GOVERNMENT ACCOUNTABILITY: EFFORTS TO IDENTIFY AND ELIMINATE WASTE AND MISMANAGEMENT

HEARING

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GOVERNMENT ACCOUNTABILITY: EFFORTS TO IDENTIFY AND ELIMINATE WASTE AND MISMANAGEMENT

THURSDAY, SEPTEMBER 4, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 10:30 a.m. in Room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order.

Today's hearing will examine government accountability and ways to identify and eliminate waste and mismanagement within the State Department and the U.S. Agency for International Development.

The fiscal year 2004 budget resolution requires each congressional Committee to identify waste, fraud and mismanagement in mandatory spending programs in their jurisdictions and report their findings to the Budget Committee.

The purpose of this hearing is to examine the mandatory programs for which the Committee on International Relations is responsible and identify where those programs are vulnerable to waste, fraud and mismanagement. More specifically, the Budget Committee has directed this Committee to find savings of $100 million in fiscal year 2004, $599 million over the next 5 years and $1.289 billion over the next 10 years.

These savings are to be found in mandatory programs, which is spending not controlled by the annual appropriations process. These are not to be confused with the discretionary programs, whereby government agencies must justify their spending before this Committee and the Appropriations Committee each year.

This Committee has jurisdiction over Budget Function 150, International Affairs accounts. Based on the Congressional Budget Officer's review, the 150 account has very little money that is designated as mandatory funds. The designated mandatory accounts take the form of one of the following:

(1) State Department and USAID foreign service retirement and disability funds; (2) Various accounts related to credit programs, such as OPIC, EXIM Bank, food aid, et cetera; and (3) Trust funds, with most of them being small, with the exception of one very large one, foreign military sales.

The credit programs and the foreign military sales trust fund do not represent money that is appropriated by the U.S. Government.

The $10 billion in the foreign military sales trust fund is money that foreign governments are required to deposit with the U.S. Government in advance of receiving delivery of U.S. military sales. Thus, it may be argued that these programs should be exempted from the targeted cuts since the accounts do not include U.S. appropriated monies.

Therefore, only the State Department and USAID foreign service retirement and disability funds appear to be sources for program reduction as required by the budget resolution. It is likely that this Committee will need to look beyond the mandatory spending in the 150 account in order to meet the Budget Committee's targeted levels.

On the discretionary side, Function 150 funds the operations of the State Department and USAID both domestically and at the overseas posts, U.S. international broadcasting, U.S. foreign assistance and U.S. security assistance programs, the Peace Corps, and U.S. participation in international organizations.

The President's fiscal 2004 request for foreign affairs spending is $28.5 billion. This Committee reviewed this budget request at a hearing with Secretary Powell in February of this year. In large part, the budget is authorized at or above the President's request in H.R. 1950, which incorporates the Millennium Challenge Account, the Peace Corps, Security Assistance and State Department operations. The House has passed this bill, and it is now pending in the Senate.

We have asked the State Department and the USAID to testify today about the ongoing efforts to combat waste, fraud and mismanagement in their respective programs and to recommend legislative changes that may further these efforts.

Actually, demanding accountability from our foreign aid programs is not such a new idea. In the past and most recently in the 107th Congress, I introduced a bill called the Foreign Aid Effectiveness Act, which required the President to describe the actual results of U.S. foreign assistance relative to the goals and identify the most and least successful foreign assistance programs.

Elements of this initiative were incorporated in Millennium Challenge Account legislation, which was ultimately passed by the House as part of H.R. 1950, and it, too, rests comfortably in the other body.

While I am proud of the work this Committee does on a regular basis concerning oversight on these important issues, I am hopeful that today's hearing will shed light on other ways we may play a broader role in eliminating mismanagement in the government. To that end, we should all have as a common goal spending the tax dollars most effectively.

I now turn to my learned colleague, Mr. Lantos, for any remarks he may wish to make. Mr. Lantos?

[The prepared statement of Mr. Hyde follows:]

PREPARED STATEMENT OF THE HONORABLE HENRY J. HYDE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS

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More specifically, the Budget Committee has directed this Committee to find savings of $100 million in fiscal year 2004, $599 million over the next 5 years, and $1.289 billion over the next ten years (2004–2013). These savings are to be found in mandatory programs, which is spending that is not controlled by the annual appropriations process. These are not to be confused with the discretionary programs, which government agencies must justify their spending before this Committee and the Appropriations Committee each year.

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We have asked the State Department and USAID to testify today about the ongoing efforts to combat waste, fraud and mismanagement in their respective programs, and to recommend legislative changes that may further these efforts. Actually, demanding accountability from our foreign aid programs is not such a new idea. In the past, and most recently in the 107th Congress, I introduced a bill called the Foreign Aid Effectiveness Act which required the President to describe the actual results of U.S. foreign assistance relative to the goals, and identify the most and least successful foreign assistance programs. Elements of this initiative were incorporated in the Millenium Challenge Account legislation, which, was ultimately passed by the House as part of H.R. 1950.

While I am proud of the work that this Committee does on a regular basis concerning oversight on these important issues, I am hopeful that today's hearing will shed light on other ways that we may play a broader role in eliminating mismanagement in the government. And to that end, we should all have as a common goal expending the tax payers dollars most effectively.

Mr. LANTOS. Thank you very much, Mr. Chairman. Let me welcome you back from the August recess and express my great pleasure at how wonderful you look.

Chairman HYDE. Considering.

Mr. LANTOS. During the Carthaginian wars, Mr. Chairman, the great Roman orator finished every speech by saying: "Ceterum censeo Carthaginem esse delendam," which for those who are not fluent in Latin means in addition to everything else I have said, I want to be sure that Carthage will be destroyed.

In a sense, this hearing brought back that memory of that phrase which I learned at age 10 because to be against waste, fraud and mismanagement is a sort of ritualistic incantation, and it has never hurt anybody to participate in it.

We have a duty to insure that the tax dollars of hardworking American families are not squandered by acts of incompetence or malfeasance at the agencies under our jurisdiction. We must insist that the State Department and its sister agencies employ the very best practices available to manage the personnel, procurement and technology in a way that will improve morale and efficiency.

In the service of this goal, I, of course, support your decision to hold this hearing, but in the interest of full transparency, as you indicated, Mr. Chairman, earlier, I think it is important to note that the International Relations Committee, like all other House Committees, has been directed to hold this hearing, and I think the lack of media coverage and the paucity of attendance is an indication that plenty of people view this hearing as a proforma hearing which we are undertaking at the direction of the House leadership.

This set of hearings, of course, is designed to underscore that there is fiscal responsibility in this body. However, it is hard to demonstrate fiscal responsibility in view of the fact that we are engaged in a major war, a global war against terrorism and the specific war in Iraq, while huge tax cuts have been made available to the wealthiest citizens of the United States.

As I have expressed my view on this subject many times, Mr. Chairman, I will merely make a brief observation here. I find it outrageous that this Congress has granted huge tax cuts to our nation's wealthiest citizens, who apparently must make no sacrifice whatever as our nation battles global terrorism, in contrast to the brave men and women who serve our nation overseas in the military and, I might add, in the Diplomatic Service.

That segment of our population is not only asked to contribute nothing to this effort, but are being given new, additional tax benefits of gigantic proportions. As our men and women in the armed forces are bravely defending our nation's interests in Afghanistan, in Iraq and across the globe at great personal risk and occasionally at the cost of their lives, I find it very difficult to be serious about our effort here to find waste, fraud and mismanagement in these agencies. As a matter of fact, while I am sure there is waste, fraud and mismanagement, I do not think holding yet another hearing on this subject will pragmatically do much good.

I also believe, as you have demonstrated, Mr. Chairman, with your statesmanlike and extraordinary leadership of this Committee, we need to devote considerably greater resources to the conduct of foreign affairs by this government. We still only devote 1 percent of the Federal budget to foreign affairs.

In the 1960s, an infinitely less threatening period in our nation's history, 4 percent of our budget was devoted to foreign affairs. It is difficult to argue that in this climate, with all the horrendous difficulties in the international arena of public diplomacy, and today's stories in the papers only underscore this, the problem is not "waste, fraud and mismanagement," but the problem is how to get the additional resources to our foreign affairs function to do the job.

The Administration will be asking us shortly for an additional $60 billion to conduct the war. I will fully support that measure, as I have supported the President on his efforts in Iraq, but I think it is important to underscore that it would be just as important to provide our State Department and other agencies with greater resources to do the job that they have to do.

Under your leadership, Mr. Chairman, our Committee has reversed this trend of going from 4 percent to 1 percent of the Federal budget devoted to foreign affairs. Under your leadership, we have approved bills increasing the number of foreign service officers, the security of our diplomatic facilities abroad, and with your leadership again the funding levels for international HIV/AIDS programs and foreign assistance.

We must do much more. As our experience in Afghanistan and Iraq have shown us, we must have robust diplomatic, economic and humanitarian capabilities to win the war against terrorism in the non-military sphere. Therefore, Mr. Chairman, I hope that the information that we will glean from today's hearing will be used in a continuing effort to build up our foreign affairs agencies and not as an excuse to further erode their bare-bones budget.

I look forward to hearing the testimony of our distinguished witnesses.

Chairman HYDE. Thank you very much, Mr. Lantos.

We are very pleased to have with us today Christopher Burnham, the Assistant Secretary for Resource Management and Chief Financial Officer of the Bureau of Resource Management at the State Department.

He has a well-rounded background in both the private and public sectors and most recently served as Chief Executive Officer of a leading asset management and mutual fund company, PIMCO's Columbus Circle Investors, and as Vice Chairman of PIMCO's mutual fund group. In 1994, he was elected Treasurer of the State of Connecticut and also served as Assistant Minority Leader in the Connecticut House of Representatives. He is a graduate of Washington Lee University and holds an MPA from Harvard.

We are very pleased to have you today, Mr. Burnham.

We are also pleased to welcome Ambassador Anne M. Sigmund, the Acting Inspector General of the Department of State.

Prior to her current assignment, she served as Ambassador to the Kyrgyz Republic from 1997 to 2000. During her foreign service career, she has held positions in public affairs in Belgrade, Tegucgalpa and Warsaw, as well as numerous other assignments in Leningrad, Moscow, Managua, Budapest and Buenos Aires.

She received her degree from the University of Kansas and holds a Master's Degree in Russian Studies from the University of Wisconsin at Madison. We extend a very warm welcome to you, Ambassador Sigmund.

Mr. John Marshall is the Assistant Administrator of the Bureau for Management of the U.S. Agency for International Development. He is responsible for human resource management, accounting and financial management, procurement policy and operations, information technology and overseas support.

Mr. Marshall has extensive experience in both the government and private sector as a consultant, manager and executive. Before joining USAID, he was a leader of IBM's government consulting practice. He also served as a senior advisor to the Chairman of the U.S. Senate Committee on Governmental Affairs, as CEO of the Federal Crop Insurance Corporation and in appointed positions in President Reagan's Office of Management and Budget. Mr. Marshall obtained both his Bachelor of Arts and MBA from the University of Virginia.

Welcome, Mr. Marshall.

Mr. Everett Mosley joins us today. He serves as the Inspector General at the United States Agency for International Development. The Office of Inspector General is responsible for audit and investigation activities within USAID, the African Development Foundation and the Inter-American Foundation. The office supports the activities of aid, emphasizing efficiency and effectiveness of programs and detecting and preventing fraud, waste and abuse.

Mr. Mosley has served in the U.S. Government for over 30 years, and prior to joining USAID he was an auditor for more than 25 years with the U.S. Department of Agriculture, Office of Inspector General. He then served as Deputy Assistant Inspector General for Audit with USDA from 1988 to 1994, after which he was selected as Deputy Inspector General for USAID.

A graduate of Grambling State University in Louisiana with a degree in Accounting, he furthered his studies at the Federal Executive Institute and now serves on the Advisory Council on Government Auditing, as well as on the Board of Directors for the International Consortium of Government Financial Management. He is a Certified Fraud Examiner and a Certified Government Financial Manager.

Thank you for joining us, Mr. Mosley.

The final member of our panel today is Mr. Jess Ford. He is Director of International Affairs and Trade for the General Accounting Office. He first joined GAO in 1973 and has held numerous positions in Washington and the Far East. He has worked extensively in the international affairs area concerning trade, foreign assistance and foreign policy issues.

He has managed GAO audits for the Agency for International Development, the State Department and the Department of Defense. He has held numerous important positions in the GAO. In 1994, he was selected into GAO's Executive Candidate Program and subsequently was appointed Associate Director for National Security Analysis Issues.

Mr. Ford has received many awards throughout his GAO career, including the Meritorious Service Award and the Distinguished Service Award. He graduated cum laude from Hiram College with a Bachelor's Degree in Political Science. He then received his Master's Degree in International Relations from the Fletcher School of Law and Diplomacy. He is also a graduate of the National War College.

Thank you for joining us, Mr. Ford.

We are honored to have all of you appear before the Committee today, and if you will confine your remarks to 5 minutes, give or take, so that there will be time for questioning. Your full statement will be made a part of the record.

With that introduction, Mr. Burnham?

STATEMENT OF THE HONORABLE CHRISTOPHER BURNHAM, ASSISTANT SECRETARY FOR RESOURCE MANAGEMENT AND CHIEF FINANCIAL OFFICER, BUREAU OF RESOURCE MANAGEMENT, U.S. DEPARTMENT OF STATE

Mr. BURNHAM. Mr. Chairman and Members of the Committee, thank you so much for inviting me here today. It is a great honor. Thank you.

Let me just address one quick thing that Mr. Lantos spoke of in saying that this is not a proforma hearing. Certainly it is not a proforma hearing, but nor is it a proforma task. It is a serious task that we take seriously over at the State Department, which is not just waste, fraud and abuse. It is also more in the area that my bureau gets into, which is how do we bring effective and efficient programs and spending of the people's money to the State Department. It is also effectiveness and efficiency that we need to address.

I want to also thank, Mr. Chairman, my colleague, Ambassador Sigmund, who is here today. Ambassador Sigmund is leaving the State Department after 33 years. She is retiring, and I am going to tell you it is a big loss to us and a big loss to the people of this nation because she has been an exceptional steward of the public trust. We will certainly miss her.

Mr. Chairman, I am the first Assistant Secretary of the Bureau of Resource Management, and I bring together the budgeting, the global financial operations, dispersing, accounting, foreign assistance, strategic planning, and the budget and performance integration.

Over 2 years ago, the President and Secretary Powell tasked me with insuring that the budget decisions we make are done so on a sound business planning and accountability basis. Here is how we are going to accomplish that mission:

Driving the process from the top are senior reviews each spring, chaired by Mr. Armitage, that determine in depth the business plans of each bureau and operating unit. At these reviews, Assistant Secretaries, as well as Undersecretaries, must not only justify their request for the next fiscal year, but also explain successes and failures in the previous fiscal year.

In the world I come from, the ubiquitous measurement of success is return on equity, or ROE. No less demanding at the State Department, we call it return on effort, and it is this return that Secretary Armitage and all of us seek in the tough reviews that he leads.

Earlier in the year, my leadership team and I reviewed each Embassy business plan. These business plans, along with the bureau business plans, become the basis of the department's business plan or performance plan, which we are about to submit to OMB tomorrow, along with our 2005 fiscal year budget request.

To emphasize the kind of focus Secretary Powell places on this effort, before we arrived two people were tasked with overseeing this top-to-bottom process. Today, we have 16 individuals working full-time on budget planning, performance and integration. These are the building blocks that will give the department's leadership and the congressional leadership the tools to make informed budget and program decisions based in part on the return we are giving to the investment made.

Other tools we use to insure that we are not wasting or mismanaging our investors', the taxpayers', money is through the Management Control Steering Committee, which I chair. The committee reviews all items raised by the Inspector General or others of a material nature or of risk of becoming a material weakness for the department.

Each year, department organizations with material weaknesses or reportable conditions are required to submit corrective action plans to the committee for review and approval. These plans, combined with the individual ambassador assurance statements, provide the framework for monitoring and improving the department's management controls on an ongoing basis. Clearly, the annual review of our financial statements by the IG and the independent outside auditor is also a critical tool in insuring careful stewardship of the public trust.

Let me also address perhaps our biggest potential area of savings, a relationship with USAID. First let me say what a pleasure it is to have my colleague, John Marshall, here. He shares the vision for efficiency, effectiveness and savings to the American taxpayer.

This past year, the Department of State has created a new strategic planning framework that brings greater clarity, direction, and alignment to the department's vision. For the first time, the department and the U.S. Agency for International Development have developed a consolidated strategic plan framework. The new strategic plan covers the fiscal years from 2004 to 2009 and will be updated every 3 years.

USAID participates in almost all senior reviews that Mr. Armitage shares, as we do in Administrator Natsios' reviews of the operating units of USAID. John Marshall and I both co-Chair a steering committee that will integrate our financial systems over the next 3 years, so we have a common financial platform.

I will try and be quick here, Mr. Chairman. Tomorrow, Grant Green and Deputy Administrator Fred Sheck launch a new management council, which will review the programs where we can find and seek greater efficiency and effectiveness between us and USAID. Undersecretary Mark Grossman will lead on the policy side.

In closing, Mr. Chairman, let me give you a brief report card. On the President's management agenda, we are red on status on both financial and performance integration and improved financial performance, but we are green on progress. We expect to be yellow by the end of next fiscal year on both.

We have had six clean financial auditor opinions, and we expect a seventh here after we submit our financials on December 15. Our performance and accountability report, the annual report of the department that reports to you and to the American people how we have done in implementing our business plan, has won two awards including the highest award in government accounting by the Association of Government Accountants. It is called the CEAR award, the Certificate of Excellence in Accountability Reporting. We were one of three Cabinet level agencies to win that award again this year.

We completed over the Labor Day holiday the implementation of a new global financial management system to over 250 locations around the world that reduce two Legacy accounting systems to one, which will contribute greatly to our ability to follow the money and to integrate budget planning and performance so we can report to the Secretary, report to you, Mr. Chairman, and to the Members of this Committee exactly what we are doing with your money and with the programs you approve.

Finally, we are in the process of consolidating financial operations down in Charleston, South Carolina. We have eliminated 109 jobs over in Paris, mostly foreign service nationals. We have moved 88 of those jobs to Charleston, South Carolina, for a net savings of 21 jobs and approximately $1.2 million.

There are other savings, which I think you will find when you examine more closely the State Department. Let me just highlight in closing one of them. We have the George S. Patton of overseas building operations in General Chuck Williams. General Chuck Williams in the last year alone saved $61 million by bringing private sector business practices to how we go across the globe building new, more secure facilities for the men and women of the State Department and for other government agencies.

With that kind of attention, that kind of business practice and that kind of savings, over $200 million over the last 5 years, this is where we are going to find the money. The money that you need and this committee needs so we can continue to meet the commitments of this nation.

Thank you.

[The prepared statement of Mr. Burnham follows:]

PREPARED STATEMENT OF THE HONORABLE CHRISTOPHER BURNHAM, ASSISTANT SECRETARY FOR RESOURCE MANAGEMENT AND CHIEF FINANCIAL OFFICER, BUREAU OF RESOURCE MANAGEMENT, U.S. DEPARTMENT OF STATE

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to appear before the House Committee on International Relations to address the Department of State's efforts to identify and eliminate waste, fraud, abuse and mismanagement, and any cost saving reviews that are in process.

I am the first Assistant Secretary for the Bureau of Resource Management. The bureau was created in this Administration from elements in different parts of the Department to provide for a more systematic budget review process, link performance to the budget process, and achieve other economies and efficiencies. As you know, efficient management of the Department is a high priority of the Secretary, Deputy Secretary, and Under Secretary for Management and my Bureau is empowered to carry out this mandate.

I will highlight in my testimony sound examples of what we are engaged in to make the most efficient use of the funding that the Congress authorizes to accomplish the Department's goal to create a more secure, democratic and prosperous world for the benefit of the American people and the international community.

We are committed to being vigilant stewards of the taxpayers hard earned dollars and will endeavor to strive to increase our efforts in this noble cause.

SUMMARY

I will divide my testimony into three parts. They are the Department's:

- Efforts to Eliminate Fraud, Waste, and Mismanagement
- Cost Savings Efforts
- Status toward Achieving "Green" in the President's Management Agenda

We have many initiatives in process that are contributing to a better-managed organization—one where leadership and state-of-the-art technology receive the highest consideration and recognition.

I). DEPARTMENT'S EFFORTS TO ELIMINATE FRAUD, WASTE, AND MISMANAGEMENT

A). Management Control Program

The Management Control Steering Committee (MCSC) oversees the Department's management control program. The Committee is chaired by myself and is composed of nine other Assistant Secretaries (including the Chief Information Officer and the Inspector General (the OIG is 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 (OIG) and/or the General Accounting Office (GAO) conduct reviews, audits, inspections, and investigations.

Each year, Department organizations with material weaknesses are required to submit corrective action plans for the weaknesses, to the Committee for review and approval. These plans, combined with the individual assurance statements, provide the framework for monitoring and improving the Department's management controls on an on-going basis.

B). Status of Management Controls and Material Weaknesses and Nonconformance

The Department evaluated its management controls for the fiscal year ending September 30, 2002. This evaluation provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act (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. No new material weaknesses were identified. Since there were no outstanding material weaknesses, the Secretary of State provided an unqualified Statement of Assurance for FY–2002 regarding the Department's systems of management control.

During the past five years, the Department has made significant progress by reducing the number of material weaknesses from twelve to zero, including the closure of fourteen 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 Department will soon complete its evaluation of its management controls for the fiscal year ending September 30, 2003.

C). Independent Audit of the Department's Financial Statements (6 Clean Opinions)

The Department's FY–2002 financial statements received an unqualified opinion—the sixth consecutive year that the Department's financial statements have achieved such an opinion.

The Department's Performance and Accountability Report (PAR) for FY–2002, which includes the Statements, Auditor's Report, and Performance Report was submitted to the Office of Management and Budget (OMB) by the required February 1 due date. The PAR provides meaningful financial and program performance information about the Department of State. Publication of the PAR is an integral part of our efforts to improve our accountability to our customers, constituents, and the public. The Association of Government Accountants (AGA) has awarded the *Certificate of Excellence in Accountability Reporting* (CEAR) to the Department for its FY–2002 Performance and Accountability Report. The CEAR Program is the preeminent award for accounting and reporting in the Federal government. This is the second consecutive year that the Department has received this prestigious award. This year, only three cabinet departments won the award, (and four other non-cabinet level USG agencies). Further, State's FY–2002 PAR received a citation for "most improved report" on the Mercatus Center's annual *Performance Report Scorecard*, which evaluated reports from 24 CFO Federal agencies.

The Department also received recognition for its annual report (Highlights' version) in a head-to-head competition with the private, state and non-profit sectors. Each year the League of American Communications judges the best 100 annual reports in America known as the "Vision Awards Annual Report Competition." This year more than 900 entries were submitted. From this group, the Department of State was ranked first out of all government entrants, and fourth overall. In achieving this, the Department's annual report placed ahead of such companies as Dell, Citigroup, Lockheed Martin, Caterpillar, General Electric, Booz Allen Hamilton, and Coca Cola.

The Independent Auditor's Report on our financial statements brings to management's attention four significant internal control weaknesses. The four weaknesses concern security over the information system networks for domestic operations, the adequacy of controls over the management of Unliquidated Obligations (ULO), the adequacy of the Department's financial and accounting systems, and implementation of managerial cost accounting standards. The auditor's report acknowledges that significant progress has been made on the first three weaknesses, but that additional work remains.

Going forward, the Department is installing a comprehensive framework and process for lifecycle management of Information Technology (IT) security. The framework and process will provide for continual evaluation and improvement. Our efforts to address this weakness include periodic meetings with OIG staff, the independent auditors (Leonard G. Birnbaum and Company), senior managers in the Bureau of Information Resource Management and our office. The purpose is to identify and coordinate actions needed to resolve the weakness and monitor progress. Beginning in March 2003, we periodically provide a status of these efforts to the OMB as part of our reporting on the President's Management Agenda (PMA). Also, we have included this initiative in our FFMIA Remediation Plan. The Department is hopeful that our collaborative efforts will result in the status of this weakness being downgraded to a reportable condition by no later than June 2004.

The weaknesses in the Department's financial management systems are a longstanding problem. Substantial compliance with FFMIA is a top priority of the Department, and improvement initiatives to achieve that goal are well underway. As required by FFMIA, the Department submitted our initial Remediation Plan to OMB in March 2000, and an updated Plan in October 2001. The Department has completed a significant portion of the Plan, including the installation of the worldwide RFMS to replace our overseas financial systems.

Strengthening the management of Unliquidated Obligations is an important financial management initiative. As mentioned in the Independent Auditor's Report, the Department has made significant improvements in this area. The ULO System was implemented in FY 2000. We use this system to facilitate the reconciliation, monitoring, reporting and oversight of ULOs worldwide. Data in the system is analyzed in various strata and reports to facilitate the review and management of open items. These processes were expanded on during FY–2003. We continue to develop reports and procedures to use in working with offices to improve the management of ULOs.

Implementation of Managerial Cost Accounting Standards (MCAS) is an important financial management initiative. The Department is making reasonable progress in implementing MCAS, but acknowledges that additional work is needed to fully comply with these standards. To address MCAS requirements and account for expenditure information necessary for budgeting information and performance measurement, the Department is developing a Central Financial Planning System (CFPS). CFPS, which is included in our FFMIA Remediation Plan, will enable the timely and accurate reporting of cost information and associate that information with budget, strategic goals, and program outputs.

D). Mission Performance Plan (MPP) and Bureau Performance Plan (BPP) Process

The process begins at the individual mission level with the Mission Performance Plan (MPP), rolls up into the Bureau Performance Plans (BPP), and eventually is summarized into the Department's Performance Plan. The Senior Review process provides the means to review the Department's programs as a whole. During the Senior Review the Deputy Secretary of State personally assesses Department-wide priorities and looks for all opportunities to maximize efficiency.

Through the Department's strategic planning and budgeting processes the Department is carrying-out policy priorities based on the most effective allocation of resources. We are working to develop clear measures of success, as accountability is paramount to ensuring that taxpayer dollars are used wisely and efficiently. This is essential to serve our country's interests in and the Department's mission to create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.

