped from 1990 to 1994. The cashiering weaknesses we identified indicate that State has a long way to go in overcoming control problems overseas. For example, at the Embassy in Mexico, we found a failure to ensure cashier supervisors at constituent consulates had completed training, a lack of systematic supervisory visits to the consulates to ensure the integrity of cashiering operations, and inadequate controls over consular collections totaling about $15 million annually.

Other examples of weaknesses include (1) a failure to conduct monthly verifications of the cashier account in Jamaica and discrepancies in financial documentation totaling more than $100,000, attributed to communication problems between the Embassy and State's Regional Administrative Management Center in Mexico City;[7] (2) only partial fulfillment of the requirement for monthly verifications of cashier accounts in Russia and Barbados and a lack of proper verifications at the Embassy in Grenada; (3) inadequate verification of subcashier accounts at Embassies in Russia, Turkey, and Panama; and (4) inadequate control over cashier receipt forms at some embassies. Control weaknesses continued at the Embassies in Mexico and Grenada even after diversions or thefts of funds had occurred.

Another financial control weakness is the failure to adequately monitor the status of travel advances and accounts receivable. For example, the Embassy in Moscow has several thousand dollars in unliquidated travel advances, and until recently, records were insufficient to determine if the advances required follow-up to ensure repayment. Efforts by current Embassy officials to clear these accounts indicate that in some cases employees left the Embassy without paying their outstanding balances. The Embassy's records on current accounts receivable are improved over prior years, but they still contain inaccuracies. Furthermore, several overdue accounts are substantial. For example, a July 1992 charge of $576 for personal phone calls made by a contractor had not been collected as of June 1993.

Recovery of Medical Payments Due to the Government

A significant accounts receivable issue facing overseas embassies involves State's payments for overseas medical services. At State headquarters, the Office of Medical Services, which is responsible for the overseas health program, does not track overseas medical

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[7]Several Latin American posts responding to our questionnaire indicated that they were dissatisfied with the financial management support services provided by the Center in Mexico City.

expenses to determine whether medical insurance benefits are claimed or collected. In addition, State's financial management systems lack an accounts receivable capability to ensure such payments are collected. State data indicate that (1) 15,000 overseas U.S. citizen employees and dependents are eligible for medical expense payments and (2) expenses paid and potentially recoverable total about $1 million annually. Clearly, the government may be losing significant amounts of recoverable medical expenses because of inadequate procedures for tracking and recovery. In addition, inadequate embassy and central systems create opportunities for employees to receive and keep payments from medical insurance companies for medical services that the government paid for.

State authorizes and approves payment for inpatient medical care and related outpatient treatment of eligible overseas U.S. citizen employees and their dependents. Employees and dependents who have medical insurance are required to file claims with their insurers to recover allowable medical expenses that the government has paid and remit the insurance payments to the government. Last year, we found that State did not have reasonable assurances that it was recovering the medical insurance benefits payable to overseas employees and dependents for medical expenses paid by the government.[8] The lack of control is due to inadequate embassy procedures and the lack of centralized State accounting and monitoring systems. For example,

-- Medical payments totaling over $17,000 for an employee at the Embassy in Argentina were made without sufficient records to indicate whether the employee had sought reimbursement from his insurer.

-- Medical payments totaling over $40,000 for four employees at the Embassy in Hungary were made without sufficient tracking and follow-up. The Embassy directed the employees to file claims, but because the employees had left the Embassy or left shortly after they had been requested to file a claim, the Embassy did not know if the employees had filed claims, received reimbursements, or remitted the reimbursements to the government.

-- Nineteen individuals at the Embassy in Russia received authorization for government payments during December 1990 to September 1992. However, Embassy officials said that their records are insufficient to determine what amounts were paid by the Embassy, if employees or dependents made claims from insurers, if reimbursements were received, or if the reimbursements were returned to the government.

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[8] State Department: Need to Ensure Recovery of Overseas Medical Expenses (GAO/NSIAD-92-277, Aug. 7, 1992).

-- State paid for medical treatment of several employees and their dependents stationed in the Dominican Republic between October 1990 and July 1992, but the Embassy did not have a system to identify the amounts paid and ensure that these employees and dependents filed claims with their insurance companies and deposited any reimbursements with its cashier.

We recommended that State develop systems to identify and report on overseas medical expenses paid, claims filed, and amounts reimbursed to the government. State agreed with our recommendation, but to date no corrective action has been taken.

Overall Financial Management Weaknesses

To a large extent, embassy difficulties in exercising adequate financial controls are directly linked to the long-standing inadequacies in State's financial management systems. In 1983, State first reported its financial systems as a vulnerability under the Financial Integrity Act process. Last year, we reported that (1) overall, the financial systems still did not meet applicable accounting requirements, (2) staff were often inadequately trained or not fully qualified, and (3) overseas systems were obsolete.[9] State now estimates that corrective actions on the financial management systems will not be completed until 1999 -- 6 years from now and 16 years after State first reported the problem.

Responses to our questionnaire further illustrate how fundamental some of the problems are and how they affect the embassies' ability to effectively manage their financial operations. About one-third of the embassies indicated that they were dissatisfied with the ability of overseas financial management systems to provide timely information and quick financial updates, and over one-half viewed the systems as inadequate for generating nonstandard, ad-hoc financial reports needed by the embassies. One embassy in Europe noted that the financial management system produces reports related to appropriation accounting but not the type of reports the embassy needs to perform cost analyses.

Because of system weaknesses, embassies typically use and rely on their own unofficial financial data. Developing meaningful summary data from the embassy data is impeded because each embassy prepares its data using different formats and methodologies. This reduces the integrity and accuracy of overseas financial operations. Over 90 percent of the responding embassies said they use unofficial "cuff records" to assist in managing their operations, and about one-half said that these unofficial records are essential to meeting their financial management needs. In addition, some

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[9]Financial Management: Serious Deficiencies in State's Financial Systems Require Sustained Attention (GAO/AFMD-93-9, Nov. 13, 1992).

embassies reported that they do not reconcile the unofficial and official data on a regular basis, or at all.

CONTRACTING AND PROCUREMENT WEAKNESSES

State's overseas contracting and procurement system has also been vulnerable to fraud, waste, and abuse for years. The procurement process was identified by State as a material weakness in 1987 based, in part, on our prior reports. In January 1991, State's Inspector General reported a general failure of overseas personnel to follow procurement regulations and other serious deficiencies.[10] In our October 1991 report to this Subcommittee, we concluded that State's overseas procurement system remained vulnerable[11] and stated that State had initiated limited actions to improve internal controls, but these actions were not fully implemented and some would not be completed for years.

Since 1991, State has made progress in improving its overseas procurement practices so that they more closely conform to good management principles and legal requirements. However, our review indicates that weaknesses continue, including the lack of full compliance with competition in contracting guidelines and procedures, delays in implementing State's automated worldwide procurement information system, and the lack of training for procurement personnel. Thus, the procurement function at many overseas embassies remains unnecessarily exposed to fraud, waste, and abuse.

For example, a number of embassies do not have effective competition advocacy programs. According to State policy, competition advocates at each embassy are to promote full and open competition in contracting, encourage acquisition planning, and provide a formal mechanism for the review and approval of justifications for restricted competition. At some of the embassies we visited, officials could not identify the competition advocate. Only 58 percent of the embassies responding to our questionnaire reported having a competition advocacy program.

The lack of adequate competition advocacy programs has contributed to the failure of some embassies to fully compete or review their contracting actions and prepare and retain required documentation in contract files to justify limited competition. For example, we found there was insufficient competition for some contracts over $25,000 at the Embassies in Mexico and Panama. At several embassies, contract files contained insufficient evidence that the

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[10]Overseas Procurement Operations (State Department Office of Inspector General, 1-PP-004, Jan. 1991).

[11]State Department: Status of Actions to Improve Overseas Procurement (GAO/NSIAD-92-24, Oct. 25, 1991).

minimally suggested three solicitations were made for purchases under $25,000. Lack of advance acquisition planning is another weakness that has affected overseas operations for some time. Nearly 40 percent of the embassies responding to our questionnaire indicated that they did not prepare formal acquisition plans for fiscal year 1992.

Another issue has been the lack of an automated procurement information system to meet federal reporting requirements and manage procurement activities. In 1989, State acknowledged that the lack of a worldwide data base limited its management capability and increased the vulnerability of procurement operations. Although State established a worldwide data base system in 1991, almost one-third of the embassies responding to our questionnaire said that they had not fully implemented the system. Embassy officials cited software problems, the lack of training and expertise, and other reasons for not implementing the system. In addition, many officials believe the system is not useful for management functions and, therefore, are not committed to using it. Frustrated at the lack of an automated State system for managing day-to-day procurement actions, embassies, such as the one in Argentina, have developed their own software systems to monitor pricing and purchasing decisions. However, some embassies such as the Embassy in Turkey continue to record procurement actions on a manual log that makes management oversight difficult.