1). Department Strategic Plan

This past year, the Department of State has created a new Strategic Planning Framework that brings greater clarity, direction, and alignment to the Department's vision. For the first time, the Department and the U.S. Agency for International Development (USAID) have developed a consolidated Strategic Planning Framework. The new Strategic Plan covers FYs 2004–2009 and will be updated every three years.

We have made significant improvements to streamline the plan. Four overarching Strategic Objectives cover the major areas of work involved, with twelve Strategic Goals linked to them. Relevant outcome oriented performance goals, closely linked to the Strategic Goals that address the Department's progress in achieving its objectives on an annual basis, are also included in the new framework.

2). Mission Performance Plans

Development of the Mission Performance Plan (MPP) is the first critical step in the Department's annual planning and budgeting cycle. Each Embassy prepares its annual MPP that essentially functions as its business plan for all Agencies under Chief of mission authority at post. Regional and functional bureaus use the MPPs to develop their Bureau Performance Plans (BPPs), and to support their policy, program, and resource requests at the annual Senior Policy, Performance and Resource Reviews chaired by the Deputy Secretary. MPPs are authoritative U.S. Government strategy documents prepared annually and covering all agencies at a post on the basis of the goals set forth in the Department of State Strategic Plan.

3). Bureau Performance Plans

Bureau Performance Plans are a key component of the planning process and serve as the basis for the interagency annual Senior Policy, Performance and Resource Reviews chaired by the Deputy Secretary. They are also used in the preparation of Department-wide performance plans and the annual combined performance and accountability report, as well as for budget submissions sent to OMB and the Congress, including Foreign Operations and State Operations resource requests. They contain important information on the Department's staffing requirements and hiring plans. In preparation for the annual Senior Policy, Performance, and Resource Reviews, I chair individual sessions with bureaus to ensure the best bureau business plans are put forth to the Deputy Secretary.

4). Senior Reviews

Each summer, the Deputy Secretary of State chairs the Senior Policy, Performance and Resource Reviews that focus on current year Bureau accomplishments in support of Strategic Objectives, Strategic Goals, and Programs of the Department and resource decisions for the budget year. The Senior Policy, Performance and Resource Reviews involve clarification of Bureau goals and program initiatives for the plan year, budget year, and out-year. Prioritization of requested resources and alignment with goal priorities is also assessed. The sessions address crosscutting issues and other major initiatives that require coordination among Bureaus and other agencies. Senior Department managers and officials from other government agencies participate on the review panels. As part of this process, the Deputy Secretary also examines the USAID plans and resource requests.

Follow-on reviews with each Bureau are conducted after the Senior Reviews. The purpose of these reviews is to provide the Bureaus the opportunity to respond in more detail to issues developed through the Senior Review process and provide further clarification and prioritization of critical resource requirements.

E). Regional Financial Management System (RFMS) (Moving toward One World-wide, Integrated Financial Management System)

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 and FFMIA at this time. The Department has developed a Remediation Plan (Plan) to resolve this issue by FY–2004.

The cornerstone of the Plan is implementation of the RFMS. Development and implementation of RFMS supports the Department's goal of integrating and standardizing worldwide financial and information systems, and establishing a single, integrated worldwide financial management system. RFMS reduces the number of overseas financial systems from two to one, incorporated State's standard account code structure, and enables financial transactions to be standardized between RFMS and Department of State's Central Financial Management System (CFMS), which will result in consistent processing and recording of financial data worldwide. RFMS was implemented on-schedule and our worldwide implementation is complete.

F). Travel Card Program

RM has monitored misuse of the travel card since June 2002, when the oversight office began data mining to review every purchase made by the Department's travelers for high-risk items (e.g., jewelry stores, massage parlors, escort services, gambling transactions, ticket agencies, and cash advances greater than $7,500). If one of these categories was found, the Bureau Program Coordinator (BPC) was immediately notified and asked to counsel the employee. Beginning July 2003, RM and Citibank have blocked the Merchant Category Codes for all items not directly related to travel. This was done not because the Department had a pattern of misuse, which it does not, but to protect Citibank and the Department against fraud through identity theft.

To reduce internal control vulnerabilities and address the issues raised by the OIG, including those concerning oversight of the 60-day past due category of delinquencies, duplicate account holders, and the failure to cancel accounts, the oversight office has begun 1) drafting new policies and procedures (currently being circulated for approval by OIG, Bureau of Diplomatic Security, and Bureau of Human Resources) which better define misuse and delineate more clearly the roles of BPCs in reducing delinquencies, 2) data mining for duplicate and departed employee accounts, 3) to improve training of Financial Management Officers at the Foreign Service Institute, 4) developing a training program for domestic BPCs, and 5) centralizing the travel card regulations and step-by-step procedures on a newly created Travel Card Program Intranet Homepage.

II). COST SAVINGS EFFORTS IN THE DEPARTMENT OF STATE

A). Consolidation of Financial Operations at the Charleston Financial Services Complex

The process for closing the Department's Financial Service Center (FSC) in Paris, France, is on schedule to be completed by December 2003. This will result in the elimination of 109 State Department (Foreign Service Officer (FSO), Foreign Service National, and contractor) positions in Paris. The movement of most of the work previously performed in Paris to the Department's FSC in Charleston, South Carolina will necessitate International Cooperative Administrative Support Services (ICASS) funding for only 88 (FSO, General Schedule, and contractor) new positions in Charleston. While there will be budget increases in Charleston related to the increase in personnel, travel, facility operations, and workload, we are currently on target to realize our goal of $1,200,000 in annual savings from the consolidation of these operations.

B). USAID/State Financial Systems Integration Collaboration Project

- State and USAID are working together to implement a shared financial management system for the beginning of FY–2006, as recommended by a study commissioned by State and USAID.
- The Joint Financial Management System (JFMS) will combine the State Global Financial Management System (GFMS) and USAID Phoenix projects into one, common financial management platform.

During the interim transition period to the joint platform, both State and USAID will continue their deployments of their respective financial systems, cognizant of the JFMS project activity in the establishment of the joint platform for FY–2006. Any redundancies will be minimized and all investments during the interim period will be scrutinized for compliance with the joint platform. This will result in each agency being better equipped to reach their financial Performance Goals for the GFMS and Phoenix projects during FY–2004 and FY–2005, while at the same time, moving forward on the deployment of the collaborative system for FY–2006.

In addition, through a unique agreement with the Commercial Off-the-Shelf (COTS) software supplier, many of the custom State/USAID features developed as part of this project have been base-lined into the software for reuse by other federal departments. This will reduce both State and USAID long-term maintenance costs, as well as provide benefit to other federal agencies requiring these capabilities.

C). Joint USAID / State Enterprise Architecture

Implementation of the Joint USAID/State Enterprise Architecture provides a rational means for accruing cost savings through the simplification and unification of effort across the two agencies and among bureaus. From a business perspective, the target section of the Enterprise Architecture is being developed from the analysis of each agency's business functions. Savings will be accrued as similar business functions currently performed separately by each agency, are integrated into single units that are responsible for both agencies. Financial functions are an example.

The Joint Enterprise Architecture Goal is to provide a Joint Enterprise Architecture "as-is" with a modernization blue print for financial management by September 2003, and a complete and integrated modernization blue print (for all business functions) by the end of FY–2005.

The lines of business to be pursued following the financial management initiative will be decided by the Joint Management Council, with representatives from both USAID and State. Given the importance to and impact on both agencies such decisions must be made in a senior level forum with participation by both agencies. We are working with USAID to develop a common procurement system.

Each of these collaborative efforts asks State and USAID to examine how they currently operate, identify operational gaps and strengths, and implement mutual strategies that advance their business processes.

D). Joint USAID / State Policy and Management Councils

The triennial Joint State/USAID Strategic Plan and its implementation is well underway and provides the opportunity for greater collaboration between the agencies on a number of policy and management issues. As part of this coordination effort, the Department has established the State/USAID Joint Management and Policy Councils to include the implementation of joint policy recommendations into Department operations and explore the integration of State/USAID's annual planning processes and systems.

E) Scrubbing the FY–05 Budget Submission

In addition to the MPP/BPP process and the Deputy Secretary's Senior Reviews that I have already described, the Department subjected all FY–2005 bureau plans to rigorous Budget Reviews.

- I led Budget Reviews following up on issues raised in the Senior Reviews, and scrubbed resource requests to eliminate waste and duplication.
- These hearings provided a crosscut to identify common requirements, areas of overlap, and possible economies. For example, they questioned several regional bureaus (EUR, AF, and NEA) about rightsizing and possible regionalization of support services through the Creekbed facility being planned for Frankfurt, Germany.

III. PRESIDENT'S MANAGEMENT AGENDA (MOVING TOWARD "GREEN")

The Department of State has been a full and enthusiastic participant in the President's Management Agenda (PMA) since President Bush first announced the PMA in the summer of 2001. Like all agencies, we started with a mostly "red" scorecard. Over the first two years of the PMA, however, we have moved to "green" on progress for all PMA initiatives except Competitive Sourcing, and for that we have a "yellow." Our status or baseline scores are still "red," except for the "yellow" we received last quarter on Human Capital, but we believe we are getting close to improving several of them in the near future. I am especially proud of State's progress on the two PMA initiatives for which I am responsible: Improved Financial Performance and Budget and Performance Integration. Both of these initiatives have had "green" scores for progress for several quarters, and the substantive achievements under both are impressive. We have also made significant progress in E-Government, principally and I think most importantly on IT security—an area that impacts virtually everything the Department does worldwide and affects our Financial Performance scorecard. While our progress on Competitive Sourcing has not been as rapid as other agencies, State now has in place the resources and human infrastructure to move us forward on this PMA initiative.

So on balance, Mr. Chairman, I believe State has good news to report on its work thus far on the PMA, and I have no doubt that we will be in mostly "green" territory by this time next year.

Mr. Chairman, this completes my prepared statement. I am prepared to answer any questions that you or members of the committee may wish to raise at this time.

Chairman HYDE. Thank you very much, Mr. Burnham.

Ambassador Sigmund?

STATEMENT OF THE HONORABLE ANNE M. SIGMUND, ACTING INSPECTOR GENERAL, U.S. DEPARTMENT OF STATE

Ms. SIGMUND. Mr. Chairman, Members of this distinguished Committee, thank you for the opportunity to review the State Department's management controls and to discuss the department's efforts to use the resources entrusted to its care efficiently and effectively. I am pleased to note that the department's leadership has exhibited a strong commitment to establishing accountability so that these resources are given proper and careful oversight.

The department receives significant resources for acquisition, construction and leasing of property to provide chanceries, consulates and housing for U.S. Government employees serving our country abroad. Under General Chuck Williams' careful leadership, OBO has established effective procedures and sound management controls to insure that fraud does not occur when buying and selling real property.

The department actively seeks to identify vacant, excess or underutilized properties. Each chief of mission, for example, is required annually to certify that he or she is not holding excess property. At every post it inspects, the Office of Inspector General independently validates whether there are excess or underutilized properties and determines what the department and post are doing to dispose of them.

It is the department's policy to sell vacant, excess and underutilized property. Currently, the department reports that it has 39 vacant properties valued at approximately $70 million. These are in various stages of disposition, and in the last 5 years the department has sold 137 properties for almost $365 million.

In the area of information technology, OIG has focused on the department's vulnerabilities with respect to new technologies and its efforts to develop new strategies for dealing with the communications challenges facing foreign affairs agencies.

For example, we reviewed the department's implementation of the Foreign Affairs Systems Integration program, known as FASI, which was a global initiative to acquire and test a standard system featuring a Web-based portal, applications and tools for improved communications, information sharing and knowledge management among U.S. foreign affairs agencies at overseas missions.

At the request of the department, which had its own concerns, OIG examined the FASI project, which was being piloted in Mexico City. We agreed with the department's initial assessments and determined that the project was not meeting its stated objective. Specifically, we found that FASI had not prioritized or obtained user input to what requirements were needed sufficiently to insure that only the most essential needs were met with the interagency system.

In our view, the FASI project did not adequately coordinate with or consider using existing systems as potentially less costly alternatives to eliminate duplication. The interagency commitment to the FASI system was also uneven. Other agency support is critical to supporting any global system that is deployed.

OIG found that the overseas pilot test of the interagency systems was at risk due to poor timing, inadequate communications and coordination, ineffective content management and system and technical difficulties. Because of all of these concerns, OIG recommended that after completing the pilot test the project should be streamlined and redirected.

The department responded immediately to OIG's recommendations, which reflected their own concerns and thoughts, thereby avoiding a cost of $200 million to $235 million to deploy globally the FASI system.

Financial management continues to be a major challenge facing the department. In recent years, the department has made significant improvements in this area. In fiscal year 2002, the department closed its remaining three material weaknesses in its annual Federal Managers' Financial Integrity Act report.

Moreover, the department issued its fiscal year 2002 performance and accountability report by the February 1 deadline with an unqualified opinion. This was the department's sixth consecutive unqualified opinion.

While the department has made significant progress, more does need to be done. For example, we have identified significant weaknesses related to information system security that we believe could be exploited to a detrimental effect on the information used to prepare the financial statement.

The department has initiated a program to assess its financial system security on a comprehensive basis, and we will focus on this area during the audit of the fiscal year 2003 financial statements.

Weaknesses in the department's financial management systems are also a longstanding problem, but the department has made significant progress here as well, particularly in the last few years. The audit of the fiscal year 2002 financial statements identified that the department's financial and accounting systems were not adequate.

The department has made substantial compliance with the Federal Financial Management Improvement Act a top priority, and improvement initiatives to achieve that goal are well underway. For instance, as Mr. Burnham has mentioned, the department is in the process of implementing a new global financial and accounting system for its overseas posts.

In reviewing the department's financial management system, OIG has noted significant internal control weaknesses related to the management of undelivered orders. While the department has made improvements in managing undelivered orders, including developing a database to track them, the balance is still high. The department is planning to de-obligate automatically certain types of obligations during fiscal year 2003, which it hopes will lower the amount of this category on the fiscal year 2003 financial statement.

Central to OIG's portfolio for preventing fraud, waste and mismanagement is our investigative work. Since 1994, OIG has conducted a number of embezzlement cases, domestically and overseas, involving department employees, contractors, and grantees.

Some of these cases have resulted in successful criminal prosecutions with sentences requiring restitution, the department's termination of employment or referrals to host country authorities. Over the last 10 years, the amount reported to OIG as embezzled from the department has been around $5 million. Restitution of over $3.8 million has either been made or mandated.

Mr. Chairman, the Office of Inspector General works closely and collaboratively with the department to insure accountability in programs and operations. We believe that this proactive partnership has resulted in a more efficient and effective use of appropriated funds.

More needs to be done, of course, but I am confident that the department is moving forward responsibly and with alacrity in the interests of good government.

Thank you.

[The prepared statement of Ms. Sigmund follows:]

PREPARED STATEMENT OF THE HONORABLE ANNE M. SIGMUND, ACTING INSPECTOR GENERAL, U.S. DEPARTMENT OF STATE

Mr. Chairman and Members of this Committee:

Thank for this opportunity to review management controls with respect to the State Department's budget and to discuss the Department's efforts to use the resources entrusted to its care efficiently and effectively. I am pleased to note that the Department's leadership has exhibited a strong commitment to establishing accountability so that the resources are given proper and careful oversight.

DEPARTMENT PROPERTY

The Department receives significant resources for acquisition, construction, and leasing of property to provide chanceries, consulates, and housing for U.S. government employees serving our country abroad. Under General Charles Williams' leadership, OBO has established procedures and management controls to ensure that fraud does not occur when buying and selling real property. For example, whenever OBO buys or sells property, it gets two independent outside appraisals of value. Inhouse, professionally certified senior appraisers review these outside appraisals and produce a reconciled estimate of value that forms the basis for subsequent actions and decisions regarding property. All property decisions are formally reviewed by OBO's director and properly documented. In sales and purchases overseas, the negotiating authority of the portfolio manager is established in writing in advance by a decision memorandum that includes the reconciled value and is cleared by appraisal offices and senior managers.

The Department actively seeks to identify vacant, excess, or underutilized properties. Each chief of mission, for example, is required annually to certify that he or she is not holding excess property. At every post it inspects, OIG independently validates whether there are excess or underutilized properties and determines what the Department and the post are doing to dispose of them. It is the Department's policy to sell vacant, excess, and underutilized property. Currently, the Department reports that it has 39 vacant properties, valued at approximately $70 million. These are in various stages of disposition. In the last five years, the Department has sold 137 properties for almost $365 million.

The Department owns and leases property that is currently vacant. However, some of these vacancies represent the realities of transfers of employees from one post to another with resulting temporary vacancies in residential property inventories. These are the normal vacancies associated with managing a housing portfolio. OIG does not consider these vacancies as meeting the definition of excess or underutilized property.

For security reasons, the Department also acquires property to enhance the security of a chancery if doing so is economically viable and there is no other way to mitigate serious security risks for a post in a dangerous environment. The Department has leased or purchased nineteen buildings or residences for security reasons in Phnom Penh, Kampala, Kigali, Luanda, Ouagadougou, Pristina, Tbilisi, Tel Aviv, and Guatemala City. This approach provides missions in potentially dangerous environments much-needed setback until such time as a new chancery can be constructed. OIG supports this policy when there are no other alternatives and resources permit.

The Department also has a new vacant leased property in Malabo, a new post ready to open. The property was leased in anticipation of opening and is awaiting necessary approvals. However, the Department has the right to terminate this lease on short notice should it decide not to proceed with this property.

In the course of inspections over the last year, OIG has identified the following underutilized or excess property:

- In Kinshasa, as the security situation has deteriorated, a number of U.S. government-owned residences have not been occupied for many years. The location of these residences is unsafe. Both OBO and OIG have recommended selling or trading them in exchange for more suitable property in a safer location. In several of the cases, there are title and legal issues. In the case of one property, abandoned and for which payments have not been made for ten years, OBO has authorized the embassy to relinquish the property to the host government under a no-cost agreement, a decision OIG supports.
- In the Bahamas, the disposition of a vacant property should be resolved. The Great Inagua Aeorstate site was purchased in 1993 for use in a now closed narcotics interdiction program. The property was purchased for about $100,000. Efforts to dispose of this property have been admittedly slow. OBO has advised OIG that although it has been difficult to place a value on the property, the post got an appraisal and has requested bids for brokers to market and sell the property. OIG has concluded that OBO and the post are proceeding in good faith.
- Disposing of U.S. government-owned property in Mandalay has been a topic of discussion for over a decade. The U.S. consulate in Mandalay was closed in 1980, and for a number of years the property has not been used. Despite recommendations from OIG beginning in 1993, Embassy Rangoon has still not agreed to dispose of the property. Reportedly, selling the property would not yield a fair market value because foreign entities are restricted to selling real property for the original purchase price.
- In Laos, the U.S. government occupied a property called Silver City from 1955 to 1975. Originally, it was leased and then purchased from a private party in 1961 for $4 million. When Communist Pathet Laotian forces seized it in 1975, they declared the U.S. purchase void, which is a matter that the U.S. government has contested. However, Laotians now occupy it. Ten years ago, the Laotian government proposed trading the property, but the proposal could not be implemented because the two governments could not agree on a value nor a property that could be exchanged for Silver City. In 1999, the government of Laos again proposed swapping the property for a large parcel of land and an additional $50,000. Negotiations broke down in March 2000. Recently the Laotian government again expressed interest in a deal, this time on more favorable terms. The vacant land proposed by the Laotian government would be suitable for a new chancery. OIG agrees with Embassy Vientiane that the U.S. government should fully explore this exchange offer. OBO is in the process of working with the post to get the action to closure.

It should be clear from these examples, however, that not infrequently despite the Department's interest in disposing of excess and underutilized property, complicated title issues and even more complex host country laws make doing so difficult and less than timely.

INFORMATION TECHNOLOGY AND SECURITY

In the area of information technology, OIG has focused on the Department's vulnerabilities with respect to new technology and its efforts to develop new strategies for dealing with the communications challenges facing foreign affairs agencies. For example, OIG recently reviewed the Department's implementation of the Foreign Affairs System Integration (FASI) project. The Department was the lead agency in this global affairs initiative to acquire and test a standard system, featuring a web-based portal, applications, and tools for improved communications, information sharing, and knowledge management among U.S. foreign affairs agencies at overseas missions. In the past, each agency working at an embassy overseas had its own information systems, which could not communicate easily with those of other organizations within a diplomatic mission, despite the need to share information on a variety of issues. OIG reviewed the FASI project, which was being piloted in Mexico City, and determined that the project was not meeting its objectives. Specifically, OIG found that FASI did not prioritize or obtain user input to requirements sufficiently to ensure that only the most essential needs were met with the interagency system. In OIG's view, the FASI project did not adequately coordinate with or consider using existing systems as potentially less costly alternatives to eliminate duplication. Interagency commitment to the system also was uneven due to inadequate marketing to other organizations, whose support also would be critical to supporting global system deployment. Furthermore, OIG found that the overseas pilot test of the interagency systems was at risk due to poor timing, inadequate communications and coordination, ineffective content management, and system and technical difficulties. This was not a question of fraud, but a case of imperfect conceptualization and inadequate effort in the area of knowledge management, an admittedly new field for all of us. Because of its concerns, OIG recommended that, after completing the pilot test, the project should be streamlined and redirected. The Department responded immediately to OIG's recommendations and discontinued the FASI project, thereby avoiding a cost of $200 to $235 million to deploy globally the interagency system. The Department has merged FASI objectives with those of a related messaging system replacement initiative, which will allow for reexamination of user requirements and consideration of alternative approaches for meeting the knowledge sharing requirements of the Department and the U.S. foreign affairs community.

FINANCIAL MANAGEMENT ISSUES

Financial management continues to be a major challenge facing the Department. The Department accounts for nearly $11 billion in annual appropriations and over $26 billion in assets. In recent years, the Department has made significant improvements in this area and is striving to fulfill the President's management agenda related to financial performance. In FY 2002, the Department closed its remaining three material weaknesses reported in the annual Federal Managers' Financial Integrity Act report. Moreover, the Department issued its FY 2002 Performance and Accountability report by the February 1 deadline with an unqualified (clean) opinion that means the statements were free of material misstatements. This was the Department's sixth consecutive unqualified opinion.

While the Department has made significant progress, more needs to be done. For example, OIG identified significant weaknesses related to information system security that we believe could be exploited to have a detrimental effect on the information used to prepare the financial statements. The Department has initiated a program to assess its information system security on a comprehensive basis. However, the work was not sufficiently advanced to determine whether the condition had been corrected during OIG's last audit of the Department's financial statements. OIG will focus on this area during the audit of the FY 2003 financial statements.

Weaknesses in the Department's financial management systems are a long-standing problem. The audit of the FY 2002 financial statements identified that the Department's financial and accounting systems were not adequate. The Department has made substantial compliance with the Federal Financial Management Improvement Act (FFMIA) a top priority and improvement initiatives to achieve that goal are underway. For instance, the Department is in the process of implementing a new global financial and accounting system at its overseas posts. As required by FFMIA, the Department submitted a remediation plan in March 2000 that calls for the Department to achieve substantial compliance by the end of FY 2003. OIG is tracking the Department's progress in implementing the plan.

In reviewing the Department's financial management systems, OIG noted significant internal control weaknesses related to the management of undelivered orders. While the Department has made improvements in managing undelivered orders, including developing a database to track them, the balance is extremely high and has grown from $3.2 billion in FY 2001 to $5 billion in FY 2002. During its FY 2003 audit, OIG estimated that at least $230 million of this amount should have been deobligated financial statements. The Department is planning to deobligate automatically certain types of obligations during FY 2003, which it hopes will lower the amount of this category on the FY 2003 financial statements.

In addition, OIG identified weaknesses related to managerial cost accounting. The Department is developing a Central Financial Planning System that it believes will address many of the concerns related to managerial cost accounting.

MANAGEMENT CONTROLS

OIG reviewed internal controls for several Department programs to reduce vulnerabilities for fraud, waste, and mismanagement, among them domestic travel card program and the government purchase cards. In its review of the Department's domestic travel card program, OIG examined the policies and procedures that were in place for managing the program. OIG found that the Department had not addressed the 60-day past due category of delinquencies, which may cause the commercial credit card provider to reduce the volume-based refund it gives the Department and can lead to account suspensions. Consequently, an employee's ability to travel on Department business may be hindered. Moreover, OIG concluded that the Department had not done enough to prevent and detect misuse of the cards. OIG also concluded that the Department's Bureau of Resource Management was working with the Bureau of Human Resources, the Bureau of Diplomatic Security, and OIG to develop an acceptable notification process when employees misuse the cards or become delinquent with repayment. However, the Department did not have adequate internal controls for providing administrative oversight of the program. For example, the Department did not ensure that program coordinators were managing an appropriate number of accounts; that accounts were transferred or canceled as needed, when, for example, an employee transferred or left the Department; and that multiple accounts for an individual employee were identified and cancelled. OIG recommended that the Department develop guidelines to address travel card delinquencies in the 60-day past due category, provide program coordinators with clear written guidance on an Intranet site and through formal training, and improve the oversight of the travel card program by checking for multiple accounts and transferring or canceling travel cards when an employee leaves a bureau within the Department.

OIG's review of the Department's purchase card program was designed to evaluate the effectiveness of domestic operations for the program and determine whether the Department was achieving cost savings. In 2001, OIG reported that the program had experienced rapid growth in the number of cardholders since its inception and that the Department's customers were receiving goods and services more quickly under the program. However, OIG also found that part of the rapid growth in cardholders was attributable to purchase card users making infrequent or no transactions, and therefore, may not actually need the cards. In its audit, OIG reviewed in detail about $1.5 million in domestic purchases. The review found that about 81 percent of the transactions, or about $1.2 million, lacked some of the required documentation, although the transactions appeared to be legitimate and justified. However, about 12 percent, or about $180,000 in transactions, lacked sufficient documentation for OIG to verify independently that the purchases were properly made for legitimate purposes and reconciled by supervisors in a timely manner. In addition, not all the responsible officials interviewed by OIG had conducted required annual reviews of their offices' purchase card operations. OIG also found that the Department's method for determining cost savings—the reduction in the number of paper purchase orders processed—does not necessarily capture the actual administrative cost reductions that have occurred. Finally, OIG found inappropriate procurement practices that, if changed, could yield additional cost or time savings for the Department. For example, some cards had a self-imposed limit of $1,000 and opportunities to use the cards were often missed. As a result of OIG's report, the Department has addressed the documentation and annual review issues. Additionally, the Department has taken steps to examine low purchase card use and withdraw unneeded cards, clarify reporting on cost savings from the program, and explore additional cost avoidance measures. Finally, OIG suggested and the Department agreed to identify cardholder best practices that can be used throughout the program for improving the economy and efficiency of operations. Shortly, OIG will closely review ways for optimizing the overseas use of purchase cards and for preventing waste, fraud, and mismanagement.

Improper payments are a longstanding, widespread, and significant problem in the federal government. The Department does not have an adequate process in place to estimate regularly the amount of improper payments. Currently, the Department approximates the amount of improper payments at $2 million per year. This consists of known overpayments, mostly of Foreign Service retirement benefits. However, the Department has an initiative underway to have an accounting firm develop a process to measure and report on the extent of improper payments. The initiative fits in with new OMB guidance and is intended to establish a baseline of the extent of improper payments in selected programs and activities and determine the causes. The Department piloted the new process on grants/financial assistance payments in one bureau and was generally pleased with how the process worked. The Department now plans to expand the process to other areas. OIG is completing three audits that reviewed different aspects of improper payments. They are:

- a review of all of the Department's FY 2002 payment transactions in order to identify any duplicate payments;

- a review of the Department's process for establishing and maintaining vendors in CFMS; and
- a review of the Department's practice of making payments without having an established obligation.

The Department annually reports on its debt collection efforts in its annual Performance and Accountability Report. Outstanding debt from nonfederal sources increased from $42.1 million in FY 2001 to $45.3 million in FY 2002. Nonfederal debt consists of money owed to the International Boundary and Water Commission, and amounts owed for repatriation loans to American citizens, medical costs, travel advances, proceeds from the sale of property, and some other miscellaneous receivables.

Of the delinquent accounts receivable—over 365 days—the majority, $3.8 million, were for repatriation loans. These are loans given to destitute American citizens stranded overseas to allow them to return to the United States. Due to economic problems, many of these individuals are unable to repay their loans on time.

The Department uses installment agreements, salary offset, and restrictions on passports as tools to collect its receivables. It also receives collections through its cross-servicing agreement with the Department of the Treasury. In accordance with this agreement and the Debt Collection Improvement Act of 1996, the Department referred $194,000 to Treasury for cross-servicing in FY 2002. Anthrax-related mail disruptions in late 2001 affected the Department's ability to receive payments and to provide debtors a proper due process notification. Of the current and past debts referred to Treasury, $206,460 was collected in FY 2002.

In its review of the Broadcasting Board of Governors (BBG) Controls on Domestic Personal Property, OIG examined whether the International Broadcasting Bureau (IBB) had established effective policies for inventory controls at six of its property management units. OIG found that the IBB did not have fully functioning property management policies and procedures to ensure that government property was properly used and safeguarded. Furthermore, there was no evidence that a complete property inventory had ever been conducted by the IBB. Therefore, OIG made several recommendations, including conducting an agency-wide inventory to provide an accurate property baseline implementing a plan for bringing the agency into compliance with applicable accounting and reporting requirements, and establishing a single, centralized receiving operation for all international headquarters' offices to ensure better accountability. The IBB generally agreed with OIG's report and is taking steps to implement its recommendations.

PREVENTING FRAUD

Central to OIG's portfolio for preventing fraud, waste, and mismanagement is its investigative work. Since FY 1994, OIG has conducted a number of embezzlement cases, domestically and overseas, involving Department employees, contractors, grantees, and Foreign Service Nationals. Some of these cases have resulted in successful criminal prosecutions with sentences requiring restitution, the Department's termination of employment, or referrals to host country authorities. Over the last ten years, the amount reported to OIG as embezzled from the Department is over $5 million. Restitution of over $3.8 million has been either made or ordered.

Mr. Chairman, the Office of Inspector General works closely and collaboratively with the Department and BBG to ensure accountability in programs and operations. We believe that this proactive partnership has resulted in a more efficient and effective use of appropriated funds. More needs to be done, of course, but I am confident that the Department is moving forward with alacrity in the interests of good government.

Thank you.

Chairman HYDE. Thank you, Ambassador.

Mr. Marshall?

STATEMENT OF THE HONORABLE JOHN MARSHALL, ASSISTANT ADMINISTRATOR FOR MANAGEMENT AND CHIEF INFORMATION OFFICER, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

Mr. MARSHALL. Mr. Chairman, thank you for the opportunity to discuss USAID's efforts to eliminate fraud, waste and abuse and to improve our overall management systems.

When Administrator Andrew Natsios arrived at USAID in 2001, he found the Agency's management systems in a state of disrepair and in need of overhaul and modernization. He directed me to develop comprehensive reform plans to fix the five basic management systems of the Management Bureau—human resources, financial management, procurement, information technology and administrative services.

Reforms in each of these areas are well underway and have been integrated with the President's Management Agenda. Many of these initiatives are being coordinated with similar efforts underway in the State Department, as described by my colleague, Chris Burnham.

Our scores on the President's Management Agenda have shown steady improvement. Last quarter, we received green ratings for progress in budget and performance integration, e-government and financial management, and yellow in human capital and competitive sourcing.

Like many Federal agencies, USAID is experiencing serious human capital challenges. As a result of new program demands around the world, deep staffing cuts and decisions to effectively shut down training and recruitment in the 1990s, our workforce is stretched thin, rapidly graying and lacking in critical skills.

To meet these challenges, we are undertaking a comprehensive workforce planning effort and ramping up training and recruitment initiatives. Our Development Readiness Initiative parallels the Department of State's successful Diplomatic Readiness Initiative and will enable us to stave off the retirement exodus and insure that we put the right people with the right skills in the right places at the right time.

We are using criteria developed by GAO to determine overseas staffing levels. President Bush has made right sizing the U.S. presence overseas a part of his management agenda, and we are working actively with the State Department, OMB and other international agencies to meet these objectives.

We are developing a comprehensive competitive sourcing plan to enable competition to generate savings and performance improvements in our administrative services. We are also collaborating with the State Department in this area in strategic planning and identification of opportunities for joint action.

We are using customer service standards and activity based costing to get a better handle on the cost and performance of our administrative services and to reallocate our resources to our most important business needs.

We are partners on several of the President's 25 e-government initiatives. We are developing a joint enterprise architecture with the State Department to identify inefficiencies and redundancies in our business processes and information technology.

We have established a new capital planning and investment control process to insure that we spend our IT resources efficiently, and we have made significant security enhancements in our worldwide IT infrastructure.

As Mr. Burnham reported, for the first time ever, this year USAID and the State Department have developed a joint strategic plan. We are very proud of those collaborative efforts, and again we believe we have set the stage for more and better things to come.

We have developed a strategic budgeting model to help us better link performance and resource allocation to make those work more effectively together. A joint management council has been established to identify opportunities for more collaboration between ourselves and the State Department that produce cost savings and service improvements for both agencies worldwide.

We are actively engaged with the State Department in developing a joint financial management system and an integrated procurement system to speed up business transactions and produce more timely and reliable program and financial information.

Financial management is an area where our story continues to improve. As our Inspector General and GAO have reported many times in the past, we have lacked a core financial system that meets government requirements. To address this systemic weakness, USAID implemented a new core accounting system at headquarters in Washington in 2001.

The next phase of our financial modernization effort is the deployment of our headquarters system, we call Phoenix, to our missions overseas. We expect to complete the roll-out by the end of fiscal year 2005 and to complete its integration with the State Department's financial system by FY 2006. These initiatives will give USAID its first ever integrated worldwide financial management system capable of producing timely and reliable financial information and meeting all Federal requirements.

In fiscal year 2002, we received an unqualified audit opinion on four of the five principal statements and an overall qualified audit on the entire package of statements. This marked the first time since the enactment of the Government Management Reform Act that USAID received an opinion on all of its statements.

We have a long way to go, but we have made tremendous progress in this area in the last couple of years. The 2002 audit identified seven material weaknesses. Six of these have been closed. We expect to resolve the seventh issue and all other obstacles in time to enable an unqualified opinion for fiscal year 2003.

Mr. Chairman, USAID has no higher priority than continuing to improve our management and accountability practices. We are committed to working closely with the State Department and on our own to putting in place faster, better, cheaper administrative systems that are win/win solutions for the government and the taxpayer.

I trust this testimony has been helpful in explaining our plans to turn USAID into a more effective and efficient foreign assistance agency in the 21st century.

I will be happy to respond to any questions.

[The prepared statement of Mr. Marshall follows:]

PREPARED STATEMENT OF THE HONORABLE JOHN MARSHALL, ASSISTANT ADMINISTRATOR FOR MANAGEMENT AND CHIEF INFORMATION OFFICER, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

Mr. Chairman, Ranking Member Lantos, thank you for the opportunity to appear before you today to discuss cost saving efforts at the U.S. Agency for International Development (USAID).

When Administrator Natsios first arrived at USAID, he determined that the Agency's five management systems were in a state of disrepair and were in need of modernization and reform. He determined that waste and mismanagement could be eliminated by improving the way the Agency conducts business through its systems and processes for finance, personnel, procurement, information technology (IT) and administrative services. Under the Administrator's leadership, the Agency developed a business transformation plan to implement his management reforms. These reforms are being done in the context of the President's Management Agenda and many are being carried out in close coordination with the Department of State.

In my statement today, I will discuss our management reforms under three headings: our work on the President's Management Agenda; our collaborative activities with the Department of State; and our financial management reforms. Our financial management reforms will be discussed in detail because proper accountability for appropriated funds lies at the heart of both management improvement and the elimination of waste, fraud and abuse.

USAID MANAGEMENT REFORMS

In close coordination with the President's Management Agenda, USAID is aggressively implementing its own ambitious management reform program. The Agency has established a Business Transformation Executive Committee (BTEC), a governing board of senior executives from all bureaus and major offices across the Agency to oversee our management reforms. Our management reform accomplishments as well as our future plans are listed below by PMA initiative.

Strategic Management of Human Capital

Like many Federal agencies, USAID is experiencing serious human capital challenges. As a result of new program demands around the world, deep staffing cuts and decisions to effectively shut down recruiting in the 1990s, our workforce is stretched thin, rapidly "graying" and approaching a retirement exodus, and lacking in critical skills. To meet these challenges, we are undertaking a comprehensive workforce planning effort and ramping up recruitment initiatives at entry and mid-career levels. Our "Development Readiness Initiative" (DRI) parallels the Department of State's successful Diplomatic Readiness Initiative, and is the cornerstone to Agency succession planning efforts for the Foreign Service and Civil Service.

We are undertaking a comprehensive and integrated workforce analysis, building on competency-related work already performed by many parts of USAID to establish the basis upon which further workforce planning and general human capital strategic management can be developed. To meet the critical need to create the 21st Century Foreign Service corps, we are undertaking a Development Readiness Initiative that parallels the Department of State's Diplomatic Readiness Initiative; this will include the recruitment of junior officers, called International Development Interns, to assure a regular infusion of new blood into our system. The Development Readiness Initiative (DRI) is the cornerstone to Agency succession planning efforts for the Foreign Service and Civil Service.

We have developed an electronic database (e-World) that provides current high quality data regarding the Agency's workforce. This information allows knowledge of the number, skills, and deployment of Agency personnel to meet our future programmatic needs and to develop strategies for succession planning and leadership continuity. This accountability tool facilitates workforce planning and resource reallocation decision-making.

We are finalizing a comprehensive human capital strategic plan that will describe the specific core competencies needed by our overseas staff to make the Agency operate effectively and efficiently. In developing this plan, we considered the recommendations from a report by the National Policy Association that contains 25 recommendations for reforming personnel practices at USAID.

The Human Capital Strategy will be carried out in the context of an overall Agency "right sizing" that will improve our ability to do comprehensive workforce planning. This effort will consider regionalizing USAID processes to perform work more efficiently.

Improved Financial Management

We are collaborating with Department of State on a joint financial management system in furtherance of our business systems modernization initiative.

We have developed customer service standards and initiated activity based costing to improve services, get a better handle on costs and reallocate resources to our most important business needs.

We have developed mandatory training for Contract Technical Officers (CTOs) in the agency to better manage obligations that can lead to charges of waste, fraud and abuse. Annual mandatory ethics training is part of this program. We are working with the Department of State to develop a common procurement system. Instead of developing separate systems, both agencies are collaborating on this project that will reduce redundancies and waste and save considerable taxpayer dollars.

Budget and Performance Integration

We have developed a strategic budgeting model to enable us to link performance and resource allocation more efficiently.

Competitive Sourcing

We have provided training for our procurement staff on performance based contracting to focus on desired results and outcomes. We are developing comprehensive USAID Competitive Sourcing and Action Plans to achieve efficient and effective competition between public and private sources that will generate savings and performance improvements.

Expanded Electronic Government

We are partners on several of the President's 25 e-gov initiatives collaborating on projects where standardization and integration of similar business processes and systems make sense and are more cost effective. Our efforts are directed at ensuring high quality services for citizens while reducing the cost of delivery of these services. We are developing a joint enterprise architecture with the Department of State that will serve as a strategic management tool to identify IT redundancies and duplications and inform decisions about program implementation and IT investments. We have established procedures for capital planning and investment control to ensure that we spend our IT resources efficiently. We are providing training for the Agency's project managers to ensure appropriate best practices and standards are adhered to in order to reduce redundant spending and improve the return on IT investments.

Our management reform activities have and will continue to provide significant cost savings while promoting management efficiencies that directly support the PMA. Our activities have improved our e-Gov scores on the PMA. For the last two quarters we received "Green" ratings for progress based on our efforts in the areas of enterprise architecture, capital planning and investment control, and IT security.

JOINT STATE/USAID ACTIVITIES

For the first time, USAID and the Department of State have developed a joint strategic plan. The new strategic plan covers fiscal years 2004 to 2009 and will be updated every three years. The new plan clearly outlines the shared mission, core values, goals and priorities of State and USAID in both policy and management areas. Our joint management priorities are closely linked to the goals of the President's Management Agenda (PMA).

To achieve cost savings, we are pursuing opportunities where the Department and USAID can create more integrated management structures to reduce redundancies and costs for the taxpayer where possible. We have identified concrete activities where we hope to explore greater coordination and in some instances integration.

Department-USAID Management Council

A joint State/USAID Management Council has been established to oversee and implement collaborative management activities that will result in cost saving reforms and improve services for both agencies in the areas of human resources, e-Government, resource management, administrative services, overseas facilities, and security. Examples of issues for the JMC's consideration are as follows.

Human Resources

In the area of human resources, USAID and State are developing parallel and complementary human capital strategies to include joint training of our employees; formal cross-assignments; and plans to rightsize and regionalize our overseas presence. The latter initiative is focused on determining the appropriate number of U.S. staff deployed overseas to assure effective and efficient planning and management of programs. We have reviewed the main criteria proposed by the General Accounting Office for determining overseas staffing levels and, not only do we agree with them, we have been using them in setting our field staffing levels. As you are aware, President Bush has made the rightsizing of overseas official U.S. presence an agency-specific reform in his management agenda and our efforts are directed at supporting this initiative by assuring the most effective overseas presence.

E-Government

The Department and USAID are committed to implementing the requirements of the Federal e-Government Initiative under the PMA. We will strengthen our administrative systems and pursue collaborative solutions to Web-base, centralize, and integrate our IT systems; expand our recently established infrastructure; coordinate IT planning and common use of architecture and infrastructure; develop a joint enterprise architecture to enable an integrated accounting system worldwide; strengthen core information management systems and collaboration by implementing one modern messaging system for the Department and USAID headquarters, posts, and missions worldwide; and consolidate overseas technical and operational support.

Administrative Services

The Department and USAID jointly will review their operations at U.S. diplomatic missions abroad to implement a pilot project in which selected administrative support operations would be combined where costs are reduced and/or the quality of services are enhanced. The combined service(s) would operate under the agency best able to offer the service through International Cooperative Administrative Support Services (ICASS) to all U.S. Government entities under the Chief of Mission authority. ICASS has proved very effective as a system to allocate costs fairly among users, and all agencies are working to make it a stronger tool for efficiency as well.

A joint Department/USAID acquisition and assistance system will be integrated with the Agency's core accounting system to facilitate production of timely, reliable information on program and development expenditures. The proposed web-based application allows for data entry at the source, reducing the risk of erroneous or redundant entry of transactions.

The Department and USAID will jointly review the use of *competitive sourcing*. Commercial activities will be reviewed continually to ensure the best possible service at the best possible price, regardless of the source. We will review the use of contractors across the Department and USAID in order to streamline contracts and minimize duplication and costs.

Resource Management

To improve our accountability to the American taxpayers, we will improve our financial performance and integrate budgeting with strategic and performance planning. The Department and USAID will implement a joint financial management system that will integrate the financial systems of both agencies. To increase our budget process transparency, both agencies will institute operations budget review meetings to ensure understanding of each organization's workforce, technology, and policy programs. And we will explore developing a joint methodology to allocate resources by strategic goal to better understand how much funding and human resources are devoted to achieving our goals.

Facilities

Looking to the future, an area where the factors of cost and security come together is that of office space for our field missions. A prime objective for USAID is to assure that our overseas staff works in the safest possible environment. Consistent with the Secure Embassy and Counter Terrorism Act of 1999, USAID seeks to co-locate with the embassies wherever possible.

Security

Close coordination and cooperation between the Department and USAID security professionals will be key to maximizing our effectiveness and determining acceptable levels of security risk versus our ability to operate. We will leverage Diplomatic Security (DS) contract support to enhance USAID security; recruit and train personnel to enhance worldwide security operations; and enhance security infrastructure that allows timely and accurate exchange of security information to enhance protection of our personnel.

Through these cooperative efforts that I have described, USAID and Department of State will reduce redundancies and waste while reinforcing management accountability and cost savings.

FINANCIAL MANAGEMENT IMPROVEMENTS

In the area of financial management, USAID's story continues to improve. As had been reported by the Office of the Inspector General (OIG), the Agency previously lacked a core financial management system that complied with the requirements of the Federal Financial Management Improvement Act (FFMIA). There has also been a major impediment in providing information for USAID managers on a day-to-day basis, thereby hindering the Agency's ability to manage its resources. To address the system weaknesses, USAID implemented a new core accounting system at headquarters in FY 2001.

The next phase of our financial management system improvement effort is the deployment of the headquarters accounting system to our field missions. We are currently planning to have the system fully deployed by the end of FY 2005. At the same time, as mentioned previously, we are working closely with the State Department to have a joint financial management system by FY 2006. When the system is fully deployed, USAID will have for the first time an integrated financial management system that can produce timely and reliable Agency-wide financial information for program managers and decision-makers. Full deployment of the system will also bring the Agency into compliance with the FFMIA.

In FY 2002, we received an unqualified audit opinion on four of five principal financial statements and an overall qualified audit opinion. This marked the first time since enactment of the Government Management Reform Act that USAID received an opinion on all of its financial statements. Within the 2002 GMRA Audit, the OIG recognized seven internal control material weaknesses. Six of the seven internal control material weaknesses have been addressed and the last one will be addressed by September 30, 2003. We are working closely with the OIG on resolving all remaining obstacles so that the OIG may issue an unqualified audit opinion for FY 2003.

Additionally, we have recently implemented improvements to the Headquarters core accounting system, improved financial and performance reporting, and improved the quality of data available to field program managers. We have expanded cross-servicing and outsourcing, including grant management (HHS), loan management (Riggs Bank) and payroll (National Finance Center).

USAID's Management Control Review Committee plays an active role in ensuring corrective action for deficiencies identified through OIG audits and management control reviews in accordance with the Federal Managers' Financial Integrity Act. The Committee, chaired by our Deputy Administrator, monitors the status of corrective actions Agency-wide and determines when material weaknesses have been corrected. Parallel committees operate within the Agency's overseas operating units.

We continue to improve the quality of USAID's financial management systems and we continue to improve the internal control systems and processes affecting the day-to-day management of our programs as well as our financial statements.

IN CONCLUSION

Mr. Chairman, I would like to assure Congress that USAID is committed to improving our management and accountability practices. USAID is committed to enhanced collaboration with the Department and looks forward to participating actively in the Joint Management Council's efforts to produce improved, cost effective administrative services for both agencies. We will continue to work diligently to implement agency-specific management reforms and to identify areas of cost savings I hope my remarks today have been helpful in explaining our management reforms for transforming USAID into a more effective and efficient humanitarian assistance and development organization as we move our foreign policy agenda forward.

Chairman HYDE. Thank you, Mr. Marshall.

Mr. Mosley?

STATEMENT OF THE HONORABLE EVERETT MOSLEY, INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

Mr. MOSLEY. Thank you, Mr. Chairman, and thank you for the opportunity to testify this morning about the efforts to identify and eliminate waste, fraud, abuse and mismanagement with respect to the U.S. Agency for International Development programs and operations. I realize that your time is valuable and limited this morning, so I have provided my statement for the record, and I will keep my comments brief.

I realize that the efforts this morning are to look at the potential savings in mandatory and discretionary programs. There are two mandatory programs at the U.S. Agency for International Development, the Foreign Service Retirement and Disability Fund and any upward reestimates of the credit subsidies under the Agency's development credit authority.

The Foreign Service Retirement and Disability Fund is managed by the Department of State and is, therefore, audited by my colleagues at the Department of State, Office of Inspector General. Reviews of USAID's credit subsidy under the Agency's credit authority are included in the Government Management Reform Act audit that is done each year on an annual basis. Therefore, there have been no issues reported under these subsidies.

With regard to discretionary programs operated by USAID, my office conducts several reviews that can potentially identify opportunities for savings. First, my office conducts annual audits of the USAID's financial statement, as Mr. Marshall has stated, in accordance with the Government Management Reform Act and other laws and regulations.

Based on our audit at the end of fiscal year September 30, 2002, we expressed unqualified opinions on USAID's balance sheet, statement of change in net financial situation, statement of budgetary resources and statement of financing. We expressed a qualified opinion on the statement of net cost.

Based on the discussions with your staff, we understand that there are several issues in this audit that might be of interest to this Committee. As of September 30, 2002, USAID had $153 million in unliquidated obligations that had no payment activity for at least 1 year. The lack of payment activity on these obligations indicated that the obligations my no longer be needed and may be available for deobligation.

At the same time, it is important to recognize that some unliquidated obligations are in fact still needed. This is illustrated by the experience of a working group established by USAID management to review all contracts and grants with expiration dates of September 30, 2000, or earlier and unliquidated balances of at least $100,000. This was a result of our audit findings.

The working group found that about one-third of the unliquidated amounts for these awards could be or needed to be deobligated, while the other two-thirds was needed to pay expenses under these awards. As of September 30, 2001, the amount of unliquidated obligations that had no payment activity for at least 1 year was $186 million. As of September 30, 2002, 1 year later, USAID had reduced that amount by $33 million to $153 million.

USAID has also begun a process of estimating accruals on a quarterly basis. While this practice does not necessarily always result in Agency deobligation of funds, it does require managers to review these funds and look at the status of it. Funds that are deobligated through this practice may in some cases be used for other similar activities or are returned to the U.S. Treasury.

Second, we perform or oversee financial audit of USAID contractors and grantees. Under the Improper Payment Information Act of 2002, agencies are required to institute a systematic method of reviewing all programs and identifying those it believes are susceptible to significant erroneous payments.

Significant erroneous payments are defined as any erroneous payment in programs exceeding both 2.5 percent of program payments and $10 million. We are currently working with USAID management to assist them in determining whether the Agency meets these thresholds.

We also assist USAID in meeting the audit requirements under the Federal regulations, as well as our policies. Audits are conducted on U.S.-based contractors, grantees and enterprise funds and our foreign-based contractors and grantees. The Defense Contract Audit Agency and private CPA firms conduct these audits, and we provide oversight of their activities.

Financial audits of USAID contractors and grantees may identify questioned costs that, if sustained by the contract or agreement officer, must be reimbursed to the U.S. Agency for International Development. Questioned costs include costs that are ineligible under the terms of the underlying contract, grant or agreement, as well as unsupported costs that lack sufficient support documentation to permit the auditors to make informed judgments on the eligibility of the costs or the lack of required approval.

From October 1, 2001, through March 31, 2003, USAID reached a management decision in audit recommendations that questioned $28 million in contractor and grantee costs. This amount included $8.3 million in costs that were unsupported.

Of the $28 million in questioned costs, USAID did not allow $10.5 million of which $8.2 million was not allowed because the costs were not eligible, and $2.3 million was disallowed because the contractor could not support the cost claimed at the time the audit was performed. The $10.5 million was deobligated by USAID and, as I have indicated before, this sometimes can be used for other activities and other times is returned to the U.S. Treasury.

Third, we conduct performance audits of USAID programs. These audits examine the extent to which USAID programs have achieved planned results or the degree to which USAID is providing sound management of those activities.

As an example, my testimony of record dated July 9, 2003, to the House Committee on Budget talked about a cargo preference audit we performed. When providing food assistance to nations overseas, both USAID and the U.S. Department of Agriculture are required by law to ship a certain percentage of tonnage on privately owned U.S. flag commercial vessels. This cargo preference helps to insure that the United States maintains an adequate and viable merchant marine.

In 1985, Congress increased the requirement from 50 to 75 percent for commodities shipped under certain U.S. food assistance programs. At the same time, Congress directed the Department of Transportation to finance any increases in food assistance shipping cost which was due to the application of these new requirements.

Under a memorandum of understanding, the U.S. Department of Agriculture agreed to apply for all cargo preference reimbursement from DOT. After receiving funds from the Department of Transportation, USDA would then appropriate amounts to the USAID P.L. 480 Title II and Title III food shipments.

In March 2001, we conducted an audit of the cargo preference program. We found that in accordance with established laws, policies and procedures governing the application of this program, USDA could be entitled to as much as $289 million in additional reimbursements. Of that amount, up to $175 million could be made available to the two programs administered to USAID.

Our recommendation included seeking that $175 million in unclaimed reimbursements for excess ocean freight costs dating back to 1994. USAID management concurred with this audit recommendation, and they have been working with the Department of Agriculture managers to resolve this issue. They have now engaged the Office of Management and Budget.

Finally, the OIG also conducts investigations into alleged violations of law and rules or regulations by recipients who receive USAID funds or by employees. Our investigations can result in fines, cost recoveries or savings to either USAID or to the U.S. Treasury.

For example, a major investigation by the Office of Inspector General of bid rigging and fraud in USAID funded construction contracts in Egypt resulted in fines, savings and restitution of over $260 million in fiscal years 2000 through 2002. While most of this money went directly to the general fund of the U.S. Treasury, approximately $10 million in restitution was returned to the U.S. Agency for International Development in April 2001.