As part of the Financial Integrity Act process, State first identified weaknesses in the procurement process as a vulnerability in 1987. Weaknesses identified included the lack of training for contracting officers, inadequate acquisition planning, and the lack of a worldwide procurement data base. These weaknesses diminish the Department's effectiveness in managing procurements worldwide, increase the potential for legal problems, and reduce accountability. State's original target date for corrective action was 1991 but it is currently 1993.

WEAK CONTROLS OVER INFORMATION SYSTEMS

Another problem area is inconsistent adherence to State's security standards for unclassified automated information systems. These standards were adopted in 1985 to help secure proprietary information and protect funds, supplies, and materials. We believe that adequate control over automated information systems is also important to counter the threat of terrorist and hostile intelligence activities. Weaknesses we identified at different embassies include a failure to formally designate an information system security officer, a lack of formal training for responsible officers, and a lack of evaluative assessments of system security. State's evaluations of computer security at some embassies have identified significant weaknesses, increasing the vulnerability of operations to the misuse of sensitive data.

TRAINING AND STAFFING ISSUES

Having well-trained staff at overseas embassies is essential to efficient operations. However, we found that staff responsible for key administrative functions have not received necessary training. For example, the supervisory general services officers at the Embassies in the Dominican Republic and Mexico were responsible for contracting and procurement, but they had not received any formal procurement-related training for over 10 years. Several respondents to our questionnaire also indicated that officers in administrative positions have not completed basic State courses for more than 10 years. Nearly 60 percent of the embassies said that they do not regularly identify the training needs of foreign service officers. State's personnel system has been criticized for years as being unresponsive to the needs of the Department for improving its management capability.

Almost 20 percent of the embassies responding to our questionnaire reported that they did not identify, on a regular basis, the training needs of their foreign national staff, even though embassies are highly dependent on such employees for administrative management functions and for ensuring continuity of operations when U.S. staff rotate. Although most questionnaire respondents indicated that their embassies tried to address the training needs of foreign nationals, a significant percentage indicated that the amount of formal training received by foreign national staff has been insufficient. Embassies also reported significant deficiencies in formal management training for real property, including maintenance, personal property, and procurement functions.

Reliance on foreign service national employees for procurement and contracting functions shows how deficiencies in training of these employees can affect embassy operations. We found that foreign service national employees are typically responsible for important steps in the contracting process and that they often perform these duties without sufficient formal training. During our visits to many embassies, we found that the formal training needs of foreign service national personnel having contracting and procurement responsibilities were not being met. Over one-third of the embassies responding to our questionnaire viewed the amount of formal training received by foreign service national personnel as being insufficient to prepare them to perform their contracting and procurement duties.

Embassies also experience frequent staffing gaps in key U.S. management positions, reducing their ability to exercise controls, as the following examples show.

-- Building maintenance suffered because of staffing gaps of 6 months or more in two general services officer positions at the Embassy in Turkey.

-- According to the Deputy Chief of Mission at the Embassy in Russia, staffing gaps of more than four months in budget and fiscal, and general services officer positions, combined with a general lack of a professional administrative support workforce, have contributed to weaknesses in financial, property, and other controls.

-- Staffing gaps in budget and fiscal, and general services officer positions at the Embassy in Poland have made it difficult to provide services to the growing number of non-State personnel.

-- As a result of a staffing gap of over 6 months in the budget and fiscal officer position in Barbados, cashier verifications were not conducted.

Fifteen percent of the embassies responding to our questionnaire reported experiencing significant staffing gaps in the budget and fiscal officer position, 18 percent in the personnel officer position, and 20 percent in the general services officer position. According to embassy responses, the staffing gaps caused delays on some critical tasks, forced staff to assume responsibilities for which they were not trained, and compromised embassies' ability to exercise control functions. The staffing gap problem is compounded by State's overall shortage of skilled foreign service administrative staff overseas. First reported as a material weakness in 1988, State does not anticipate completing corrective action to address the need for more skilled administrative staff until at least 1996.

Our field work and embassy responses to the questionnaire identified other personnel-related issues affecting overseas operations. For example, State, through its embassies, has entered into thousands of contracts with foreign nationals for a variety of services such as gardening, accounting, maintenance, and security. At some embassies, we found practices that were inconsistent with State contracting policy such as not formally certifying the continuing need for contractors before extending contracts, having contracts for 3 years instead of 1 year, and using contractor personnel instead of direct-hires.