Thank you, Mr. Chairman, and I will be willing to answer any questions.

[The prepared statement of Mr. Mosley follows:]

PREPARED STATEMENT OF THE HONORABLE EVERETT MOSLEY, INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

MR. CHAIRMAN, OTHER COMMITTEE MEMBERS, AND COMMITTEE STAFF, THANK YOU FOR THE OPPORTUNITY TO PROVIDE MY TESTIMONY ON EFFORTS TO IDENTIFY AND ELIMINATE WASTE, FRAUD, ABUSE, AND MISMANAGEMENT WITH RESPECT TO THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) PROGRAMS AND OPERATIONS. BASED ON INPUT PROVIDED BY YOUR STAFF, I WILL FOCUS ON OPPORTUNITIES FOR USAID TO IMPROVE ITS OPERATIONS AND OTHER ITEMS THAT YOUR STAFF INDICATED WOULD BE OF INTEREST TO THE COMMITTEE. I KNOW THAT THE PRIMARY INTEREST FOR THIS HEARING IS MANDATORY VERSUS DISCRETIONARY PROGRAMS. THERE ARE TWO MANDATORY SPENDING PROGRAMS AT USAID: (1) THE FOREIGN SERVICE RETIREMENT AND DISABILITY FUND AND (2) ANY UPWARD REESTIMATE OF THE CREDIT SUBSIDY UNDER THE AGENCY'S DEVELOPMENT CREDIT AUTHORITY. THE FOREIGN SERVICE RETIREMENT AND DISABILITY FUND IS MANAGED BY THE DEPARTMENT OF STATE AND AUDITED BY THE STATE DEPARTMENT OFFICE OF INSPECTOR GENERAL. REVIEWS OF USAID'S CREDIT SUBSIDY UNDER THE AGENCY'S DEVELOPMENT CREDIT AUTHORITY ARE INCLUDED WITHIN USAID'S ANNUAL GMRA AUDIT, AND NO ISSUES HAVE BEEN REPORTED REGARDING THE SUBSIDY.

WITH REGARDS TO THE DISCRETIONARY PROGRAMS OPERATED BY USAID, MY OFFICE CONDUCTS SEVERAL REVIEWS THAT CAN POTENTIALLY IDENTIFY OPPORTUNITIES FOR SAVINGS. I WILL LIST THESE REVIEWS AND THEN DESCRIBE THEIR RESULTS THAT MAY BE OF INTEREST TO THE COMMITTEE.

FIRST, MY OFFICE CONDUCTS AN ANNUAL AUDIT OF USAID'S CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH THE GOVERNMENT MANAGEMENT AND REFORM ACT AND OTHER LAWS AND REGULATIONS.

SECOND, WE PERFORM OR OVERSEE FINANCIAL AUDITS OF USAID CONTRACTORS AND GRANTEES.

THIRD, WE CONDUCT PERFORMANCE AUDITS OF USAID'S PROGRAMS. THESE AUDITS EXAMINE THE EXTENT TO WHICH USAID'S PROGRAMS HAVE ACHIEVED PLANNED RESULTS OR THE DEGREE TO WHICH USAID IS FOLLOWING SOUND MANAGEMENT PRACTICES.

FOURTH, THE OIG ALSO CONDUCTS INVESTIGATIONS INTO ALLEGED VIOLATIONS OF LAWS, AND RULES OR REGULATIONS BY RECIPIENTS OF USAID FUNDS OR BY EMPLOYEES.

I WILL NOW BRIEFLY DISCUSS THE RESULTS OF THESE REVIEWS, PLACING EMPHASIS ON AREAS OF POSSIBLE SAVINGS OR AREAS THAT YOUR STAFF HAS INDICATED COULD BE OF INTEREST TO THE COMMITTEE.

AUDIT OF USAID'S FINANCIAL STATEMENTS

BASED ON OUR AUDIT OF USAID'S FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2002, WE EXPRESSED UNQUALIFIED OPINIONS ON USAID'S BALANCE SHEET, STATEMENT OF CHANGES IN NET FINANCIAL POSITION, STATEMENT OF BUDGETARY RESOURCES, AND STATEMENT OF FINANCING. WE EXPRESSED A QUALIFIED OPINION ON USAID'S STATEMENT OF NET COSTS. BASED ON DISCUSSIONS WITH YOUR STAFF, THE FOLLOWING FINDINGS FROM THIS AUDIT MAY BE OF INTEREST TO THE COMMITTEE:

AS OF SEPTEMBER 30, 2002, USAID HAD $153 MILLION OF UNLIQUIDATED OBLIGATIONS THAT HAD NO PAYMENT ACTIVITY FOR AT LEAST ONE YEAR. THE LACK OF PAYMENT ACTIVITY FOR THESE OBLIGATIONS INDICATED THAT THE OBLIGATIONS MAY NO LONGER BE NEEDED AND MAY BE AVAILABLE FOR DEOBLIGATION. AT THE SAME TIME, IT IS IMPORTANT TO RECOGNIZE THAT SOME UNLIQUIDATED OBLIGATIONS ARE IN FACT STILL NEEDED. THIS CAN BE ILLUSTRATED BY THE EXPERIENCE OF A WORKING GROUP ESTABLISHED BY USAID'S BUSINESS TRANSFORMATION EXECUTIVE COMMITTEE (ALSO KNOWN AS BTEC) TO REVIEW ALL CONTRACTS AND GRANTS WITH EXPIRATION DATES OF SEPTEMBER 30, 2000 OR EARLIER AND UNLIQUIDATED BALANCES OF AT LEAST $100,000. THE WORKING GROUP FOUND THAT ABOUT ONE-THIRD OF THE UNLIQUIDATED AMOUNTS FOR THESE AWARDS COULD BE DEOBLIGATED WHILE THE OTHER TWO-THIRDS WAS NEEDED TO PAY EXPENSES UNDER THE AWARDS. AS OF SEPTEMBER 30, 2001, THE AMOUNT OF UNLIQUIDATED OBLIGATIONS THAT HAD NO PAYMENT ACTIVITY FOR AT LEAST ONE YEAR WAS $186 MILLION. AS OF SEPTEMBER 30, 2002, ONE YEAR LATER, USAID REDUCED THAT AMOUNT BY $33 MILLION TO $153 MILLION. USAID HAS BEGUN A PROCESS OF ESTIMATING QUARTERLY ACCRUALS. WHILE THIS PRACTICE DOES NOT NECESSARILY RESULT IN THE AGENCY DEOBLIGATING FUNDS, IT DOES REQUIRE MANAGERS TO REVIEW THE STATUS OF PROGRAM FUNDS. FUNDS THAT ARE DEOBLIGATED THROUGH THIS PRACTICE MAY BE REUSED FOR OTHER SIMILAR ACTIVITIES OR ARE RETURNED TO THE U.S. TREASURY.

FINANCIAL AUDITS OF USAID CONTRACTORS AND GRANTEES

UNDER THE IMPROPER PAYMENTS INFORMATION ACT OF 2002, AGENCIES ARE REQUIRED TO INSTITUTE A SYSTEMATIC METHOD OF REVIEWING ALL PROGRAMS AND IDENTIFYING THOSE IT BELIEVES ARE SUSCEPTIBLE TO SIGNIFICANT ERRONEOUS PAYMENTS. AN ERRONEOUS PAYMENT IS DEFINED AS ANY PAYMENT THAT SHOULD NOT HAVE BEEN MADE OR THAT WAS MADE IN AN INCORRECT AMOUNT UNDER STATUTORY, CONTRACTUAL, ADMINISTRATIVE, OR OTHER LEGALLY APPLICABLE REQUIREMENT. SIGNIFICANT ERRONEOUS PAYMENTS ARE DEFINED AS ANNUAL ERRONEOUS PAYMENTS IN THE PROGRAM EXCEEDING BOTH 2.5 PERCENT OF PROGRAM PAYMENTS AND $10 MILLION. WE ARE CURRENTLY WORKING WITH USAID MANAGERS TO ASSIST THEM IN DETERMINING WHETHER THE AGENCY WILL MEET THOSE THRESHOLDS.

WE ALSO ASSIST USAID IN MEETING THEIR AUDIT REQUIREMENTS UNDER FEDERAL REGULATIONS AND OUR OWN POLICIES. AUDITS ARE CONDUCTED OF U.S.-BASED CONTRACTORS, GRANTEES, AND ENTERPRISE FUNDS, AND OF FOREIGN-BASED CONTRACTORS AND GRANTEES. THE DEFENSE CONTRACT AUDIT AGENCY AND PRIVATE CPA FIRMS CONDUCT THESE AUDITS AND WE PROVIDE OVERSIGHT OF THEIR WORK. FINANCIAL AUDITS OF USAID CONTRACTORS AND GRANTEES MAY IDENTIFY QUESTIONED COSTS, THAT, IF SUSTAINED BY THE CONTRACT OR AGREEMENT OFFICER, MUST BE REIMBURSED TO USAID. QUESTIONED COSTS INCLUDE (1) COSTS THAT ARE INELIGIBLE UNDER THE TERMS OF UNDERLYING CONTRACT, GRANT, OR AGREEMENT, AS WELL AS (2) UNSUPPORTED COSTS THAT LACK SUFFICIENT SUPPORTING DOCUMENTATION TO PERMIT THE AUDITOR TO MAKE AN INFORMED JUDGMENT ON THE ELIGIBILITY OF THE COST OR THAT LACK REQUIRED APPROVALS.

FROM OCTOBER 1, 2001 THROUGH MARCH 31, 2003, USAID REACHED MANAGEMENT DECISIONS ON AUDIT RECOMMENDATIONS THAT QUESTIONED $28.0 MILLION IN CONTRACTOR AND GRANTEE COSTS. THIS AMOUNT INCLUDED $8.3 MILLION IN COSTS THAT WERE UNSUPPORTED. OF THE $28.0 MILLION IN QUESTIONED COSTS, USAID DID NOT ALLOW $10.5 MILLION OF WHICH $8.2 MILLION WAS NOT ALLOWED BECAUSE THE COSTS WERE NOT ELIGIBLE AND $2.3 MILLION WAS DISALLOWED BECAUSE THE CONTRACTOR COULD NOT SUPPORT THE COSTS CLAIMED WHEN THE AUDIT WAS PERFORMED. THE $10.5 MILLION WAS DEOBLIGATED BY USAID AND, AS I INDICATED PREVIOUSLY, FUNDS THAT ARE DEOBLIGATED MAY BE REUSED FOR OTHER SIMILAR ACTIVITIES OR ARE RETURNED TO THE U.S. TREASURY.

PERFORMANCE AUDITS

MY TESTIMONY FOR THE RECORD, DATED JULY 9, 2003 TO THE HOUSE COMMITTEE ON BUDGET TALKED ABOUT A CARGO PREFERENCE AUDIT WE PERFORMED. WHEN PROVIDING FOOD ASSISTANCE TO NATIONS OVERSEAS, BOTH USAID AND THE U.S. DEPARTMENT OF AGRICULTURE (USDA) ARE REQUIRED BY LAW TO SHIP A CERTAIN PERCENTAGE OF TONNAGE ON PRIVATELY OWNED U.S. FLAG COMMERCIAL VESSELS. THIS CARGO PREFERENCE HELPS ENSURE THAT THE UNITED STATES MAINTAINS AN ADEQUATE AND VIABLE MERCHANT MARINE. IN 1985, CONGRESS INCREASED THIS REQUIREMENT FROM 50 TO 75 PERCENT FOR COMMODITIES SHIPPED UNDER CERTAIN U.S. FOOD ASSISTANCE PROGRAMS. AT THE SAME TIME, CONGRESS DIRECTED THAT THE U.S. DEPARTMENT OF TRANSPORTATION (DOT) FINANCE ANY INCREASES IN FOOD ASSISTANCE SHIPPING COSTS DUE TO THE APPLICATION OF THIS NEW REQUIREMENT. UNDER A MEMORANDUM OF UNDERSTANDING, USDA AGREED TO APPLY FOR ALL CARGO PREFERENCE REIMBURSEMENTS FROM DOT. AFTER RECEIVING FUNDS FROM DOT, USDA WOULD THEN APPORTION TO USAID'S P.L. 480 TITLE II AND TITLE III FOOD SHIPMENTS.

IN MARCH 2001, WE CONDUCTED AN AUDIT OF CARGO PREFERENCE REIMBURSEMENTS UNDER SECTION 901d OF THE MERCHANT MARINE ACT OF 1936. WE FOUND THAT, IN ACCORDANCE WITH ESTABLISHED LAWS, POLICIES, AND PROCEDURES GOVERNING THE ADMINISTRATION OF CARGO PREFERENCE REIMBURSEMENTS, USDA COULD BE ENTITLED TO AS MUCH AS $289 MILLION IN ADDITIONAL REIMBURSEMENTS. OF THAT AMOUNT, UP TO $175 MILLION COULD BE MADE AVAILABLE TO THE TWO PROGRAMS ADMINISTERED BY USAID. OUR RECOMMENDATIONS INCLUDED SEEKING THAT $175 MILLION IN UNCLAIMED REIMBURSEMENTS FOR EXCESS OCEAN FREIGHT COSTS DATING BACK TO 1994. USAID MANAGEMENT CONCURRED WITH THE AUDIT FINDINGS. U.S. DEPARTMENT OF AGRICULTURE AND USAID MANAGERS HAVE BEEN WORKING TO RESOLVE THIS ISSUE AND HAVE TAKEN THEIR CASE TO OMB.

INVESTIGATIONS

OIG INVESTIGATIONS CAN RESULT IN FINES, COST RECOVERIES, OR SAVINGS, TO EITHER USAID OR TO THE U.S. TREASURY. FOR EXAMPLE, A MAJOR INVESTIGATION BY THE OIG OF BID RIGGING AND FRAUD IN USAID-FUNDED CONSTRUCTION CONTRACTS IN EGYPT RESULTED IN FINES, SAVINGS AND RESTITUTION OF OVER $260 MILLION IN FISCAL YEARS 2000 TO 2002. WHILE MOST OF THIS MONEY WENT TO THE GENERAL FUND OF THE U.S. TREASURY, APPROXIMATELY $10 MILLION IN RESTITUTION WAS RETURNED TO THE USAID PROGRAM IN APRIL OF 2001.

THANK YOU FOR THIS OPPORTUNITY TO PRESENT TESTIMONY CONCERNING EFFORTS TO IDENTIFY AND ELIMINATE WASTE, FRAUD, ABUSE, AND MISMANAGEMENT WITH RESPECT TO USAID. I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.

Chairman HYDE. Thank you, Mr. Mosley.

Last, Mr. Ford?

STATEMENT OF JESS FORD, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GENERAL ACCOUNTING OFFICE

Mr. FORD. Thank you, Mr. Chairman. I am pleased to be here today to discuss the Department of State and USAID's stewardship of their resources and areas within their budgets where we believe strong management practices has the potential to result in cost savings.

In carrying out its mission of forming, representing and implementing U.S. foreign policy, the State Department faces complex challenges, some of which have been intensified since the terrorist attacks of September 11, these include the provision of secure facilities overseas.

Over the past several years, funding for the State Department's operation has increased, particularly for security upgrades at Embassies and consulates around the world and for a major hiring program to meet U.S. foreign policy needs. USAID has also received significant funding increases recently to support such programs in Afghanistan, Iraq, as well as HIV/AIDS programs. In our view, sound management practices can affect the utilization of these large sums of money.

My statement today is based on work that we have done at the State Department and AID over the last couple years. I am going to focus on three areas related to the State Department.

First, our work at State shows that overall the department has paid significant attention to managing its resources, and this effort is starting to show some results, including the potential for cost savings and improved operational effectiveness and efficiency.

In the area of unneeded real estate, the department manages and oversees a real property portfolio valued in excess of $12 billion. The management of real property is an area where State can achieve major cost savings. In 1996, we were critical of State's disposal of unneeded facilities. We reported that State did not have an effective process for identifying and selling unneeded real estate and that decisions concerning the sale of some properties valued at hundreds of millions of dollars had been delayed for years.

In recent years, State has brought a more businesslike approach to managing its real estate portfolio and has accelerated the sale of unneeded property and generated revenue that can be used to replace unsafe, deteriorating facilities worldwide.

In total, between fiscal years 1997 and 2002, State sold property valued at more than $459 million. The proceeds from these sales will be used to construct new Embassies in Germany, Angola and other worldwide locations. State estimates that it will generate proceeds from additional property sales in excess of $300 million over the next 5 years.

If State continues to streamline its operations and dispose of additional facilities over the next several years, it can potentially avoid having to request additional funding from Congress for other real property needs.

Now let me turn to Embassy construction. In the past, we have reported that the State Department Embassy construction projects took longer and cost more than budgeted. Due to delays in State's construction program in the late 1980s and subsequent funding cutbacks, facilities lacked adequate security and remained vulnerable to terrorist attacks.

State is also taking a more businesslike approach in addressing the Embassy construction program, which is currently expected to cost as much as $17 billion. For example, the State Department has instituted reforms such as using standard building designs and fast track contracting, which could lower the cost of Embassy construction and lessen the chances of cost overruns and schedule delays.

We reported in January 2003 that cost cutting efforts allowed State to achieve about $150 million in potential cost savings. Given the large number of buildings still to be built, the amount of money that could be saved could be many hundreds of millions more.

A third area that we have covered extensively that has some potential for cost savings is in the area of right sizing overseas presence. State maintains a network of 260 diplomatic posts in about 170 countries staffed by thousands of U.S. and foreign national employees. The cost of maintaining U.S. staff overseas is high, in excess of $300,000 a person at some posts, according to OMB.

We have reported that State and most other foreign affairs agencies lack systematic processes for determining the appropriate overseas staffing levels that it needs. As a result, there was no assurance that personnel assigned abroad represented the right number of people with the right skills.

Since 2001, State has directed significant effort to improving the management of its overseas presence in an effort to address workforce planning and staffing issues. In response to management weaknesses that we had previously identified, State has begun addressing right sizing and staffing shortages at hardship posts.

For example, State has indicated that it is pursuing regionalization in Europe, as well as other opportunities to relocate positions from overseas back to the United States, which could result in lower operating costs. We believe State should continue to rigorously examine this area because we believe that there are potential savings that could be achieved.

Now let me turn to AID. Our work at the U.S. Agency for International Development over the years has identified a number of operational and management deficiencies that have hampered the effective delivery of our U.S. foreign assistance programs. These areas include human capital management and workforce planning, program evaluation and performance measurement, and finally information technology and financial management.

Improved management of these critical systems is essential if AID is to insure that its foreign assistance objectives are being met and that its funds and resources are being effectively safeguarded.

Our recent work in the area of human capital indicates some of the major challenges facing the agency. USAID has not yet completed a comprehensive workforce plan to address its overall workforce skills and deficiencies. AID's direct hire workforce has declined significantly in the last 10 years, and many foreign service officers are eligible to retire soon.

This is occurring at a time when USAID's overall program funding is growing. The combination of attrition of foreign service staff, increased funding and heavy reliance on outside contractors and grantees raises concern about whether USAID will be able to effectively carry out its programs in the future.

Mr. Chairman, this concludes my summary. I would be happy to answer any questions.

[The prepared statement of Mr. Ford follows:]

PREPARED STATEMENT OF JESS FORD, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the Department of State's and the U.S. Agency for International Development's (USAID) stewardship of their resources and areas within their budgets where applying strong management practices has the potential to produce efficiencies that could result in cost savings. To put this in perspective, in fiscal year 2003, State was appropriated about $6 billion for the administration of foreign affairs and USAID received approximately $12 billion in total program funding.

In carrying out its mission of forming, representing, and implementing U.S. foreign policy, State faces complex challenges, some of which have intensified since the terrorist attacks of September 11, 2001, including the provision of secure facilities overseas. Over the last several years, funding for State's operations has increased, particularly for security upgrades at embassies and consulates around the world and for a major hiring program to meet U.S. foreign policy needs. USAID has also received significant funding increases for foreign assistance programs, in Afghanistan and Iraq in particular, as well as for HIV/AIDS relief programs. However, resources are not unlimited, and sound management practices can affect the utilization of large sums of money.

Over the years, GAO, State's Office of the Inspector General (OIG), and various commissions and studies have identified numerous management weaknesses at State. In addition, GAO and others have identified management challenges and operational deficiencies at USAID that affect the agency's ability to implement its programs. Ongoing attention to resource management issues at both State and USAID will be needed to ensure that the department and the agency take advantage of opportunities for more efficient operations and achieve budget savings wherever possible.

My statement today is based on our work at State and USAID over the last several years. I will focus on our observations regarding State's management in the following five areas: (1) unneeded[1] real estate; (2) embassy construction; (3) overseas presence and staffing, including rightsizing;[2] (4) information technology; and (5) strategic planning. I will also discuss key areas where USAID has faced challenges, including (1) human capital management and workforce planning, (2) program evaluation and performance measurement, (3) information technology, and (4) financial management. A list of relevant GAO reports is attached to the end of my statement (see app. I).

SUMMARY

Overall, our work at the Department of State shows that it has paid more attention to managing resources, and this effort is starting to show results—including the potential for cost savings and improved operational effectiveness and efficiency. For example,

- In 1996, GAO was critical of State's disposal of unneeded facilities. We reported that State did not have an effective process for identifying and selling unneeded real estate, and that decisions concerning the sale of some properties valued at hundreds of millions of dollars had been delayed for years. In recent years, State has brought a more businesslike approach to managing its overseas real estate portfolio—valued at approximately $12 billion—and has accelerated the sale of unneeded property and generated revenue that can be used to replace unsafe, deteriorating facilities worldwide. In total, between fiscal years 1997 through 2002, State sold properties for more than $459 million. The proceeds from these sales will be used to construct new facilities in Germany, Angola, and other locations worldwide. State estimates proceeds

[1] We use the term "unneeded" property to encompass the terms "excess, underutilized, and obsolete" property used by the State Department.

[2] We define rightsizing as aligning the number and location of staff assigned overseas with foreign policy priorities and security and other constraints.

from additional property sales valued at $300 million between fiscal years 2003 through 2008 that could be used for other priorities. If State continues to streamline its operations and dispose of additional facilities over the next several years, it can potentially avoid having to request additional funding from the Congress for other real property needs.

- In the past, we reported that State's embassy construction projects took longer and cost more than budgeted. Due to delays in State's construction program of the late 1980s, and subsequent funding cutbacks, facilities lacked adequate security and remained vulnerable to terrorist attack. State has also begun taking a more businesslike approach with its embassy construction program, which it expects will cost an additional $17 billion beginning in fiscal year 2004. For example, State has instituted reforms, such as using standard building designs and "fast-track" contracting, that could lower the cost of embassy construction and lessen the chances of cost overruns and schedule delays. We reported in January 2003 that cost-cutting efforts allowed State to achieve about $150 million in potential cost savings during fiscal year 2002. State should continue to promote a streamlined approach as it determines requirements for, designs, and constructs new embassies in an effort to find other opportunities to cut costs while continuing to provide safe and secure facilities.
- We have also reported that State and most other foreign affairs agencies lacked a systematic process for determining appropriate overseas staffing levels. As a result, there was no assurance that personnel stationed abroad represented the right number of people with the right skills. Since 2001, State has directed significant effort to improving the management of its overseas presence in an effort to address workforce planning and staffing issues. In response to management weaknesses that we have previously identified, State has begun addressing rightsizing options and staffing shortages at hardship posts. For example, the department has indicated that it is pursuing regionalization in Europe, as well as opportunities to relocate positions from overseas back to the United States, which should result in lower operating costs. State should continue to review its workforce planning policies to ensure that the U.S. government has the right people in the right places at the right times to support U.S. foreign policy goals. Moreover, in determining overseas staffing levels, State should adopt industry best practices, such as competitive sourcing of administrative and support functions, which could result in cost reductions and streamlined services overseas.
- Previous GAO and State's Office of Inspector General (OIG) reports cited weaknesses in the information technology system, including State's inability to collaborate with other foreign affairs agencies, as significant challenges for the department. State officials have recognized deficiencies in the department's management of information technology programs. The Secretary of State has made a major commitment to modernizing information technology and plans to spend $262 million over fiscal years 2003 and 2004 on information technology modernization initiatives overseas. For example, State is now working to replace its antiquated cable system with a new integrated messaging and retrieval system. According to State, its information technology is now in the best shape it has ever been, including improved Internet access and upgraded computer equipment. Due to the level of investment the department is making in information technology, continued oversight will be necessary to minimize the risks of spending large sums of money on systems that do not produce commensurate value.
- From 1998 through 2000, we found major weaknesses in State's strategic planning processes. The department had not developed overall priorities for achieving its strategic goals, and consequently, had no overall basis for allocating resources to priorities. Since 2001, State has made improvements both at headquarters and overseas that are intended to link staffing and budgetary requirements with policy priorities. State is now working to forge a stronger link between resources and performance, strategic plans, annual performance plans, and annual performance reports. This effort will enable State to show what is being accomplished with the money it is spending. Improvements in strategic planning will also ensure that State is setting clear objectives, tying resources to these objectives, and monitoring its progress in achieving them—all of which are key to efficient operations.

Our work at the U.S. Agency for International Development (USAID) indicates that the agency has begun taking corrective actions in areas that, over the years, GAO and others have identified as having weak management and operational deficiencies. These areas include human capital management and workforce planning, program evaluation and performance measurement, information technology, and financial management. Improved management of these critical systems is essential if USAID is to ensure that its foreign assistance objectives are being met and its funds and resources are effectively safeguarded. Our recent work on USAID's democracy and rule of law programs also revealed certain management weaknesses that, if corrected, would help ensure that these programs can be sustained in difficult overseas environments, are better coordinated with other U.S. agencies and international donors to maximize resources, and achieve their intended results.

Mr. Chairman, State, USAID, and all government agencies have an obligation to ensure that taxpayer resources are managed wisely. The programs and activities that I am covering today have benefited and will continue to benefit from sound management practices that could result in more savings and efficiencies.

BACKGROUND

Approximately 4 percent of discretionary spending in the United States' federal budget is appropriated for the conduct of foreign affairs activities. This includes funding for bilateral and multilateral assistance, military assistance, and State Department activities. Spending for State, taken from the "150 Account," makes up the largest share of foreign affairs spending. Funding for State's Diplomatic and Consular Programs—State's chief operating account, which supports the department's diplomatic activities and programs, including salaries and benefits—comprises the largest portion of its appropriations. Embassy security, construction, and maintenance funding comprises another large portion of State's appropriation. Funding for the administration of foreign affairs has risen dramatically in recent fiscal years, due, in part, to enhanced funding for security-related improvements worldwide, including personnel, construction, and equipment following the bombings of two U.S. embassies in 1998 and the events of September 11, 2001. For example, State received about $2.8 billion in fiscal year 1998, but by fiscal year 2003, State's appropriation was approximately $6 billion. For fiscal year 2004, State is seeking approximately $6.4 billion, which includes $4 billion for diplomatic and consular affairs and $1.5 billion for embassy security, construction, and maintenance. In addition, State plans to spend $262 million over fiscal years 2003 and 2004 on information technology modernization initiatives overseas.

Humanitarian and economic development assistance is an integral part of U.S. global security strategy, particularly as the United States seeks to diminish the underlying conditions of poverty and corruption that may be linked to instability and terrorism. USAID is charged with overseeing U.S. foreign economic and humanitarian assistance programs. In fiscal year 2003, Congress appropriated about $12 billion—including supplemental funding—to USAID, and the agency managed programs in about 160 countries, including 71 overseas missions with USAID direct-hire presence. Fiscal year 2004 foreign aid spending is expected to increase due, in part, to substantial increases in HIV/AIDS funding and security-related economic aid.

DEPARTMENT OF STATE

I would like to discuss State's performance in managing its overseas real estate, overseeing major embassy construction projects, managing its overseas presence and staffing, modernizing its information technology, and developing and implementing strategic plans.

Management of Real Property

State manages an overseas real property portfolio valued at approximately $12 billion. The management of real property is an area where State could achieve major cost savings and other operational efficiencies. In the past, we have been critical of State's management of its overseas property, including its slow disposal of unneeded facilities. Recently, officials at State's Bureau of Overseas Buildings Operations (OBO), which manages the government's real property overseas, have taken a more systematic approach to identifying unneeded properties and have significantly increased the sale of these properties. For example, in 2002, OBO completed sales of 26 properties totaling $64 million, with contracts in place for another $40 million in sales. But State needs to dispose of more facilities in the coming years as it embarks on an expensive plan to replace embassies and consulates that do not meet State's security requirements and/or are in poor condition.

Unneeded Property

Unneeded property and deteriorating facilities present a real problem—but also an opportunity to improve U.S. operations abroad and achieve savings. We have reported that the management of overseas real estate has been a continuing challenge for State, although the department has made improvements in recent years. One of the key weaknesses we found was the lack of a systematic process to identify unneeded properties and to dispose of them in a timely manner. In 1996, we identified properties worth hundreds of millions of dollars potentially excess to State's needs or of questionable value and expensive to maintain that the department had not previously identified for potential sale.[3] As a result of State's inability to resolve internal disputes and sell excess property in an expeditious manner, we recommended that the Secretary of State appoint an independent panel to decide which properties should be sold. The Secretary of State created this panel in 1997. As of April 2002, the Real Property Advisory Board had reviewed 41 disputed properties and recommended that 26 be sold. By that time, State had disposed of seven of these properties for about $21 million.

In 2002, we again reviewed State's processes for identifying and selling unneeded overseas real estate and found that it had taken steps to implement a more systematic approach that included asking posts to annually identify properties for disposal and increasing efforts by OBO and officials from State's OIG to identify such properties when they visit posts.[4] For example, the director of OBO took steps to resolve disputes with posts that have delayed the sale of valuable property. OBO has also instituted monthly Project Performance Reviews to review all aspects of real estate management, such as the status of acquisitions and disposal of overseas property. However, we found that the department's ability to monitor property use and identify potentially unneeded properties was hampered by errors and omissions in its property inventory. Inaccurate inventory information can result in unneeded properties not being identified for potential sale. Therefore, we recommended that the department improve the accuracy of its real property inventory. In commenting on our report, OBO said that it had already taken action to improve its data collection. For example, State sent a cable to all overseas posts reminding them of their responsibilities to maintain accurate real estate records.

State has significantly improved its performance in selling unneeded property. In total, between fiscal years 1997 through 2002, State sold 129 properties for more than $459 million. Funds generated from property sales are being used to help offset embassy construction costs in Berlin, Germany; Luanda, Angola; and elsewhere. State estimates it will sell additional properties between fiscal years 2003 and 2008 valued at approximately $300 million. More recently, State has taken action to sell two properties (a 0.4 acre parking lot and an office building) in Paris identified in a GAO report as potentially unneeded.[5] After initially resisting the sale of the parking lot, the department reversed its decision and sold both properties in June 2003 for a total of $63.1 million—a substantial benefit to the government. The parking lot alone was sold conditionally for $20.7 million.[6] Although this may be a unique case, it demonstrates how scrutiny of the property inventory could result in potential savings. The department should continue to look closely at property holdings to see if other opportunities exist. If State continues to streamline its operations and dispose of additional facilities over the next several years, it can use those funds to help offset the cost of replacing about 160 embassies and consulates for security reasons in the coming years.

Embassy Construction

In the past, State has had difficulties ensuring that major embassy construction projects were completed on time and within budget. For example, in 1991 we reported that State's previous construction program suffered from delays and cost increases due to, among other things, poor program planning and inadequate contractor performance. In 1998, State embarked on the largest overseas embassy construction program in its history in response to the bombings of U.S. embassies in Africa. From fiscal years 1999 through 2003, State received approximately $2.7 billion for its new construction program and began replacing 25 of 185 posts identified

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[3] U.S. General Accounting Office, *Overseas Real Estate: Millions of Dollars Could Be Generated by Selling Unneeded Real Estate*, GAO/NSIAD–96–36 (Washington, D.C.: Apr. 23, 1996).

[4] U.S. General Accounting Office, *State Department: Sale of Unneeded Property Has Increased, but Further Improvements Are Necessary*, GAO–02–590 (Washington, D.C.: June 11, 2002).

[5] U.S. General Accounting Office, *State Department: Decision to Retain Embassy Parking Lot in Paris, France, Should Be Revisited*, GAO–01–477 (Washington, D.C.: Apr. 13, 2001).

[6] The parking lot was sold on the condition that the purchasers could obtain within the next 2 years the zoning permits necessary to build on the property.

as vulnerable by State. To better manage this program, OBO has undertaken several initiatives aimed at improving State's stewardship of its funds for embassy buildings, including cutting costs of planned construction projects, using standard designs, and reducing construction duration through a "fast track" process. Moreover, State hopes that additional management tools aimed at ensuring that new facilities are built in the most cost-effective manner, including improvements in how agencies determine requirements for new embassies, will help move the program forward. State is also pursuing a cost-sharing plan that would charge other federal agencies for the cost of their overall overseas presence and provide additional funds to help accelerate the embassy construction program.

Replacing Vulnerable Facilities

While State has begun replacing many facilities, OBO officials estimated that beginning in fiscal year 2004, it will cost an additional $17 billion to replace facilities at remaining posts. As of February 2003, State had begun replacing 25 of 185 posts identified by State as vulnerable after the 1998 embassy bombings. To avoid the problems that weakened the previous embassy construction program, we recommended that State develop a long-term capital construction plan that identifies (1) proposed construction projects' cost estimates and schedules and (2) estimated annual funding requirements for the overall program.[7] Although State initially resisted implementing our recommendation, OBO's new leadership reconsidered this recommendation and has since produced two annual planning documents titled the "Long-Range Overseas Building Plan." According to OBO, the long-range plan is the roadmap by which State, other departments and agencies, the Office of Management and Budget (OMB), the Congress, and others can focus on defining and resolving the needs of overseas facilities.

In addition to the long-range plan, OBO has undertaken several initiatives aimed at improving State's stewardship of its embassy construction funds. These measures have the potential to result in significant cost savings and other efficiencies. For example, OBO has

- developed Standard Embassy Designs (SED) for use in most embassy construction projects. SEDs provide OBO with the ability to contract for shortened design and construction periods and control costs through standardization;
- shifted from "design-bid-build" contracting toward "design-build" contracts, which have the potential to reduce project costs and construction time frames;
- developed and implemented procedures to enforce cost planning during the design phase and ensure that the final designs are within budget; and
- increased the number of contractors eligible to bid for construction projects, thereby increasing competition for contracts, which could potentially result in lower bids.

OBO has set a goal of a 2-year design and construction period for its mid-sized, standard embassy design buildings, which, if met, could reduce the amount of time spent in design and construction by almost one year. We reported in January 2003 that these cost-cutting efforts allowed OBO to achieve $150 million in potential cost savings during fiscal year 2002. These savings, according to OBO, resulted from the application of the SEDs and increased competition for the design and construction of these projects.

Despite these gains, State will face continuing hurdles throughout the life of the embassy construction program. These hurdles include meeting construction schedules within the estimated costs and ensuring that State has the capacity to manage a large number of projects simultaneously. Because of the high costs associated with this program and the importance of providing secure facilities overseas, we believe this program merits continuous oversight by State, GAO, and the Congress.

Staffing Requirements for New Embassy Compounds

In addition to ensuring that individual construction projects meet cost and performance schedules, State must also ensure that new embassies are appropriately sized. Given that the size and cost of new facilities are directly related to agencies' anticipated staffing needs, it is imperative that future requirements be predicted as accurately as possible. Embassy buildings that are designed too small may require additional construction and funding in the future; buildings that are too large may have unused space—a waste of government funds. State's construction program in

[7] U.S. General Accounting Office, *Embassy Construction: Long-Term Planning Will Enhance Program Decision-making*, GAO–01–11 (Washington, D.C.: Jan. 22, 2001).

the late 1980s encountered lengthy delays and cost overruns in part because it lacked coordinated planning of post requirements prior to approval and budgeting for construction projects. As real needs were determined, changes in scope and increases in costs followed. OBO now requires that all staffing projections for new embassy compounds be finalized prior to submitting funding requests, which are sent to Congress as part of State's annual budget request each February.

In April 2003, we reported that U.S. agencies operating overseas, including State, were developing staffing projections without a systematic approach.[8] We found that State's headquarters gave embassies little guidance on factors to consider when developing projections, and thus U.S. agencies did not take a consistent or systematic approach to determining long-term staffing needs. Based on our recommendations, State in May 2003 issued a "Guide to Developing Staffing Projections for New Embassy and Consulate Compound Construction," which requires a more serious, disciplined approach to developing staffing projections. When fully implemented, this approach should ensure that overseas staffing projections are more accurate and minimize the financial risks associated with building facilities that are designed for the wrong number of people.

Capital Security Cost Sharing

Historically, State has paid all costs associated with the construction of overseas facilities.[9] Following the embassy bombings, the Overseas Presence Advisory Panel (OPAP)[10] noted a lack of cost sharing among agencies that use overseas facilities. As a result, OPAP recommended that agencies be required to pay rent in government-owned buildings in foreign countries to cover operating and maintenance costs. In 2001, an interagency group put forth a proposal that would require agencies to pay rent based on the space they occupy in overseas facilities, but the plan was not enacted. In 2002, OMB began an effort to develop a mechanism that would require users of overseas facilities to share the construction costs associated with those facilities. The administration believes that if agencies were required to pay a greater portion of the total costs associated with operating overseas facilities, they would think more carefully before posting personnel overseas. As part of this effort, State has presented a capital security cost-sharing plan that would require agencies to help fund its capital construction program. State's proposal calls for each agency to fund a proportion of the total construction program cost based on its respective proportion of total overseas staffing. OBO has reported that its proposed cost-sharing program could result in additional funds, thereby reducing the duration of the overall program.

Overseas Presence and Staffing

State maintains a network of approximately 260 diplomatic posts in about 170 countries worldwide and employs a direct-hire workforce of about 30,000 employees, about 60 percent of those overseas. The costs of maintaining staff overseas vary by agency but in general are extremely high. In 2002, the average annual cost of placing one full-time direct-hire American family of four in a U.S. embassy was approximately $339,000.[11] These costs make it critical that the U.S. overseas presence is sized appropriately to conduct its work. We have reported that State and most other federal agencies overseas have historically lacked a systematic process for determining the right number of personnel needed overseas—otherwise known as rightsizing.[12] Moreover, in June 2002,[13] we reported that State faces serious staffing

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[8] U.S. General Accounting Office, *Embassy Construction: Process for Determining Staffing Requirements Needs Improvement*, GAO–03–411 (Washington, D.C.: Apr. 7, 2003).

[9] Agencies contribute funding to support the International Cooperative Administrative Support Services system, which funds common administrative support functions, such as travel, mail and messenger, vouchering, and telephone services, that all agencies at a post may use.

[10] Secretary of State Madeline Albright established OPAP following the 1998 embassy bombings in Africa to consider the organization of U.S. embassies and consulates. Department of State, *America's Overseas Presence in the 21st Century, The Report of the Overseas Presence Advisory Panel* (Washington, D.C.: Nov. 1999).

[11] Testimony of Nancy Dorn, deputy director of the Office of Management and Budget, before the House Subcommittee on National Security, Veterans Affairs, and International Relations, House Committee on Government Reform, May 1, 2002.

[12] U.S. General Accounting Office, *Overseas Presence: More Work Needed on Embassy Rightsizing*, GAO–02–143 (Washington, D.C.: Nov. 27, 2001).

[13] U.S. General Accounting Office, *State Department: Staffing Shortfalls and Ineffective Assignment System Compromise Diplomatic Readiness at Hardship Posts*, GAO–02–626 (Washington, D.C.: June 18, 2002).

shortfalls at hardship posts[14]—in both the number of staff assigned to these posts and their experience, skills, and/or language proficiency. Thus, State has been unable to ensure that it has "the right people in the right place at the right time with the right skills to carry out America's foreign policy"—its definition of diplomatic readiness.[15] However, since 2001, State has directed significant attention to improving weaknesses in the management of its workforce planning and staffing issues that we and others have noted.[16] Because personnel salaries and benefits consume a huge portion of State's operating budget, it is important that the department exercise good stewardship of its human capital resources.

Overseas Staffing

Around the time GAO designated strategic human capital management as a governmentwide high-risk area in 2001, State, as part of its Diplomatic Readiness Initiative (DRI), began directing significant attention to addressing its human capital needs, adding 1,158 employees over a 3-year period (fiscal years 2002 through 2004). In fiscal year 2002, Congress allocated nearly $107 million for the DRI. State requested nearly $100 million annually in fiscal years 2003 and 2004 to hire approximately 400 new staff each year.

The DRI has enabled the department to boost recruitment. However, State has historically lacked a systematic approach to determine the appropriate size and location of its overseas staff. To move the rightsizing process forward, the August 2001 President's Management Agenda identified it as one of the administration's priorities. Given the high costs of maintaining the U.S. overseas presence, the administration has instructed U.S. agencies to reconfigure the number of overseas staff to the minimum necessary to meet U.S. foreign policy goals. This OMB-led initiative aims to develop cost-saving tools or models, such as increasing the use of regional centers, revising the Mission Performance Planning (MPP) process,[17] increasing overseas administrative efficiency, and relocating functions to the United States.[18] According to the OPAP, although the magnitude of savings from rightsizing the overseas presence cannot be known in advance, "significant savings" are achievable. For example, it said that reducing all agencies' staffing by 10 percent could yield governmentwide savings of almost $380 million a year.[19]

GAO's Rightsizing Framework

In May 2002, we testified on our development of a rightsizing framework.[20] The framework is a series of questions linking staffing levels to three critical elements of overseas diplomatic operations: security of facilities, mission priorities and requirements, and cost of operations. It also addresses consideration of rightsizing options, such as relocating functions back to the United States or to regional centers, competitively sourcing functions, and streamlining operations. Rightsizing analyses could lead decision makers to increase, decrease, or change the mix of staff at a given post. For example, based on our work at the U.S. embassy in Paris, we identified positions that could potentially be relocated to regional centers or back to the United States. On the other hand, rightsizing analyses may indicate the need for increased staffing, particularly at hardship posts. In a follow-up report to our testimony,[21] we recommended that the director of OMB ensure that our framework is used as a basis for assessing staffing levels in the administration's rightsizing initiative.[22]

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[14] Hardship posts are locations where the U.S. government offers additional pay incentives to compensate Foreign Service employees for adverse living and environmental conditions, such as poor schools, inadequate medical facilities, high levels of crime, and severe climates.

[15] GAO–02–626.

[16] U.S. General Accounting Office, Performance and Accountability Series, *Major Management Challenges and Program Risks, Department of State*, GAO–03–107 (Washington, D.C.: Jan. 2003).

[17] MPPs are annual plans that describe the performance goals and objectives for a given embassy.

[18] Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002* (Washington, D.C.: Aug. 2001).

[19] U.S. Department of State, *America's Overseas Presence in the 21st Century, The Report of the Overseas Presence Advisory Panel* (Washington, D.C.: Nov. 1999).

[20] U.S. General Accounting Office, *Overseas Presence: Observations on a Rightsizing Framework*, GAO–02–659T (Washington, D.C.: May 1, 2002).

[21] U.S. General Accounting Office, *Overseas Presence: Framework for Assessing Embassy Staff Levels Can Support Rightsizing Initiatives*, GAO–02–780 (Washington, D.C.: July 2002).

[22] GAO subsequently applied the framework to developing countries and found that it was applicable. See U.S. General Accounting Office, *Overseas Presence: Rightsizing Framework Can Be*

Continued

In commenting on our rightsizing reports, State endorsed our framework and said it plans to incorporate elements of our rightsizing questions into its future planning processes, including its MPPs. State also has begun to take further actions in managing its overseas presence—along the lines that we recommended in our June 2002 report on hardship posts—including revising its assignment system to improve staffing of hardship posts and addressing language shortfalls by providing more opportunities for language training.[23] In addition, State has already taken some rightsizing actions to improve the cost effectiveness of its overseas operating practices.[24] For example, State

- plans to spend at least $80 million to purchase and renovate a 23-acre, multi-building facility in Frankfurt, Germany—slated to open in mid-2005—for use as a regional hub to conduct and support diplomatic operations;[25]
- has relocated more than 100 positions from the Paris embassy to the regional Financial Services Center in Charleston, South Carolina; and
- is working with OMB on a cost-sharing mechanism, as previously mentioned, that will give all U.S. agencies an incentive to weigh the high costs to taxpayers associated with assigning staff overseas.

In addition to these rightsizing actions, there are other areas where the adoption of industry best practices could lead to cost reductions and streamlined services.[26] For example, in 1997, we reported that State could significantly streamline its employee transfer and housing relocation processes. We also reported in 1998 that State's overseas posts could potentially save millions of dollars by implementing best practices such as competitive sourcing.

In light of competing priorities as new needs emerge, particularly in Iraq and Afghanistan, State must be prepared to make difficult strategic decisions on which posts and positions it will fill and which positions it could remove, relocate, or regionalize. State will need to marshal and manage its human capital to facilitate the most efficient, effective allocation of these significant resources.

Information Technology

Up-to-date information technology, along with adequate and modern office facilities, is an important part of diplomatic readiness. We have reported that State has long been plagued by poor information technology at its overseas posts, as well as weaknesses in its ability to manage information technology modernization programs.[27] State's information technology capabilities provide the foundation of support for U.S. government operations around the world, yet many overseas posts have been equipped with obsolete information technology systems that prevented effective interagency information sharing.

The Secretary of State has made a major commitment to modernizing the department's information technology. In March 2003, we testified that the department invested $236 million in fiscal year 2002 on key modernization initiatives for overseas posts and plans to spend $262 million over fiscal years 2003 and 2004.[28] State reports that its information technology is now in the best shape it has ever been, including improved Internet access and upgraded computer equipment. The depart-

Applied at U.S. Diplomatic Posts in Developing Countries, GAO–03–396 (Washington, D.C.: Apr. 2003).

[23] GAO–03–107.

[24] We will report further on State's recruitment of new Foreign Service officers in a report for the House Government Reform Committee's Subcommittee on National Security, Emerging Threats, and International Relations that we expect to issue this fall.

[25] This facility, called Creekbed, will be the largest U.S. diplomatic facility overseas. In July 2002, Creekbed was officially transferred from the German government to the State Department for $30.3 million. The design and renovation cost for the facility is estimated as $49.8 million, bringing total projected costs to $80.1 million. See U.S. General Accounting Office, *Overseas Presence: Rightsizing Is Key to Considering Relocation of Regional Staff to New Frankfurt Center*, GAO–03–1061 (Washington, D.C.: Sept. 2, 2003).

[26] U.S. General Accounting Office, *State Department: Using Best Practices to Relocate Employees Could Reduce Costs and Improve Service*, GAO/NSIAD–98–19 (Washington, D.C.: Oct. 17, 1997); and *State Department: Options for Reducing Overseas Housing and Furniture Costs*, GAO/NSIAD–98–128 (Washington, D.C.: July 31, 1998).

[27] U.S. General Accounting Office, *Information Technology: State Department-Led Overseas Modernization Program Faces Management Challenges*, GAO–02–41 (Washington, D.C.: Nov. 16, 2001), and *Foreign Affairs: Effort to Upgrade Information Technology Overseas Faces Formidable Challenges*, GAO–T–AIMD/NSIAD–00–214 (Washington, D.C.: June 22, 2000).

[28] U.S. General Accounting Office, *Overseas Presence: Conditions of Overseas Diplomatic Facilities*, GAO–03–557T (Washington, D.C.: Mar. 20, 2003).

ment is now working to replace its antiquated cable system with a new integrated messaging and retrieval system, which it acknowledges is an ambitious effort.

State's OIG and GAO have raised a number of concerns regarding the department's management of information technology programs. For example, in 2001,[29] we reported that State was not following proven system acquisition and investment practices in attempting to deploy a common overseas knowledge management system. This system was intended to provide functionality ranging from basic Internet access and e-mail to mission-critical policy formulation and crisis management support. We recommended that State limit its investment in this system until it had secured stakeholder involvement and buy-in. State has since discontinued the project due to a lack of interagency buy-in and commitment, thereby avoiding additional costs of more than $200 million.

Recognizing that interagency information sharing and collaboration can pay off in terms of greater efficiency and effectiveness of overseas operations, State's OIG reported that the department recently decided to merge some of the objectives associated with the interagency knowledge management system into its new messaging system. We believe that the department should try to eliminate the barriers that prevented implementation of this system. As State continues to modernize information technology at overseas posts, it is important that the department employ rigorous and disciplined management processes on each of its projects to minimize the risks that the department will spend large sums of money on systems that do not produce commensurate value.

Strategic Planning

Linking performance and financial information is a key feature of sound management—reinforcing the connection between resources consumed and results achieved—and an important element in giving the public a useful and informative perspective on federal spending. A well-defined mission and clear, well understood strategic goals are essential in helping agencies make intelligent trade-offs among short- and long-term priorities and ensure that program and resource commitments are sustainable. In recent years, State has made improvements to its strategic planning process both at headquarters and overseas that are intended to link staffing and budgetary requirements with policy priorities. For instance, State has developed a new strategic plan for fiscal years 2004 through 2009, which, unlike previous strategic plans, was developed in conjunction with USAID and aligns diplomatic and development efforts. At the field level, State revised the MPP process so that posts are now required to identify key goals for a given fiscal year, and link staffing and budgetary requirements to fulfilling these priorities.

State's compliance with the Government Performance and Results Act of 1993 (GPRA),[30] which requires federal agencies to prepare annual performance plans covering the program activities set out in their budgets, has been mixed.[31] While State's performance plans fell short of GPRA requirements from 1998 through 2000, the department has recently made strides in its planning and reporting processes. For example, in its performance plan for 2002, State took a major step toward implementing GPRA requirements, and it has continued to make improvements in its subsequent plans.[32]

As we have previously reported,[33] although connections between specific performance and funding levels can be difficult to make, efforts to infuse performance information into budget deliberations have the potential to change the terms of debate from simple outputs to outcomes. Continued improvements to strategic and performance planning will ensure that State is setting clear objectives, tying resources to these objectives, and monitoring its progress in achieving them—all of which are essential to efficient operations.

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[29] GAO–02–41 and GAO–T–AIMD/NSIAD–00–214.

[30] P.L. 103–62, 107 Stat. 285, as amended.

[31] See U.S. General Accounting Office, *The Results Act: Observations on the Department of State's Fiscal Year 1999 Annual Performance Plan*, GAO/NSIAD–98–210R (Washington, D.C.: June 17, 1998); *Observations on the Department of State's Fiscal Year 2000 Performance Plan*, GAO/NSIAD–99–183R (Washington, D.C.: July 20, 1999); *Major Management Challenges and Program Risks: Implementation Status of Open Recommendations*, GAO/OCG–99–28 (Washington, D.C.: July 30, 1999); *Observations on the Department of State's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan*, GAO/NSIAD–00–189R (Washington, D.C.: June 30, 2000); and *Department of State: Status of Achieving Key Outcomes and Addressing Major Management Challenges*, GAO–02–42 (Washington, D.C.: Dec. 7, 2001).

[32] GAO–02–42.

[33] U.S. General Accounting Office, *Results-Oriented Budget Practices in Federal Agencies*, GAO–01–1084SP (Washington, D.C.: Aug. 2001).

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Now I would like to discuss some of the challenges USAID faces in managing its human capital, evaluating its programs and measuring their performance, and managing its information technology and financial systems. I will also outline GAO's findings from our reviews of USAID's democracy and rule of law programs in Latin America and the former Soviet Union.

Human Capital Management

Since the early 1990s, we have reported that USAID has made limited progress in addressing its human capital management issues and managing the changes in its overseas workforce. A major concern is that USAID has not established a comprehensive workforce plan that is integrated with the agency's strategic objectives and ensures that the agency has skills and competencies necessary to meet its emerging foreign assistance challenges. Developing such a plan is critical due to a reduction in the agency's workforce during the 1990s and continuing attrition—more than half of the agency's foreign service officers are eligible to retire by 2007. According to USAID's OIG, the steady decline in the number of foreign service and civil service employees with specialized technical expertise has resulted in insufficient staff with needed skills and experience and less experienced personnel managing increasingly complex programs.[34] Meanwhile, USAID's program budget has increased from $7.3 billion in 2001 to about $12 billion in fiscal year 2003, due primarily to significant increases in HIV/AIDS funding and supplemental funding for emerging programs in Iraq and Afghanistan. The combination of continued attrition of experienced foreign service officers, increased program funding, and emerging foreign policy priorities raises concerns regarding USAID's ability to maintain effective oversight of its foreign assistance programs.