Embassies reported that they are frequently experiencing difficulties in supporting other U.S. agencies. Growth in the overseas presence of non-State agencies over the last ten years has added to embassies' management workload. For example, over 75 percent of the embassies responding to the questionnaire reported that the work load of State personnel in support of other agencies had increased either moderately or greatly in recent years. Ten embassies indicated that the current process for controlling the growth in overseas staffing (National Security Decision Directive Number 38) was not an effective tool for embassy management. We are currently reviewing this and related overseas staffing issues for this Subcommittee.

STATE'S EFFORTS TO DEAL WITH MANAGEMENT PROBLEMS

State has supported agencywide improvements by identifying many management areas as high risk or material weaknesses. State has taken, or indicated that it plans to take, actions to improve management, some of which have direct impact on improving overseas operations. For example, State established a central Property Management Office to direct and oversee actions to improve management of personal property and initiated a system to grant procurement authority only to those overseas officers with the appropriate experience and training. To improve overseas facilities maintenance, State's Office of Foreign Buildings Operations expanded its maintenance assistance to overseas embassies and established two maintenance assistance centers in Europe and Washington, D.C. Responses to our questionnaire indicated a high level of satisfaction with the maintenance services provided by all three organizational units.

Individual embassies have also taken actions to improve management. The Embassy in Mexico, in response to our work, enhanced personal property controls, reconstituted its housing board to comply with standards, and designated a competition advocate to ensure competitive contracts. Embassies responding to our questionnaire also identified a wide range of actions designed to ensure competitive quotes for small purchases, reduce overtime and number of contractors, cross-train foreign service national personnel, cut energy and telephone costs, and sell high-cost properties and obtain less costly leases.

Headquarters oversight and management improvement efforts, embassy initiated actions, and periodic inspections and audits are helpful. However, for the following reasons, we are not convinced that current actions can correct the long-standing management problems at overseas embassies.

1. State's efforts to identify areas of vulnerability at overseas locations rely heavily on embassies to assess and report on their management controls. For example, each year, embassies are required to prepare a statement of the adequacy of management controls. In addition, embassies conduct an internal control risk assessment about every three years. However, we found that some of the statements and assessments overstated the quality of control systems or were inaccurate. For example, the statement of management controls prepared by the Embassy in Mexico in 1991 contained some inaccurate information on the controls over cashiering. We also found that the Embassies in Panama and Barbados had overstated the competition sought on contracts and the controls of property.

Embassies need to be more critical as they perform self-assessments and more candid as they report results.

2. Embassy inspections by the Office of the Inspector General occur about every 3-5 years, and audits of specific functions do not typically cover all embassies. Furthermore, in some cases, embassies have in the past promised to take corrective actions recommended by the Inspector General but subsequently failed to fully comply. As a result, even though the inspections and audits are useful, they can not replace aggressive management attention to correcting problems.

3. Frequent rotation of key administrative staff makes it difficult for an embassy to maintain continuity in its efforts to improve management practices. This is particularly true when embassy initiatives are informal or poorly documented. Furthermore, some embassies neglect key control functions due to staffing gaps. For example, the Embassy in Barbados conducted less than one-half of the required monthly verifications of its cashier accounts due to gaps in filling the budget and fiscal officer position.

We believe that each embassy needs to adopt a formal management improvement program. Under such a program, each embassy would periodically identify those areas of management that need attention, develop formal corrective action plans, and ensure follow-up on deficiencies. Full documentation of the management problems, solutions, results, and need for follow-up actions should help incoming managers and administrative staff to ensure program continuity. To complement the actions taken as part of the Financial Integrity Act process, management improvement should be an ongoing process whereby each embassy continually strives to improve its management controls. For example, regular and periodic assessments of progress on management problems and issues would help embassies to correct weaknesses before they result in serious loss or waste.

To improve the chances for program success, ambassadors and other embassy managers need to provide close and regular attention to the program. State should encourage ambassadors to take a personal interest in improving embassy management and administrative functions. To provide a credible framework for overseas improvements, State also needs to change its organizational culture, which in the past has not adequately emphasized good management practices. Such a change would require a formal display of top management's commitment and support for improved management controls.

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This concludes my prepared remarks. I will be happy to answer any questions that you may have.

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