USAID's lack of progress in institutionalizing a workforce planning system has led to certain vulnerabilities. For example, as we reported in July 2002, USAID lacks a "surge capacity" that enables it to quickly hire the staff needed to respond to emerging demands and post-conflict or post-emergency reconstruction situations.[35] We also reported that insufficient numbers of contract officers affected the agency's ability to deliver hurricane reconstruction assistance in Latin America in the program's early phases.

USAID is aware of its human capital management and workforce planning shortcomings and is now beginning to address some of them with targeted hiring and other actions.

Program Evaluation and Performance Measurement

USAID continues to face difficulties in identifying and collecting the data it needs to develop reliable performance measures and accurately report the results of its programs. Our work and that of USAID's OIG have identified a number of problems with the annual results data that USAID's operating units have been reporting. USAID has acknowledged these concerns and has undertaken several initiatives to correct them. Although the agency has made a serious effort to develop improved performance measures, it continues to report numerical outputs that do not gauge the impact of its programs.

Without accurate and reliable performance data, USAID has little assurance that its programs achieve their objectives and related targets. In July 1999, we commented on USAID's fiscal year 2000 performance plan and noted that because the agency depends on international organizations and thousands of partner institutions for data, it does not have full control over how data are collected, reported, or verified. In April 2002, we reported that USAID had evaluated few of its experiences in using various funding mechanisms and different types of organizations to achieve its objectives.[36] We concluded that with better data on these aspects of the agency's operations, USAID managers and congressional overseers would be better equipped to analyze whether the agency's mix of approaches takes full advantage of nongovernmental organizations to achieve the agency's purposes.

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[34] USAID Office of the Inspector General, *Semiannual Report to Congress* (Washington, D.C.: Oct. 31, 2001).

[35] U.S. General Accounting Office, *Foreign Assistance: Disaster Recovery Program Addressed Intended Purposes, but USAID Needs Greater Flexibility to Improve Its Response Capability*, GAO–02–787 (Washington, D.C.: July 24, 2002).

[36] U.S. General Accounting Office, *Foreign Assistance: USAID Relies Heavily on Nongovernmental Organizations, but Better Data Needed to Evaluate Approaches*, GAO–02–471 (Washington, D.C.: Apr. 25, 2002).

Information Technology and Financial Management

USAID's information systems do not provide managers with the accurate information they need to make sound and cost-effective decisions. USAID's OIG has reported that the agency's processes for procuring information technology have not followed established guidelines, which require executive agencies to implement a process that maximizes the value and assesses the risks of information technology investments. In addition, USAID's computer systems are vulnerable and need better security controls. USAID management has acknowledged these weaknesses and the agency is making efforts to correct them.

Effective financial systems and controls are necessary to ensure that USAID management has timely and reliable information to make effective, informed decisions and that assets are safeguarded. USAID has made progress in correcting some of its systems and internal control deficiencies and is in the process of revising its plan to remedy financial management weaknesses as required by the Federal Financial Management Improvement Act of 1996.[37] To obtain its goal, however, USAID needs to continue efforts to resolve its internal control weaknesses and ensure that planned upgrades to its financial systems are in compliance with federal financial system requirements.

Democracy and Rule of Law Programs

Our reviews of democracy and rule of law programs in Latin America and the former Soviet Union[38] demonstrate that these programs have had limited results and suggest areas for improving the efficiency and impact of these efforts.[39]

In Latin America, we found that U.S. assistance has helped bring about important criminal justice reforms in five countries. This assistance has also help improve transparency and accountability of some government functions, increase attention to human rights, and support elections that observation groups have considered free and fair. In several countries of the former Soviet Union, U.S. agencies have helped support a variety of legal system reforms and introduced some innovative legal concepts and practices in the areas of legislative and judicial reform, legal education, law enforcement, and civil society. In both regions, however, sustainability of these programs is questionable. Establishing democracy and rule of law in these countries is a complex undertaking that requires long-term host government commitment and consensus to succeed. However, host governments have not always provided the political support and financial and human capital needed to sustain these reforms. In other cases, U.S.-supported programs were limited, and countries did not adopt the reforms and programs on a national scale.

In both of our reviews, we found that several management issues shared by USAID and the other agencies have affected implementation of these programs. Poor coordination among the key U.S. agencies has been a long-standing management problem, and cooperation with other foreign donors has been limited. U.S. agencies' strategic plans do not outline how these agencies will overcome coordination problems and cooperate with other foreign donors on program planning and implementation to maximize scarce resources. Also, U.S. agencies, including USAID, have not consistently evaluated program results and have tended to stress output measures, such as the numbers of people trained, over indicators that measure program outcomes and results, such as reforming law enforcement practices. Further, U.S. agencies have not consistently shared lessons learned from completed projects, thus missing opportunities to enhance the outcomes of their programs.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any questions you or other members of the committee may have at this time.

Appendix I: GAO Reports on Resource Management

DEPARTMENT OF STATE

Overseas Security, Presence, and Facilities

Overseas Presence: Conditions of Overseas Diplomatic Facilities. GAO–03–557T. Washington, D.C.: March 20, 2003.

[37] 31 U.S.C. 3512 note.

[38] USAID is not the only U.S. actor promoting democratic institutions overseas; the Departments of Justice, State, and the Treasury also play significant roles.

[39] U.S. General Accounting Office, *Foreign Assistance: U.S. Democracy Programs in Six Latin American Countries Have Yielded Modest Results*, GAO–03–358 (Washington, D.C.: Mar. 18, 2003); and *Former Soviet Union: U.S. Rule of Law Assistance Has Had Limited Impact*, GAO–01–354 (Washington, D.C.: Apr. 17, 2001).

Overseas Presence: Rightsizing Framework Can Be Applied at U.S. Diplomatic Posts in Developing Countries. GAO–03–396. Washington, D.C.: April 7, 2003.
Embassy Construction: Process for Determining Staffing Requirements Needs Improvement. GAO–03–411. Washington, D.C.: April 7, 2003.
Overseas Presence: Framework for Assessing Embassy Staff Levels Can Support Rightsizing Initiatives. GAO–02–780. Washington, D.C.: July 26, 2002.
State Department: Sale of Unneeded Property Has Increased, but Further Improvements Are Necessary. GAO–02–590. Washington, D.C.: June 11, 2002.
Embassy Construction: Long-Term Planning Will Enhance Program Decision-making. GAO–01–11. Washington, D.C.: January 22, 2001.
State Department: Decision to Retain Embassy Parking Lot in Paris, France, Should Be Revisited. GAO–01–477. Washington, D.C.: April 13, 2001.

Staffing and Workforce Planning

State Department: Staffing Shortfalls and Ineffective Assignment System Compromise Diplomatic Readiness at Hardship Posts. GAO–02–626. Washington, D.C.: June 18, 2002.
Foreign Languages: Human Capital Approach Needed to Correct Staffing and Proficiency Shortfalls. GAO–02–375. Washington, D.C.: January 31, 2002.

Information Management

Information Technology: State Department-Led Overseas Modernization Program Faces Management Challenges. GAO–02–41. Washington, D.C.: November 16, 2001.
Foreign Affairs: Effort to Upgrade Information Technology Overseas Faces Formidable Challenges. GAO–T–AIMD/NSIAD–00–214. Washington, D.C.: June 22, 2000.
Electronic Signature: Sanction of the Department of State's System. GAO/AIMD–00–227R. Washington, D.C.: July 10, 2000.

Strategic and Performance Planning and Foreign Affairs Management

Major Management Challenges and Program Risks: Department of State. GAO–03–107. Washington, D.C.: January 2003.
Department of State: Status of Achieving Key Outcomes and Addressing Major Management Challenges. GAO–02–42. Washington, D.C.: December 7, 2001.
Observations on the Department of State's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan. GAO/NSIAD–00–189R. Washington, D.C.: June 30, 2000.
Major Management Challenges and Program Risks: Department of State. GAO–01–252. Washington, D.C.: January 2001.
U.S. Agency for International Development: Status of Achieving Key Outcomes and Addressing Major Management Challenges. GAO–01–721. Washington, D.C.: August 17, 2001.
Observations on the Department of State's Fiscal Year 2000 Performance Plan. GAO/NSIAD–99–183R. Washington, D.C.: July 20, 1999.
Major Management Challenges and Program Risks: Implementation Status of Open Recommendations. GAO/OCG–99–28. Washington, D.C.: July 30, 1999.
The Results Act: Observations on the Department of State's Fiscal Year 1999 Annual Performance Plan. GAO/NSIAD–98–210R. Washington, D.C.: June 17, 1998.

U.S. Agency for International Development

Major Management Challenges and Program Risks: U.S. Agency for International Development. GAO–03–111. Washington, D.C.: January 2003.
Foreign Assistance: Disaster Recovery Program Addressed Intended Purposes, but USAID Needs Greater Flexibility to Improve Its Response Capability. GAO–02–787. Washington, D.C.: July 24, 2002.
Foreign Assistance: USAID Relies Heavily on Nongovernmental Organizations, but Better Data Needed to Evaluate Approaches. GAO–02–471. Washington, D.C.: April 25, 2002.
Major Management Challenges and Program Risks: U.S. Agency for International Development. GAO–01–256. Washington, D.C.: January 2001.

Chairman HYDE. Thank you very much, Mr. Ford.

I have several questions here that are more or less difficult to answer, and I shall not burden you with all of them, but I would like to pose perhaps three. The others we will submit to you in writing.

The Budget Committee wants our findings by next week. I do not expect to get the answers from you in time for that, but they are important issues, and we are seriously looking into them and would appreciate your cooperation.

Now for the three questions. Ambassador Sigmund testified that the department seeks to identify vacant, excess or underutilized properties around the world and that each chief of mission is required annually to certify that he or she is not holding excess property. I assume the certification refers to vacant or underutilized property as well. Is that correct?

Ms. SIGMUND. That is correct, sir.

Chairman HYDE. Do any of the chiefs of mission fail to report?

Ms. SIGMUND. The chiefs of mission do not fail to report, but not all chiefs of mission are as business conscious as General Williams in OBO. One of the things that OIG does that when it undertakes its inspection program, it looks specifically at vacant, underutilized or excess properties and validates the chief of mission's certification.

Chairman HYDE. So those people do the job for the chief of mission?

Ms. SIGMUND. Annually there are a series of management controls the chief of mission is required to certify personally to, and excess property and vacant property is one of those issues. He submits that every year, and if he does not, of course, then there is followup from the regional bureau.

Chairman HYDE. Who is required to certify property is vacant or in excess or underutilized that is located in the District of Columbia?

Ms. SIGMUND. Sir, I do not know. Probably the Bureau of Administration, but I would have to check for you.

Chairman HYDE. We understand temporary vacancies, employee transfers and purchases of property in order to enhance security of a chancery, in order to provide setbacks until new facilities can be built, all yield vacant properties. We are concerned about the number of properties that are purchased or leased which remain unoccupied for years. Rarely should there be an excuse for this waste of money.

Ambassador Sigmund testified that currently the department reports 39 vacant properties valued at $70 million in various stages of disposition. Ambassador, does this include properties determined to be in excess or underutilized as well?

Ms. SIGMUND. No, sir. That list focuses primarily on vacant properties.

The OBO is required to report to Congress each quarter its list of vacant, excess or underutilized properties, and so the total list is probably at any one time twice 40 or somewhat under 100 properties.

When OBO reports to the Secretary and to the Congress, it indicates what the status of the disposal process is, so for some of those properties on the list that are to be disposed of, but have not yet been disposed of, they are in various states. Some are being marketed. For some offers have been received.

In some cases titles are in question. In other cases legal regulations for the host country are unusually complicated or not conducive to easy sales, and in some cases there are disputes unrelated to the property sale itself that complicate divesting the department of those properties.

Chairman HYDE. Are there controls in place to assure that properties are used to their potential and money is not wasted?

Ms. SIGMUND. It is the responsibility overseas for each chief of mission to insure that any property that is not being fully used or used efficiently and effectively and economically is identified to the department.

Chairman HYDE. Let me stop picking on you and ask GAO if they have a comment on what we have been talking about. Mr. Ford?

Mr. FORD. I have not seen the most recent quarterly reports the Ambassador referred to. However, if you look at this issue over time it is clear that the current administration at State is much more aggressive about trying to identify unneeded properties based on the work we have done.

As a specific example, we issued a report about a year ago in Paris where we identified some vacant land that we felt was not necessary. The Director of the Office of Building Operations personally looked into the matter, and our understanding is they have a conditional sale on that property worth $20 million.

If you look at the trends in terms of the amount of sales over the last several years, the trend has been upward in terms of the amount of money that the department has been able to generate. We see that as being a positive benefit not only to the department, but also to the taxpayer because the State Department can put those funds in a capital account to help pay for the many Embassies that they plan to build over the next several years.

My view on this is that I feel the department recently has been very aggressive in this area. I think that there is more potential out there. I think they have reported in their recent plans that they have already identified possible properties valued at about $300 million that they think they might be able to dispose of over the next several years. I think our view generally is positive about the trend that we see at the department.

Chairman HYDE. I want to ask staff a question.

[Pause.]

Chairman HYDE. I find your reports are very good and very helpful, and I was inquiring as to whether we received them because I do not see them regularly. I occasionally do, but I am interested in seeing them regularly.

Mr. FORD. I would be happy to make sure you get a personal copy of every one of them. I have several of them right here. I would be happy to give them to you after this hearing is over.

Chairman HYDE. We get that stack every day, I am told, so I will bite my tongue. There are some that are very important from my perspective.

Mr. FORD. Appreciate that.

Chairman HYDE. Particularly on the subject of waste and fraud and abuse. I will confer with my staff and make sure that I get access to them.

One way to root out waste and abuse within the government is to provide strong whistleblower protection. Most Federal Government employees who are whistleblowers, with some exceptions in national security and intelligence, have the protection of the Whistleblower Protection Act.

In 2002, Congress reaffirmed the importance of whistleblowers in halting waste, gross mismanagement, violations of law when it included whistleblower protection requirements for publicly traded corporations in the Sarbanes-Oxley Act.

Can anyone on the panel, perhaps Mr. Burnham, describe for us how State and USAID brief all employees on their rights and responsibilities concerning disclosure of facts that they reasonably believe constitute gross waste, mismanagement, violations of law, abuse of authority or serious risk to public health and safety? I do not know if that is your plate or not.

Mr. BURNHAM. Well, I would love to respond to that for the record so we get a complete and accurate answer, rather than a guesstimate on my part, Mr. Chairman. If we could respond for the record, that would be the most forthright thing to do.

Chairman HYDE. Surely. Very well.

The IG perhaps, the Inspector General?

Ms. SIGMUND. We are required under the law, of course, to investigate any allegations of fraud, waste or mismanagement that come to us or are referred to us by the department.

We talk about the hotline program and our investigative program in a variety of fora and venues, including training throughout the department. We are given many, many opportunities to talk to both civil servants and foreign service officers about the mechanism or channel for them to report waste, fraud, abuse and mismanagement, so it is given considerable currency within the training parameters of the Department of State.

Chairman HYDE. I remember some years ago looking at a GAO report on the effectiveness of foreign aid in terms of P.L. 480 and other food that was to be shipped over to Africa and how in reading the report the food was just piled up on the docks. There was not adequate transportation to get it inland where it was needed, so the food was collected, shipped, delivered to a location where it just fed the rats. It did not get to the people.

When you are dealing with billions of dollars in commodities and with a worldwide theater that you are working in, the opportunities, inadvertent, but not always, for waste and abuse, if not fraud, are multiple. That is the work you all do, which is so important because if we are asking the taxpayers to put up this money we need to make sure that it is effectively spent. It is a never-ending process.

One aspect of the delivery may work fine, but down at the end it does not work so fine. The lack of transportation facilities to get the food into the villages where it is needed is—I do not know if it is anybody's fault, but the waste is still there, and the taxpayers have a right to object to that.

Yes, Mr. Burnham?

Mr. BURNHAM. Mr. Chairman, in the answer we would like to respond in a written format. I would like to go into some of the training we provide to our financial management officers, as well as our new foreign service officers, which talk about how to report waste, whether it is in credit card fraud or auditing the accounts or whatnot, because they clearly do receive that training. I am just not familiar with the specific courses, so if I could get that in answer to you?

Chairman HYDE. We would welcome that.

Mr. BURNHAM. In addition, there is a course on 800 hotline.

Chairman HYDE. I hope you understand, we are not picking on you.

Mr. BURNHAM. Oh, no.

Chairman HYDE. I mean, we must look inward as well. This goes on all the time, but we cannot get used to it or get comfortable with it. That is the purpose.

Yes, Mr. Mosley?

Mr. MOSLEY. Mr. Chairman, if I could point out that also at the Agency for International Development we are a part of all the management meetings and the training conferences, and we are constantly indicating to all of the employees their rights and their responsibilities of reporting waste, fraud and abuse.

We also publish in our semi-annual report to Congress information about the hotline and how employees can go about reporting. This is not only for U.S. Agency for International Development, but also for African Development Foundation and for the Inter-America Foundation.

We are constantly giving them that information. We have a hotline number published. It is also available on the computer systems that they can get to it, and somehow no one seems to find it difficult in even finding my email address and letting me know personally, so we are constantly on top of that issue.

Chairman HYDE. I appreciate that.

Yes, Mr. Marshall?

Mr. MARSHALL. Mr. Chairman, we would be happy to provide some additional information for you for the record on this point as well.

I know that our Office of General Counsel performs ethics training for new employees and a broad cross-section of the employees on a fairly regular basis. I believe some of these issues are covered there. We would be happy to flush that out for you as well.

Chairman HYDE. We would welcome that.

Mr. Bereuter has some questions, and I am pleased to yield to him.

Mr. BEREUTER. Thank you, Mr. Chairman. It looks like we have an unexpected vote again.

Ambassador Sigmund, thank you for your distinguished and long service to the country. I have a couple questions that I would like to address, and I would start with you because of your statement and your responsibilities.

The first relates to your section on information technology and security, and then to Mr. Ford's information that he has prepared and submitted to the Committee. He discusses State's information technology—the amount that has been invested in it—and your finding that the State Department's Foreign Affairs Systems Integration or FASI—I am not sure how they say that acronym—project did not prioritize or obtain user input requirements sufficiently to insure that only the most essential needs were met with the interagency system.

You say this is not, of course, a case of fraud or abuse, but it is simply a matter of whether the right decisions are being made or imperfect conceptualization goes on ahead of time.

There is also a concern voiced by the GAO, and I am not sure if it is in this Ford report or not, that the computer systems which USAID uses are in need of better security controls. That would be a concern not only to this Committee, but the Intelligence Committee as well.

I wonder if there is anything you would like to say on that subject or perhaps another member of the panel. Do we have now an adequate process in place to make the very best decision with respect to security, as well as spending our money in an expeditious, but efficient manner?

Ms. SIGMUND. With respect to the FASI project, I think it is important to note that this was a concern that came out of the OPAP report about with the proliferation of foreign affairs agencies overseas a need to have interoperability in their communication systems so that information could be shared and coordination could be improved.

The FASI project was conceived several years ago. As it progressed, though, the department, which was following it with a very careful eye, became concerned that it was becoming too complicated a project, that it was a high end solution to this interoperability of communications, and so they asked us to come in and take a look at it.

We felt that the concerns were legitimate. It was decided to proceed with the pilot project in Mexico because the developmental costs had already been expended. We learned a great deal from the pilot that could be applied and used for successor messaging initiatives.

Mr. BEREUTER. Excuse me. Is there a system or procedure in place so that security is given adequate attention when decisions like this and assessments are made?

Ms. SIGMUND. I would like to turn that over to my colleague, Mr. Burnham.

Mr. BEREUTER. Certainly. Mr. Secretary?

Mr. BURNHAM. Sir, I am pleased to serve on the oversight committee looking at integrating our messaging and knowledge management systems, the replacement concept to FASI, known as SMART.

We have two processes that are looking at both of these things. One, your first point that are these the right decisions that we are making, are they the right decisions from the standpoint of spending the taxpayers' money? Two, are they right from a security standpoint?

On the first part, we have instituted a new oversight board called the E-Government Program Board. It is chaired by Undersecretary Grant Green. It has representatives of regional and functional assistant secretaries who participate in that. Every technology project, in keeping with Clinger-Cohen, must come through that committee.

The decisions we made on that committee will become part of our 2005 budget request tomorrow to OMB, so at a very high level, a very thorough level, with very thorough staff support, we are looking at absolutely every dollar, hundreds of millions of dollars that we are spending each year on technology projects, and within that context we look at the security issues. We have to because that is part of IRM Bureau's mandate to look at those security issues.

The second portion of that on the SMART issue specifically, the replacement to FASI, the committee was brought together. It was the first time in my knowledge that at the State Department a committee was brought together that was customer driven.

I think one of the problems with FASI was it was not user driven. It was headquarters driven, so we were making a product which we were not sure anybody wanted—too complicated for the desktop—whereas now we are sitting around the table, we the users, we the customers who are going to be using the knowledge management collaboration tool known as SMART. As we move forward we are building it around a customer centric platform, not a Washington centric platform.

I want to allay your concerns that both from a standpoint of money and from a standpoint of security, we are addressing both of those issues thoroughly.

Mr. BEREUTER. Thank you. That is reassuring.

The next subject I wanted to cover is related to real estate. There is a section, Ambassador Sigmund, in your testimony which talks about real property and whether or not in fact it is excess, vacant or underutilized.

Perhaps this question is for you as well, Secretary Burnham, or perhaps mostly for you.

I will not identify what part of the world I am talking about. It is not appropriate to do that, but recently in this past year I have come across a situation where another agency is particularly concerned about property being declared excess. Although it is listed as State Department property, that other agency seems to have a very good case as to why that property should not be declared excess.

I am wondering to what extent other agencies have an opportunity to comment on decisions related to the potential disposal of excess property?

Mr. BURNHAM. I could almost guess what you are talking about, and I have been there if it is in fact what we are talking about. It is a very thorough process that decision goes through.

I can think of a couple examples, and we can talk off line, sir, of how the process goes to where we decide that we are going to consolidate properties.

Mr. BEREUTER. But there is a process whereby those other entities that have an interest, their opinions would be solicited? Their views would be sought?

Mr. BURNHAM. Absolutely. There are some instances where we are asking properties to be consolidated. There are other instances for other agencies out there where they have requested to having buildings built next door to our Embassies to accommodate certain needs, and then there are the case that Mr. Ford mentioned in Paris where we are under scrutiny and we are in agreement that we do not need excess parking lots, or we do not need 200 year old buildings that do not conform to any security standards.

There may be a portion such as in the Taliran that should be a museum for the Marshall Center, and that is an important legacy we should have, let me assure you, my witness to the process is that it has been a thorough process including everybody.

Mr. BEREUTER. That is important in terms of a general response to my question. I appreciate it, but I would like to then visit with you.

Mr. BURNHAM. Not everybody may agree with the outcome, however.

Mr. BEREUTER. Of course. I would like to visit with you about a specific instance but in a different venue.

Mr. Chairman, I should go vote. Thank you for the time.

Chairman HYDE. I want to thank all of you for a significant contribution to our work. You will hear from us if we have questions to direct to you. Please feel free to contact us if you have something you want to add. Thank you.

The Committee stands adjourned.

[Whereupon, at 11:55 a.m. the Committee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

Prepared Statement of the Honorable Joseph R. Pitts, a Representative in Congress from the Commonwealth of Pennsylvania

Mr. Chairman, I thank you for convening this important hearing this morning.

As the United States is engaged in development and diplomacy around the world, most notably in Afghanistan and Iraq, it is imperative that our foreign aid effectively reaches the people we are seeking to help.

The purpose of this hearing today is to help identify areas of waste and mismanagement of taxpayer money.

But this exercise should not simply be for the purpose of saving money, but to ensure the foreign aid we provide is effective in meeting the needs of those less fortunate around the world.

Over the past several years, I have had the opportunity to travel to regions of the world where some of the worst violence and most heinous crimes against humanity are taking place—from Kashmir to Afghanistan to the Thai-Burma border.

Despite the suffering, I am encouraged by the work of many nonprofit NGOs on the ground directly helping the people.

Yet I continually encounter frustration from these grassroots organizations at the inability to break through and receive much needed support from the United States.

This frustration stems from what I perceive to be a lack of an effective process to vet grantees and evaluate effectiveness of foreign aid.

To often, foreign aid is consumed by "Beltway Bandits" or groups well entrenched in the foreign aid bureaucracy—even groups that have an agenda counter to U.S. foreign policy.

It is important that US government, like the private sector, get the most out of each dollar.

Unfortunately, with some government agencies, the decisions to give grants to NGOs/humanitarian groups are delegated to contractors.

There are a number of small NGOs who stretch each dollar and are amazingly productive.

Unfortunately, when these smaller groups apply to USAID for funding, they are often rejected.

It might be helpful if USAID kept more of the decision-making in-house regarding the distribution of grants and project monies.

With this said, we must ask what mechanisms are in place to provide external accountability to ensure effective grassroots NGOs receive necessary funding.

Do we even know how much money each group receives from USAID and what they do with it?

Our inquiries indicate that the State Department has no idea because the computer system has no way of tracking these things.

Further, how can we prevent our foreign aid is going to organizations that sabotage the Administration's foreign policy positions and ultimately undermine our national security?

I look forward to hearing from our witness this morning and I yield back the balance of my time.

Prepared Statement of the Honorable Nick Smith, a Representative in Congress from the State of Michigan

Mr. Chairman, thank you for convening this hearing today. Right now our State Department, like our country, is working to overcome colossal challenges laid at our feet by realities of the 21st Century. After a decade of diminished defense, intelligence, and diplomatic budgets, the State Department is working to communicate America's voice and maintain America's bonds with a world eager to see if we'll continue to stand for freedom and hope.

In this time of global challenges, it is important that each dollar the American taxpayer invests in foreign diplomacy is wisely and prudently spent. In this time of domestic economic concerns, it is all the more important that we tighten our belts and exercise careful Congressional oversight. I thank you, Mr. Chairman, for allowing us to exercise that role today, and I thank you, witnesses, for coming to help us ensure that when it comes to our State Department, Americans can be sure that they are getting the most bang for their buck.

QUESTIONS SUBMITTED FOR THE RECORD TO THE HONORABLE CHRISTOPHER BURNHAM, ASSISTANT SECRETARY FOR RESOURCE MANAGEMENT AND CHIEF FINANCIAL OFFICER, BUREAU OF RESOURCE MANAGEMENT, U.S. DEPARTMENT OF STATE, BY THE HONORABLE HENRY J. HYDE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS, AND MR. BURNHAM'S RESPONSES

Mr. Hyde's Question:

In preparing the fiscal year 2005 Budget, is the State Department reviewing and evaluating programs, operations, staffing, etc. in order to make solid budget requests? Are there any programs or procedures that you have found that could be reduced or eliminated that may yield savings? Are you finding that advances in technology are helping to reduce costs?

Mr. Burnham's Response:

The Department uses Clinger-Cohen and OMB guidance in the preparation and evaluation of business cases that lead to complete coverage of all investment decisions. State has an established Capital Planning and Investment Control (CPIC) process led by our E-Gov Program Board. The E-Gov Program Board is an upper-level advisory entity to the Under Secretary for Management that addresses the full range of Department E-Government (E-Gov) and Information Technology (IT) investment portfolio and project management activities.

The E-Gov Program Board has three primary purposes:

1. Ensure systematic selection, control, and evaluation of all the Department's E-Gov/IT programs and investments, as required by law and the President's Management Agenda (PMA);
2. Drive innovation in the use of technology while effectively managing E-Gov/IT capital investment decisions; and
3. Prioritize and resolve significant policy, strategic and resource issues concerning the Department's investments in E-Gov and IT initiatives.

The E-Gov Program Board is supported by two lower boards—the advisory and working groups—that provide in depth analysis and recommendations.

The FY2005 budget was reviewed and approved using this CPIC process.

There are several programs that have been discontinued or consolidated in order to achieve greater efficiencies:

- PDNet—PDNet is a separate network for Public Diplomacy. The successful completion of the Open Net Plus project enabled us to begin consolidating PDNet into Open Net Plus, therefore avoiding the costs of continued operation of a third worldwide area network after FY 2004.
- CCP—The Classified Connectivity Program (CCP). Once CCP had been successful in providing full office automation and network technology for classified processing to our 224 Diplomatic Security approved posts, the Department consolidated the IT post and bureau technical architecture programs into a single, global activity—Global IT Modernization—that encompasses both the domestic and overseas locations, classified and unclassified. This has enabled us to achieve economies of scale in over 300 locations worldwide which is reflected in the FY2005 budget submission. The advancements of our unclassified and classified programs have laid the groundwork for future modernization efforts.
- SMART (State Messaging and Archive Retrieval Toolset)—SMART is a simple, secure, and user-driven system to support the conduct of diplomacy through modern messaging, dynamic archiving, and information sharing. SMART will replace the legacy messaging systems and enable the Depart-

ment to terminate its legacy distributed email and cable systems in FY2006. The Operation and Maintenance costs of SMART will be no more than the legacy systems it replaces and with significant added value.

- The Department is using advances in technology to do our work more effectively. While overall costs have not gone down, we are applying cost savings in specific areas to meet long overdue requirements in other critical areas, including IT security, critical infrastructure protection, increased network availability/capacity, and continuity of operations.

Mr. Hyde's Question:

What efforts has the State Department made to identify areas within its budget where applying strong management practices has the potential to produce efficiencies that could result in cost savings?

Mr. Burnham's Response:

In addition to the examples mentioned in question number 1 above, the department employs another strong resource to promote efficiencies that could result in cost savings. The Department created the Management Control Steering Committee (MCSC), which oversees the Department's management control program. The Committee is chaired by the Assistant Secretary for Resource Management and is composed of nine other Assistant Secretaries (including the Chief Information Officer and the Office of the Inspector General (OIG), the OIG is 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 OIG and/or the General Accounting Office (GAO) conduct independent reviews, audits, inspections, and investigations.

Mr. Hyde's Question:

The Department seeks to identify vacant, excess, or underutilized properties around the world, and each Chief of Mission is required annually to certify that he or she is not holding excess property. Who is required, if anyone, to certify if property is vacant, in excess, or underutilized that is located here in the United States?

Mr. Burnham's Response:

The Bureau of Administration's Office of Real Property Management (A/OPR/RPM) continuously reviews our domestic real property inventory. They provide a quarterly report to the Department of Housing and Urban Development (HUD) regarding vacant, excess or underutilized properties, certifying that we are not holding excess real property. Most domestic real property is in GSA controlled federal buildings or leased commercial space. A limited number of domestic properties are owned, operated and maintained by the Department of State.

Mr. Hyde's Question:

The Department's implementation of the Foreign Affairs System Integration (FASI) project has been a huge failure. By scrapping the program, a cost of $200 to $250 million has been avoided. How much did the Department spend before the program was discontinued? What, if anything, has happened to the employees who oversaw the disastrous FASI project?

Mr. Burnham's Response:

The Foreign Affairs Systems Integration (FASI) pilot focused from its inception on the construction of a specialized, unclassified network for interagency connectivity, collaboration and knowledge management. Simultaneously, State examined less elaborate and less costly options, including the use of existing networks—Open Source Information System (OSIS) and Secret Internet Protocol Router Network (SIPRNET).

The FASI Pilot fulfilled its function. Rigorous testing of FASI's capabilities and performance disclosed critical shortcomings in technology and change management. FASI was over-engineered in terms of its functionalities but under[JNA1]-developed in addressing user business needs, insufficient in its added value, not scaleable in its Pilot form for global deployment, and had elicited no other agency interest.

The overall budget for FASI was $19 million, which included expenditures for contractors, equipment, enterprise licenses and infrastructure. Valuable lessons emerged from the FASI pilot and are being incorporated into the SMART management approach. In addition, some technology development spin-ff did occur. For example, shortcut routing . . . (insert brief description of shortcut routing and its usefulness in collaboration and connectivity, e.g. in Kabul.)

Knowledge management licenses were utilized as part of the Department's Enterprise Information Portal.

In January 2003, the FASI project was staffed with seven Full Time Employees (FTE) and 19 contractors. When the pilot was officially closed at that time, the contractors' work ended. The State Department FTE's were reassigned to other positions within the Department.

Mr. Hyde's Question:

Weaknesses in the Department's financial management systems are a long-standing problem. The audit of the FY '02 financial statements identified that the Department's financial and accounting systems were not adequate. Significant internal control weaknesses related to the management of undelivered orders now amount to over $5 billion. Other than automatic de-obligations of these amounts, what is being done to fix this problem? Are there civil actions being maintained?

Mr. Burnham's Response:

While the Department achieved an unqualified opinion on its FY 2002 financial statements, the audit report discloses that the Department's financial management systems do not comply with several laws and regulations. The Department has made improvements in this area and is working hard to resolve this problem. For example, the new overseas Regional Financial Management System was implemented on-schedule, replacing two antiquated legacy systems.

While the audit of the FY 2002 financial statements identified that weaknesses still exist with the management of undelivered orders, it also found that the Department has made significant improvements in this area over the past two years. The growth in the amount of undelivered orders to $5 billion is primarily due to increases in the Department's budget and certain programs such as the Emergency Response Fund, worldwide security upgrades, and Andean Counterdrug Initiative. The Department continues to actively work across all offices to validate undelivered orders, and recently implemented automated processes that will further facilitate these efforts. We anticipate that our efforts in this area will resolve this weakness in FY 2004.

Mr. Hyde's Question:

Concerning the problems noted on the domestic travel credit cards and government purchase credit cards: Does the State Department have to pay interest on late payments? Penalties? If so, how much money does this amount to?

b) Are the employees required to reimburse State for misuse of these cards? Mr. Burnham states in his written testimony that employees are immediately "counseled" if their statements show a charge for a "high risk" purchase, such as jewelry, massage parlors, escort services, gambling transactions, ticket agencies, or cash advances greater than $7,500. Does anything more severe happen to them?

Mr. Burnham's Response:

The Travel Card is in the name of the employee and the employee is billed by and pays directly to the issuing bank for all card charges. The bank charges a late fee for delinquencies, but no interest. If an employee is more than 150 days late in payment the Department garnishes wages and pays the bank directly.

Employees who have repeated misuse of the Travel Card are counseled. After counseling, the employee is referred to the Bureau of Human Resources for disciplinary action and to the OIG for suitability action. Since we began tracking misuse in earnest 18 months ago, the Department has not had any instances of repeated misuse. In addition, it should be noted that beginning July 2003 the Department has blocked the merchant category codes for purchases unrelated to travel so there is now even less possibility for misuse.

Invoices, including all Centrally Billed Purchase Card invoices, must be paid in accordance with the Prompt Payment Act. Our Central Bill domestic Purchase Card invoice is paid upon receipt. According to Bureau of Resource Management records, no interest penalties have been paid on the domestic Central Bill Purchase Card invoice since FY 1999. Payment times vary for overseas invoices, which are paid by each post. We are working with Citibank to generate a report regarding the overseas Central Bill Purchase Card invoices.

Re: Second part of queston; Are the employees required to reimburse State for misuse of these cards?

As noted above, it is the employee who pays for the Travel Card and not the Department of State. Any employee, who misuses his or her Purchase Card, including purchases for personal use, is required to reimburse the Government. To date, we have found only two incidents where an employee accidentally used their Government Purchase Card in lieu of using their personal credit card for a minor purchase. In both of these cases, the two employees were required to immediately reimburse the Government and received warning letters from their Program Coordinators.

Mr. Hyde's Question:

Apparently, roughly 81 percent of purchase card transactions lacked proper documentation in their last review. In addition, not all responsible State Department officials had required annual reviews of their offices' purchase card operations. What happens if these reviews are not conducted? How does State and the OIG intend to review ways for preventing waste, fraud and abuse of these programs?

Mr. Burnham's Response:

We take seriously our responsibility to promote sound practices within the purchase card program. For example, from its inception, our program has had built-in blocks for a large number of merchant category codes, so that questionable purchases are thwarted. In this way, we have been able to avoid many problems with improper purchases that have plagued other Federal agencies. To provide guidance regarding the purchase card program, internal controls and the Annual Review process, the Office of the Procurement Executive maintains a website with current information and user tools to help manage Bureau and Post programs; sends out periodic notices addressing key issues; and, conducts training and site visits to ensure compliance with purchase card policies and procedures.

As part of the Department's Annual Review Policy, each Bureau and Post Program Coordinator is required to perform a written yearly review and certify compliance. Program Coordinators must keep a copy of the completed review for documentation purposes and submit a copy to the purchase card operations manager, as well as to the Office of the Procurement Executive upon request. Enforcement of this requirement is currently handled during the process of analyzing forced authorization requests and other change requests. Bureaus and Posts cannot make necessary changes to their programs until they provide a completed annual review to the operations manager.

Before the advent of the purchase card program, small buys were made by placing calls or orders against a large number of blanket purchase agreements. An annual review requirement was in place, but there was no ready means of enforcement. The Department was the first Federal agency to issue an annual review policy for the purchase card program. Last year, we received recognition as a leader in promoting internal controls for the purchase card when our Annual Review Checklist was included as a "best practice" in the General Services Administration's publication "Blueprint for Success: Purchase Card Oversight."

Within the next month, we will implement a pilot program in one Bureau, which we believe will heighten the visibility of the annual review requirement throughout the organization and facilitate the review process.

Our goal now is to step up the progress we have made in the annual review and certification process through automating and integrating it with the purchase card "setup" and "maintenance" processes, in FY 2004. This will: (1) enable on-line review submission and certification; (2) link the requirement to complete a review with the ability to process an application or make changes to an existing Purchase Card participant profile; and (3) allow us to make systematic verification that annual reviews have been completed. In essence, once this automation is complete, our Annual Review process will be at the core of the administration and management of the purchase card program worldwide.

It should be noted that we are at the forefront of web-enabling the management of the purchase card program. At the recent SmartPay conference in San Antonio where our purchase card program manager gave a talk about our initiatives, there was considerable interest on the part of other Federal agencies seeking the same automated internal control capability that we intend to implement.

Mr. Hyde's Question:

The Department does not have an adequate process in place to estimate regularly the amount of improper payments made by the Department, which amount to roughly $2 million per year. The Department has an initiative underway to have an accounting firm develop a process to measure and report on the extent of improper payments. Isn't the Department required to do this already? Why do we need to spend more money on an outside accounting firm to develop measures and report on improper payments? How much will it cost?

Mr. Burnham's Response:

The Department recognizes that our stewardship responsibility over public funds requires that we have appropriate controls to ensure the integrity of payments. For example, controls were instituted to reduce overpayments in the areas of salaries and benefits and domestic vendor payments. For Foreign Service retirement benefits, processes were put in place to perform periodic matches with individuals reported as deceased by the Social Security Administration, and to perform additional reviews for eligibility and benefits when individuals are added to the Foreign Service annuity roll. For American employees, a post-separation audit is conducted when an employee departs. For domestic vendor payments, a quality control program was installed that includes analysis and reviews of payments to identify vendor overpayments.

Recognizing that our efforts need to be more "prevention-centric," and to comply with the requirements of the Improper Payments Information Act of 2002 (Act), the Department is working with an accounting firm to develop a "risk assessment" based program to review and report on the extent of improper payments. Under this approach, risk categories and criteria are developed to perform overall risk assessments that identify high-risk programs, i.e., those that are most susceptible to erroneous payments. This program allows the Department to meet the Act's requirements in the most cost-effective manner, is consistent with the Office of Management and Budget guidance on implementation of the Act, and will identify improvements in internal controls. Department resources will administer the program following an initial cost of approximately $750 thousand to establish the program.

Mr. Hyde's Question:

Inventory controls have long been a problem for the Department. Has the State Department, as a whole, ever conducted a complete property inventory? (If not, why not? How does the Department know what is missing or what to budget for if this has not ever been done?)

Mr. Burnham's Response:

Yes, the Department of State conducts a complete property inventory each year and has done so since 1987. The requirement to conduct annual inventories of property is defined in Department regulations for both domestic and overseas organizations. Property Custodial Officers at each location are required to certify an annual inventory and attest to the validity of the report with their personal signature. A 1% or greater loss of property assets requires a more detailed report to the Department's Property Survey Board.

Within the Bureau of Administration, the Office of Logistics Management's Property Management Branch receives completed property reports. Continuous communication between the reporting activity and the Property Management Branch typically results in a 96% reporting rate. To date, 83% of the posts and bureaus have reported for FY 2003.

The Bureau of Administration's Property Management Branch also conducts property assistance visits and regional property management training throughout the year at both domestic and overseas locations. This year, 17 overseas posts received assistance visits with an additional 5 posts scheduled for October 2003. Training has been conducted in two regions (EUR and WHA), with an additional session scheduled for Africa in October. Property management training is a component of the General Services Operations Course, given at the National Foreign Affairs Training Center, for American personnel assigned to management and general services positions. Training is also provided to foreign national employees who have property management duties. A Property Management Warehousing Workshop was also conducted in FY 2003.

Mr. Hyde's Question:

Why is the OIG a NON-voting member of the State Department's Management Control Steering Committee (MCSC), which oversees the Department's management control program?

Mr. Burnham's Response:

The MCSC is a management committee established by the Under Secretary for Management. When the MCSC was established, it was decided (with the Office of the Inspector General's concurrence) that the OIG would be a non-voting member. Although a non-voting member, the OIG plays a significant, and highly valued, role on the MCSC. The OIG's opinion is requested and considered on every major issue discussed and voted on by the MCSC. Further, even though a non-voting member, the OIG plays a key role in identifying significant management control weaknesses to be addressed by the MCSC.

Mr. Hyde's Question:

International treaties are increasingly either requiring or encouraging whistle-blower protection, as in the Inter-American Convention Against Corruption and the Organization of American States' Model Whistle-blower Protection Law that the OAS recommends for implementing that Convention. Arguably, corruption and failure to apply the rule of law fairly are among the greatest deterrents to investment and drains on economic performance. Therefore,

(a) Please describe the State Department's position on the issue and provide the Committee with the status of the negotiations of the proposed UN Convention Against Corruption, which contained several provisions directly and indirectly supporting whistle-blowers;

(b) Does the State Department assist other countries or aid recipients with implementation of strong whistle-blower laws or regulations in an effort to deter corruption?

Mr. Burnham's Response:

The USG has been an active participant in the ongoing negotiations to develop a United Nations Convention Against Corruption. We have long supported a text that contains, in addition to the usual anti-crime treaty provisions on criminalizing conduct, effective measures to prevent corruption. Among the preventive measures that we have supported in the text are measures, consistent with what we currently provide under U.S. law, to protect individuals who in good faith report or provide formal testimony against corrupt actions that come to their attention. We have also supported related text that would require State Parties to create channels for individuals to report corruption safely and anonymously.

The two-year negotiations will likely conclude following a final negotiating session scheduled in Vienna for the period September 29 to October 1 or 3, 2003. Following that session, the State Department will initiate a formal interagency process to determine whether the USG will sign the convention. President Fox and the Government of Mexico intend to host a high-level signing ceremony for the convention on December 9–11, 2003.

USAID has supported assistance projects that help develop safe avenues for citizens from other countries to report instances of corruption. In Ukraine, for example, they have supported establishing an Advocacy Office associated with the government's anti-corruption office that runs a hotline for receiving complaints. The State Department has also funded study tours to the United States that allow government and non-government officials to see mechanisms that exist in the U.S. to fight corruption. Some of these visits have included briefings from the Office of Special Counsel, Department of Justice's Federal Witness Protection Program, and relevant NGO's involved in implementing and monitoring whistle-blower protections in our country. Finally, the State Department is involved in several multilateral mechanisms that monitor how dozens of countries from throughout the world are implementing regional anticorruption conventions. Its membership in the Council of Europe's Group of States Against Corruption has allowed U.S. experts to visit several European states and evaluate and make recommendations on various anticorruption measures, including those involving facilitating and protecting whistle-blowing.

WHISTLEBLOWER COMPLAINTS AND TRAINING

Mr. Hyde's Question:

Please provide the Committee with a list of all whistle-blower complaints against the State Department for the past two years, in addition to copies of the materials provided to any Department employee or contractor during their training at the State Department, concerning their rights and responsibilities on whistle-blowing issues.

Mr. Burnham's Response:

Whistleblower complaints may be filed with the Office of Special Counsel, an independent agency. The Office of Special Counsel's governing law provides for confidentiality for employees who file whistleblower complaints. The Office of Special Counsel does not, therefore, inform the Department of the identities of those employees who have filed whistleblower complaints. However, the OSC has the authority to require a federal agency to investigate if the OSC determines that there is a substantial likelihood that the information provided in the complaint evidences a violation of any law, rule, or regulation, gross mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety. Whistleblower allegations may also be brought to the attention of the State Department's Office of Inspector General. The Office of the Inspector General is willing, upon your request, to respond to you separately regarding their processing of whistleblower allegations.

In addition to the issuance of an annual Department notice and the incorporation of rights and obligations in its regulations, the Department is also in the process of incorporating references to the annual notice in its training materials for new employees. The Department does not provide training of this type to contractors.

Mr. Hyde's Question:

The 1990's budget cuts reduced funding for the administration of foreign affairs from $5.05 billion in 1996 to $3.64 billion in 2000 (in 1996 dollars). Starting in FY 2002, our Committee has approved double-digit increases in the budget for the administration of foreign affairs to restore our foreign affairs infrastructure. What percentage of the Federal Budget is currently being spent on Foreign Affairs? How does this level of funding compare to spending during the Cold War? What areas still need serious attention and resources? How long will we have to continue to ramp up funding?

Mr. Burnham's Response:

The following table illustrates the amount in outlays in total, and for Function 150, International Affairs:

Fiscal year	Total Federal Budget (in millions)	Function 150 (in millions)	Percent
1962	106,821	5,639	5.28%
1967	157,464	5,566	3.53%
1972	230,681	4,781	2.07%
1977	409,218	6,353	1.55%
1982	745,743	12,300	1.65%
1987	1,004,082	11,649	1.16%
1992	1,381,655	16,107	1.17%
1997	1,601,250	15,228	.95%
2002	2,010,975	22,375	1.11%
2004	2,200,000	28,000	1.27%

Public Diplomacy, overseas building construction, training, technology, and security are initiatives that the Department considers priorities that will require attention and funding over the next several years. These are vital programs to achieving the Department mission.

Mr. Hyde's Question:

The Budget Committee is in part trying to identify cuts to "mandatory spending" for each agency, mandating that our Committee find cuts of $100 million in FY 2004, $599 million over FY 2004–FY 2008, and $1.289 billion over 2004–2013 from these accounts. Other than retirement accounts, can you identify any major "mandatory" spending by the State Department, and whether any such spending may be cut significantly? If it proves impossible to find room for cuts from "mandatory spending," what kind of impact could cuts of the size mandated by the Republican leadership have on our efforts to re-build our diplomatic capabilities?

Mr. Burnham's Response:

Two mandatory accounts, other than retirement accounts, have been identified within the Function 150 portion of the Department's budget:

- Various accounts related to credit programs (such as Overseas Private Investment Corporation, Export-Import Bank, food aid, etc.); and
- Trust funds—with most of them being small with the exception of one very large one—foreign military sales.

Cuts of the magnitude proposed to the Department's operating accounts would have a devastating effect on our efforts to rebuild diplomatic capabilities by necessitating:

- The closure of embassies and consulates
- Personnel Reductions-In-Force
- Inability to secure our borders adequately.

QUESTIONS SUBMITTED FOR THE RECORD TO THE HONORABLE CHRISTOPHER BURNHAM, ASSISTANT SECRETARY FOR RESOURCE MANAGEMENT AND CHIEF FINANCIAL OFFICER, BUREAU OF RESOURCE MANAGEMENT, U.S. DEPARTMENT OF STATE, BY THE HONORABLE TOM LANTOS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND MR. BURNHAM'S RESPONSES

Mr. Lantos' Question:

Secretary Powell's three year Diplomatic Readiness Initiative seeks to close the deficit in staffing by hiring 1158 employees. What are we doing to make sure that these new hires have the unique skill set that is needed to deal with the new foreign policy challenges we face?

Mr. Burnham's Response:

The skills required for diplomacy today have changed, but many basic requirements remain the same. We have always had very high standards at the Department of State and through our DRI recruiting efforts have further improved the image of the Department as an employer of choice. Those changes due to increased resources supported by Congress have allowed us to expand outreach to broaden and deepen our pool of candidates; our success in attracting candidates has also allowed us to raise standards for entry even as we are hiring at record levels.

We have several ways of assessing skill requirements and ensuring that we are hiring for those unique needs. First, the Foreign Service generalist skills are periodically assessed and reviewed by our own officers out doing the work, by leading industrial psychologists, and by the Board of Examiners of the Foreign Service. These skills identified are then tested in our written and oral examinations. Those basic skills needs have remained relatively constant over the years. We continue to validate the philosophy that general skills and potential serve us well in a career service where international events are ever-changing. While putting primary emphasis on the general skills in our recruitment of Foreign Service Officers and not making language skills a specific requirement , we do make a targeted effort to recruit for substantive skills such as area studies and languages. We also teach these and other specialized skills through training and developmental assignments.

Mr. Lantos' Question:

The Diplomatic Readiness Initiative (DRI) also was supposed to provide additional positions for increased training abroad and to solve the problem of staffing gaps at our diplomatic missions abroad. However, we have heard that rather than being used for these purposes, the new positions have only gone to filling staffing needs abroad. Can any of you clarify whether this Initiative is meeting all of its objectives?

Mr. Burnham's Response:

The DRI was designed to fill long-identified and unfilled needs abroad as well as to provide additional staffing overall—a "personnel complement"—which would minimize the strains of crisis response; allow us to respond to emerging priorities; provide detail positions for interagency cross-training; and create positions for long-term training in languages, management, and other skills, as well as make shorter-term training possible by ensuring that staffing is sufficient to absorb the work left behind.

The new positions funded under DRI have been created for those purposes. We have seen training for Junior Officers increase, the debut of a mandatory leadership and management program for all mid-level employees, and an increase in training hours to unprecedented levels.

However, unexpected requirements in Afghanistan and Iraq as well as visa processing changes have added to our needs. Employees have responded with amazing commitment to these difficult assignments. These new requirements—while emerging quickly and requiring an immediate response—are increased long-term needs that will be with us in the future and are additive to our current requirements for staffing at other missions. However, those staffing needs were met in the short term with a limited number of the DRI positions.

Mr. Lantos' Question:

Despite the fact that analysis of information is the central task of State Department officers, the Department's technology infrastructure, until recently has been stuck in the dark ages. Many posts had no classified connectivity with the rest of the Department and many employees lacked access to the Internet. What progress has been made in addressing these critical gaps in technology? Can all Posts now communicate classified information with Main State and with other Posts? How much progress has been made in replacing State's antiquated telegram system? Is deploy-

ment of the State Messaging and Archive Retrieval Toolset (SMART) still scheduled for 2004?

Mr. Burnham's Response:

In May 2003 the Open Net Plus Project completed Internet access for all Department of State users, all of which are connected via a secure, sensitive but unclassified (SBU) global network. The Department is also connected to other US Government agencies via OSIS *(Open Source Information System)*, a secure government network now being used increasingly by other agencies. The Department is working aggressively to expand collaboration and communications via this network.

The Classified Connectivity Program (CCP) successfully deployed full office automation and network technology for classified processing to our 224 Diplomatic Security approved posts, which are connected via a secure, global network. The Department is also connected to other U.S. Government agencies via SIPRNET *(Secure Internet Protocol Router Network)* and is working aggressively to expand collaboration and communications via this widely-utilized network.

The Department is in the acquisition phase for a new messaging system called State Messaging and Archive Retrieval Toolset (SMART). SMART will modernize and consolidate various legacy-messaging systems, e-mail and the Department's electronic archive and provide a simple and secure system to support the conduct of diplomacy. When deployed, SMART will offer users unprecedented access to critical information and greatly expanded collaborative functionality. The Department will conduct a SMART pilot encompassing 17 posts and parts of two bureaus, more than 2000 persons in total, in FY 2004, with worldwide rollout planned to begin early in early FY 2005. Upon the successful SMART pilot and rollout, the legacy messaging systems and e-mail systems will be shutdown in FY 2006.

Mr. Lantos' Question:

In the aftermath of the bombing of our Embassies in Nairobi, Kenya and Dar Es Salaam, Tanzania, the Accountability Review Board determined that 88% of our embassies did not meet established security standards. The Department has made significant progress in addressing this massive crisis, but much remains to be done. Are we providing adequate resources to make the needed security upgrades fast enough? Could we complete the task of securing all of our posts more quickly if all agencies that use the facilities paid their fair share of the costs of upgrades and new construction?

Mr. Burnham's Response:

The Department agrees that much remains to be done to provide secure, safe, and functional facilities for U.S. Government personnel overseas. With strong Congressional support, the Department's budget for secure New Embassy Compounds has increased dramatically since this Administration took office. In light of the many competing needs for funds and the overall fiscal objectives of the U.S. Government, the $761.4 million requested in the FY 2004 Federal Budget appears to be appropriate for Capital Security projects for this Fiscal Year.

As part of the implementation of the President's Management Agenda initiative on rightsizing the U.S. Government's overseas presence, and, in an effort to accelerate the construction of secure facilities, the Executive Branch has developed a Capital Security Cost Sharing (CSCS) Program. Under this Program, all agencies with an overseas presence in U.S. diplomatic facilities will pay a proportionate share for accelerated construction of new secure, safe, functional diplomatic facilities. The Program will generate a total of $17.54 billion (including the five-year phase-in period) to fund approximately 150 new embassy and consular compounds (NECs) over the 14 years of FY 2005 through FY 2018. Implementation of this cost sharing program nearly doubles the funds available for this purpose each year and reduces the length of the Program from 26 years to 14 years.

These capital costs will be allocated annually to each government agency (including the State Department) on the basis of the number of its authorized overseas positions. The per capita charge will also take into consideration the type and location of each position. The State Department will pay over 60% of the total amount of this fund. This fund will be used exclusively for the construction of secure, safe, functional NECs in accordance with the Department's Long-Range Overseas Buildings Plan.

When fully phased in after five years, the overall effect on agency budgets could be to add about 15% to the typical total cost of maintaining a U.S. Government employee overseas. Allocating this capital cost to each sponsoring agency will encourage each agency to rightsize its staffing. It will also accelerate funding for urgently needed secure facilities. As a complement to this Program, the State Department is expanding and formalizing the participation of all agencies in the procedures for setting construction priorities for NECs and for determining their size and cost.

The President's FY 2004 Budget stated the Administration's intention to implement this program through agency contributions beginning in FY 2005.

We appreciate the attention the Committee has given to this effort.

DIPLOMATIC SECURITY'S REVIEW OF SOFT TARGETS

Mr. Lantos' Question:

The assassinations in 2002 of State Department employees at a church service in Pakistan and at an official residence in Jordan highlight the need for the State Department to develop a security paradigm that includes "soft targets." What is being done to extend the security we provide our Embassy personnel and their families to soft targets?

Mr. Burnham's Response:

(U) The U.S. Department of State's Bureau of Consular Affairs regularly updates the Public Announcement Worldwide Caution. The Worldwide Caution, last updated on September 10, advises all Americans that they may be targeted by terrorists as soft targets.

> Terrorists do not distinguish between official and civilian targets. These may include facilities where American citizens and other foreigners congregate or visit, including residential areas, clubs, restaurants, places of worship, schools, hotels, outdoor recreation events or resorts and beaches. U.S. citizens should remain in a heightened state of personal security awareness when attendance at such locations is unavoidable.

(U) Thus, all Americans, including official Americans and their families, are advised of the high risk of a terrorist attack at soft targets. This information is again emphasized in Travel Warnings and Public Announcements issued by Consular Affairs, depending on the threat situation in each country.

PROTECTION OF SOFT TARGETS—INDICATIONS AND WARNINGS:

(U) Diplomatic Security's Office of Intelligence and Threat Analysis (DS/IP/ITA) helps to warn the appropriate officials whose mission is to protect U.S. interests and assets overseas. DS/IP/ITA daily reviews all incoming threat information provided by the CIA, NSA, DIA, and FBI, as well as open sources. When threat information is received, the Regional Security Officer (RSO) at the appropriate post is immediately notified so that he/she can take appropriate action in response, such as alerting the host nation and requesting additional police coverage at a particular site. In some cases, the Ambassador may determine that the threat situation is significant enough to merit a Town Hall Meeting. These meetings afford all official and non-official Americans the opportunity to hear the Ambassador and Regional Security Officer speak to ongoing security concerns, and then ask questions about the security environment and how they can better protect themselves.

(U) If the threat is against a U.S. business, DS/IP/ITA obtains cleared language from the originating agency for Diplomatic Security's Overseas Security Advisory Council (OSAC) to pass to the American business' headquarters in the United States.

(U) If the threat is against Americans in general overseas, and deemed specific, credible, noncounterable, and not already covered in any current public warning, DS/IP/ITA obtains cleared language from the originating agency for Consular Affairs to insert into the appropriate Travel Warning, Public Announcement, and/or Consular Information Sheet for the particular country at risk. For those Americans resident within a country and registered with the U.S. Embassy, a warden message may be issued in response to threat information that is perceived to be specific, credible, and noncounterable.

(U) DS/IP/ITA provides briefings to all outgoing official Americans who are interested in learning about the security environment of a country. Over the years, DS/IP/ITA has provided briefings to a wide array of U.S. Government employees, including Congressional staffers, White House staffers, Defense Attachés (DoD), Legal Attachés (FBI), the Office of the Inspector General (State), the Secretary of State's Protection Detail, Deputy Chiefs of Mission, Regional Security Officers, Political Officers, and many others. In some cases, DS/IP/ITA is even called upon to travel to a country to provide terrorist threat briefings to such groups as international school principals and American business leaders.

PROTECTION OF SOFT TARGETS—THE PRIVATE SECTOR:

(SBU) One of the principal ways the Department supports the security of the U.S. private sector operating abroad is through its Overseas Security Advisory Council (OSAC), established in 1985 and administered by the Bureau of Diplomatic Security. The mission is to foster cooperation and the exchange of security information between the U.S. government and the U.S. private sector. The council itself is comprised of leading private sector security directors who work with State and other U.S. Government representatives to implement the OSAC mission. OSAC exchanges security information regarding the overseas environment, to include terrorist threats, via its web site (www.ds-osac.org), a network of overseas country councils, and the Research and Information Support Center (RISC), a group of professional research specialists that focuses on issues of priority concern. Worldwide, Diplomatic Security's Regional Security Officers are engaged with the local U.S. private sector to share information and advise regarding the security environment. Terrorist threats specifically targeting U.S. private sector organizations are coordinated locally by the RSO's and are passed by OSAC to the organizations' U.S. headquarters.

(SBU) OSAC, through overseas missions and the RSOs, continues to focus on the terrorist threat to soft targets. Private sector organizations are provided a constant flow of information about global terrorist threats that helps them to make the best security and business decisions affecting their personnel and assets.

PROTECTION OF SOFT TARGETS—OVERSEAS SCHOOLS:

(SBU) The Bureau of Overseas Building Operations (OBO) has established a Working Group to include Diplomatic Security and Overseas Schools to implement the Congressional Directive (Conference Report to Accompany H.J. Res. 2) to dedicate up to $15M to identify and address vulnerabilities at "all overseas schools attended by the children of non-military United States government employees."

(SBU) Phase I of this process has resulted in 190 Department of State sponsored schools being contacted and offered security enhancements in the form of SRWF on all vulnerable windows, a public address system and a radio base station for emergency communications with the local embassy/consulate. A total (to date) of 157 schools have responded with requests for some or all of the enhancements offered; 143 of the requests have been approved and the funding mechanism initiated. The remainder of the requests is being studied and the enhancements offered will be funded. A total of $9.1M has been requested and a total of $7.8M has been granted. The remaining $5.9M of the original amount will be used to initiate Phases II and III of the program.

(SBU) Phase II will identify and correct specific vulnerabilities on a case-by-case basis. Professional security personnel at all 190 posts will be asked to submit their assessment of such vulnerabilities with recommendations for corrective action. Substantial improvements/enhancements to physical security through discrete projects will be undertaken and funded.

(SBU) Phase III (which may run concurrently with Phase II) will offer the initial basic security enhancements to the remaining 360 schools where US government dependents are enrolled.

(SBU) Language in Senate Report 108–144, dated September 5, 2003, (to accompany S. 1585—Appropriations for the Departments of Commerce, Justice, and State . . . for the fiscal year ending September 30, 2004) recommends increasing funding for protecting soft targets overseas to a total of $40M. Twenty million dollars is for security enhancements at overseas schools. The Report specifically addresses the funding of security enhancements at ". . . overseas schools that do not receive financial assistance from the U.S. Department of State, as well as those that do receive such financial assistance." Phases II and III will have to be funded, at least in part, by these additional funds.

PROTECTION OF SOFT TARGETS—EMBASSY EMPLOYEES/RESIDENCES:

(U) There are limits to the level of security coverage provided all employees while affording reasonable expectations of freedom from harm. However, over the past year, security coverage provided by DS, at both official facilities and residences, has been expanded beyond that envisioned after the 1998 bombings of the U.S. Embassies in Nairobi and Dar es Salaam. While some of these actions are related to increases in crime, the majority is related to the ongoing war on terrorism.

(SBU) In FY 2002, DS provided *$66,053,100* primarily for static residential guards, residential foot patrols, mobile patrols, and residential security upgrades to include application of Shatter Resistant Window Film (SRWF) at all residences. In

FY 2003, funding for these activities was increased to *$84,094,400*, to include the following expanded security services for official U.S. personnel abroad.

1. Provision of bodyguards on high threat individuals and embassy shuttles.
2. Assignment of uniformed guards, mobile patrols, police escorts and surveillance detection teams to embassy schools and school buses.
3. Increased number and staffing of mobile patrols to include local police and expanded use of new guard electronic monitoring systems.
4. Coordinated Memorandums of Agreement between posts and host country security services, that provided the necessary funding to support the provision of increased levels of police support at official facilities and residences.
5. Expanded surveillance detection assets assigned to high profile residences, route analysis, schools, Embassy social events, residential compounds and Embassy clustered residences.
6. Increased the level of static guard coverage at residences in conjunction with more effective mobile patrols.
7. Encouraged and provided the necessary funding to allow post's to hire residential security coordinators to assist in residential security surveys, installation of upgrades (grilles, SRWF, alarms, locks, lighting, safehavens) landlord performance/contractor quality assurance and residential security briefings for mission employees and dependents.
8. Increased the funding support for enhanced physical security enhancements at residences, to include grilles, locks, alarms and safehavens.
9. Promoted application of SRWF at 100% of U.S. Embassy residences overseas.
10. Coordinated with OBO a proactive program to determine and construct consolidated Embassy housing profiles at high-risk posts.
11. Encouraged posts to develop clustered housing pools to maximize the available security resources.
12. In November and December 2002, Diplomatic Security (DS) personnel were dispatched to Katmandu and Amman to assist RSOs in reviewing security options to address the residential security threat. In January 2004, DS teams will be conducting a complete analysis of the residential security environment in Kuwait and Jakarta. The resulting recommendations will allow each post to design and implement the most effective residential security program possible.
13. Enforced completion of new guard contract solicitations to preclude deficient guard performance during contract extensions.
14. Encouraged and provided the necessary funding to allow posts with large security programs, to hire security administrative assistants, which provide the RSO with an individual dedicated to ensuring a high level of guard contractor performance.

(SBU) The following initiatives are being developed and have not been fully implemented or deployed.

- Development and expansion of surveillance detection (SD) training to include training of mobile patrols and residential guards.
- Development of a comprehensive worldwide surveillance detection database to improve correlation of suspicious incidents at embassy residences and facilities.
- Revision of the surveillance detection training format to increase the level to SD performance while minimizing the management oversight required by the RSO.
- Development of a program charter for implementing a comprehensive worldwide training program for all Personal Services Agreement (PSA) local guard forces as well as a program for assuring the quality of contractor-provided guard training.

CONSULAR AFFAIRS/VISAS

Mr. Lantos' Question:

A December 2002 report issued by the State Inspector General's office which focused on reforms in the visa function in Consular Affairs at the State Department concluded that a 'fundamental readjustment by Department leadership regarding visa issuance and denial has not taken place.' The report cited inadequate staffing, *workspace and language skills as barriers to reform. Do the witnesses believe that the boost in funding for Consular Affairs provided for in the FY 2004 budget is adequate to provide the resources needed?*

Mr. Burnham's Response:

We believe it is. In FY 2003, the Department established 39 new overseas consular positions to meet increased workload demands. For FY 2004, we are requesting 80 additional overseas positions to meet both increased workload (40 positions) and overseas biometrics requirements (40 positions).

In addition, over a three-year period that began last fiscal year, we are establishing 186 new positions that will assume adjudicatory responsibilities currently performed by consular associates.

So far, posts have been able to absorb fairly well the increased interviewing requirements brought about by the August 1, 2003, changes to the Personal Appearance Waiver (PAW) Program.

Many posts face problems of inadequate space as they work to absorb additional staff and additional applicants who must now appear in person. Congress has earmarked $8 million of OBO funds to be used for consular improvement projects over three years. For FY 2003 OBO expects to obligate close to $2.4 million for 36 projects of varying sizes which will improve the efficiency of consular operations. These range from small projects improving line of sight supervision, to larger reworking of consular space in London and Seoul to accommodate the additional applicants resulting from the changes in the personal appearance waiver. CA and OBO work together closely to ensure that new embassy projects address consular space needs.

Consular Management Assistance Teams (CMATs) have proven a valuable management tool for CA and stand ready to assist posts in effectively utilizing resources and following standard operating procedures, both in existence and in development. Visa demand continues to be down following 9/11. Should demand return to pre-9/11 levels, the resource requirements will need to be reassessed. The Department is closely monitoring the situation.

While FSI language curricula already incorporate specialized modules geared to consular officers' needs, these modules are being expanded to meet emerging requirements. FSI development efforts are currently focused on Arabic consular language needs. Working closely with CA and Arabic posts, FSI is creating more authentic and contemporary training scenarios. The first seven of these updated consular lessons in Arabic have been developed and were piloted in February 2003. The Arabic program has been successfully completed and field-tested, and FSI has recently implemented a Chinese-language consular unit as well as updating materials for Russian and other critical languages.

FSI is also enhancing training opportunities for consular officers. With the assistance of an outside expert in the behavioral sciences field, FSI is developing a two-day training module on analytic interviewing. That module will be inserted into the basic course when the course is expanded in October 2003. The goal is to improve the interviewing techniques used by consular officers in the field. FSI has already incorporated three sessions on counter-terrorism (one presented by CIA officers) and one session on visa fraud into the basic course. FSI also introduced the Advanced Consular Name Checking Techniques course in FY 2002 specifically to enhance consular officers' ability to understand and evaluate name check results.

Mr. Lantos' Question:

Over the last couple of years, there have been several incidents of visa fraud being conducted by Department employees abroad that have been investigated by the Diplomatic Security Service and are being prosecuted. What is your view of the effectiveness of the fraud investigations capabilities? Is the Department doing enough to ensure that Department employees are not abusing the visa system?

Mr. Burnham's Response:

The U.S. passport is the most valuable identity document in the world as it establishes American citizenship and allows its bearer unlimited access to virtually every country in the world. The U.S. visa permits a traveler to enter the United States for a specific purpose, such as work or tourism. Countless people attempt to obtain U.S. visas illegally each year. The U.S. Department of State, Bureau of Diplomatic Security (DS) is the law enforcement agency with the statutory responsibility for safeguarding the integrity of these two documents. The DS Visa Fraud Branch investigates and coordinates international visa fraud cases including fraudulent issuance, procurement, counterfeiting, and forgery of U.S. visas and works with the Bureau of Consular Affairs on cases involving allegations of corruption by American and Foreign Service national embassy employees, fraudulent document vendors, bribery, and alien smuggling and trafficking involving U.S. visas.

In response to increased national attention on terrorism and border security, DS has greatly increased the number of special agents domestically and overseas. Currently, there are approximately 480 domestic DS agents stationed in 23 field and resident offices and at our DC headquarters, and an equal number of agents assigned overseas to our 260 diplomatic posts in 181 countries. More specifically, the unit responsible for conducting visa fraud investigations, the DS Visa Fraud Branch, has doubled its number of special agents over the past two years. This has allowed DS to better focus and more aggressively pursue allegations of visa fraud, particularly internal visa malfeasance or employee corruption.

The DS Visa Fraud Branch planned and executed a number of large-scale investigative operations targeted at malfeasant employees. One of these operations, Operation Eagle Strike, involved a nexus to terrorism and prompted a nationwide, multiagency manhunt for the illegal visa recipients.

- Doha, Qatar—In Operation Eagle Strike, DS agents investigated the illegal issuance of U.S. visas to over 70 unqualified recipients at the U.S. Embassy in Doha. Possible terrorism connections of some of the known visa recipients prompted a nationwide manhunt by DS and the Immigration and Naturalization Service (INS), resulting in the arrest of 49 individuals in the United States and overseas by DS agents.
- Prague, Czech Republic—A DS investigation into allegations of visa malfeasance by Alexander Meerovich, a former U.S. Embassy Prague Consular Officer, revealed the illegal issuance of approximately 85 U.S. visas in exchange for $250–$500 USD per visa. The employee's security clearance was suspended and he was separated from service. Meerovich pleaded guilty to one count of visa fraud on February 6, 2003, in the U.S. District Court in Washington, DC, and was sentenced to 24 months in prison.
- Nuevo Laredo, Mexico—In January 2003, DS agents conducted a major undercover operation at the U.S. Consulate in Nuevo Laredo targeting employees involved in selling visas to prior refusals and criminally-deported aliens. Over a five-day period, a DS investigative team suspended operations at the consulate, interviewed numerous employees and local guards, and arrested four employees and a local visa broker—all of whom later pled guilty to visa fraud charges and were sentenced to prison terms.
- Colombo, Sri Lanka—DS investigated allegations of visa fraud and alien smuggling by two Department employees at the U.S. Embassy in Colombo. In the course of the investigation, DS identified more than 150 highly suspect visa issuances to third-country nationals. In April 2003, DS led a multi-agency investigative operation resulting in the arrest of the two Department employees and seven other conspirators.
- Ciudad Juarez, Mexico—In July 2003, DS agents executed a major undercover operation in order to investigate simultaneously multiple allegations of visa malfeasance involving Department employees at the U.S. Consulate in Ciudad Juarez. Over a two-day period, DS agents conducted interviews of the American and Mexican consular staff in order to determine the scope of the fraud being perpetrated at the consulate. Eight employees were terminated, and the investigation continues.

As illustrated in the previous examples, the Department, through the Diplomatic Security Service, is more than capable of conducting complex and extensive visa fraud investigations in an effective and efficient manner both domestically and overseas. However, the Department is equally as focused on developing and enforcing fraud detection and prevention methods in order to stop abuse of the visa system before it starts. To this end, DS and our colleagues at the Bureau of Consular Affairs (CA) have formed a partnership in furtherance of their shared mission to protect the integrity of the passport and visa issuance process. Together, DS and CA advocate a proactive identification, deterrence, and enforcement program aimed at internal employee corruption. DS has collaborated with CA on the creation of a Vulnerability Assessment Unit (VAU), which is designed to improve the detection of internal fraud by analyzing consular databases for irregularities and possible fraud trends and to refer suspected cases to DS for further investigation. With the creation of this data-mining capability, the Department is better equipped to investigate internal corruption cases as the information is more comprehensive and provided in a more timely manner. In addition, procedures that may leave openings for malfeasance can more readily be identified and corrected before a problem occurs. Previous investigative experience on malfeasance cases is turned into "lessons learned" guidance to assist post managers in avoiding similar pitfalls.

Believing that an investigative presence lends even more credibility to internal consular reviews, DS is expanding its participation in CA Consular Management Assistance Teams (CMATs)—an internal program that conducts comprehensive management reviews of consular operations overseas in an effort to identify potential problems and tighten internal controls. In FY 03, DS participated in CMAT trips in Eastern Europe, the Middle East, and Mexico, and expects to accompany our CA colleagues on 10 to 12 trips in FY 04.

Additionally, taking advantage of our unique overseas deployment capabilities, DS has deployed 23 agents overseas to high-fraud posts who are specifically dedicated to anti-fraud efforts and criminal investigations. This number is expected to increase by next summer. Finally, DS has developed entry-level and mid-level consular training presentations that focus on the detection and prevention of consular malfeasance. DS and CA managers give these presentations to consular training classes at the Foreign Service Institute before the consular officers depart for post.

Mr. Lantos' Question:

A June 2002 study by the GAO found significant staffing shortfalls at hardship posts that have resulted in junior officers working well above their pay grade or skill level. As a result, these officers have inadequate training and tools for their assignments. For instance, the study found that 62% of the foreign service officers posted in China and 41% of those posted in Russia have insufficient language skills. So far, the Department has mainly focused on the problem of inadequate facilities and inadequate compensation as barriers to getting the best officers to bid on hardship posts, but doesn't the bidding system also have to be overhauled to make sure that career officers are available for postings anywhere in the world?

Mr. Burnham's Response:

We agreed with many of the concerns expressed by the GAO report and have been aggressively pursuing a multi-pronged response to improving staffing at hardship posts. We began the DRI in order to increase staffing to a level that all identified needs—staffing and skills—could be met; but in years of underfunding we had to prioritize and in some cases non-hardship posts were in fact more critical to our foreign policy.

Inadequate facilities for our people overseas are unacceptable. This is not simply a question of luring people to hardship posts but of providing secure, appropriate facilities and support commensurate with what we are asking of the people on the front lines. We believe that when asking employees to take their families to 2–3 year assignments in difficult locations under dangerous conditions it is best to have positive incentives that make employees want those assignments. Therefore we will continue to seek solutions to the overseas pay gap and to provide incentives that work for hardship posts.

However, we have also strengthened the "fair share" aspect of the Foreign Service bidding system so that the burden of hardship service is more fairly distributed. These changes have made an impact, with a greater number of bidders who have not recently served in hardship posts are actually being assigned to hardship posts, not just bidding on them.

LETTER RECEIVED BY THE COMMITTEE ON INTERNATIONAL RELATIONS FROM THE HONORABLE ANNE W. PATTERSON, DEPUTY INSPECTOR GENERAL, U.S. DEPARTMENT OF STATE

U.S. DEPARTMENT OF STATE,
Washington, DC, September 26, 2003.

Hon. HENRY J. HYDE, *Chairman,*
Committee on International Relations,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: I am writing in response to questions submitted for the record that were posed to my predecessor, Ambassador Anne Sigmund, by you and Representative Lantos for the committee's hearing on September 4, 2003, regarding "Government Accountability: Efforts to Identify and Eliminate Waste and Mismanagement." Official responses to your questions are provided in the following enclosure.

During the course of the hearing, you also asked Ambassador Sigmund how the Department monitors its unused and underutilized domestic real property. The Bureau of Administration monitors the Department's use of domestic real property and reports quarterly to the U.S. Department of Housing and Urban Development regarding unused and underutilized domestic property. In addition, the U.S. General Services Administration controls most domestic real property used by the Department. It should be noted that the Department's limited domestic real property space holdings are fully utilized.

I appreciate the opportunity to provide the Committee with the Office of Inspector General's views on these issues. As was noted in the hearing, Ambassador Sigmund is retiring. Therefore, I have been appointed as Deputy Inspector General and look forward to working with you and the rest of the Committee in my new capacity. Please feel free to let me know if you have additional questions and how I may be of assistance. Please ask your staff to contact me or Mrs. Patricia Yorkman, Acting Assistant Inspector General for Congressional and Media Affairs, Policy and Outreach, if the committee requires additional information. Either of us may be contacted at (202) 647-9450.

Sincerely,

ANNE W. PATTERSON, *Deputy Inspector General.*

Enclosures

QUESTIONS SUBMITTED FOR THE RECORD TO THE HONORABLE ANNE M. SIGMUND, ACTING INSPECTOR GENERAL, U.S. DEPARTMENT OF STATE, BY THE HONORABLE HENRY J. HYDE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS, AND MS. SIGMUND'S RESPONSES

Mr. Hyde's Question:

One way to root out waste and abuse within the government is to provide strong whistle-blower protection. Most Federal Government employee whistle-blowers (with some exceptions in national security and intelligence) have had the protection of the Whistle-blower Protection Act. Therefore, please describe for the Committee how the State Department briefs all employees on their rights and responsibilities concerning disclosure of facts that they reasonably believe constitute gross waste, gross mismanagement, violations of law, abuse of authority or serious risks to public health and safety—including policies such as reporting to Congress.

Ms. Sigmund's Response:

The Office of Inspector General addresses Whistleblower rights and protections in virtually all of our outreach presentations. The Inspector General or his/her designee addresses training courses, including audiences of new inspectors, new Foreign Service officers, new ambassadors, new civil service employees, and principal officers at posts, which include deputy chiefs of mission and administrative officers.

Within the presentations, OIG provides material that describes steps to take if an employee encounters fraud, waste, or mismanagement. Participants are also informed about their responsibility to report promptly possible violations of laws, regulations, or instances of waste and mismanagement. OIG also extensively advertises its hotline. Hotline submissions may be provided anonymously, if so desired. OIG publishes role and mission pamphlets and investigative process brochures, both of which publicize the OIG hotline number and are enclosed. OIG widely disseminates the hotline number on posters throughout the Department and includes it on employee earnings and leave statements.

Mr. Hyde's Question:

Ambassador Sigmund, your statement does not speak to any evaluation of the Overseas Building Office construction program. Funding for more secure buildings has been dramatically increased since 1998. Has your office reviewed and evaluated the construction security program and regular capital construction programs?

Ms. Sigmund's Response:

OIG's Office of Audits initiated a review of the Bureau of Overseas Buildings Operations (OBO) Design and Construction Program in January 2003. This review is being conducted in two stages—design and construction—covering both the construction security program and the regular capital construction program. OIG completed fieldwork concerning the design stage in July. The construction stage will begin in the spring of 2004.

OIG's preliminary conclusions are that OBO management has initiated several improvements in the new construction program. The first is a new long-range overseas building plan. This is a planning document that covers six years, prioritizes each post by year, evaluates the need for a U.S. presence, and includes a project rationale and project description. Other improvements include an acquisition plan for new embassy sites, a “design build” contracting process to reduce the Department’s risk of higher costs by reducing the time from award to construction completion, monthly project performance review meetings, and improvements in the standard embassy design program, which should also reduce the time and cost of construction. In addition, OBO has instituted the new value-engineering program and the industry advisory panel meetings, which are considered best practices.

Mr. Hyde’s Question:

The Department’s implementation of the Foreign Affairs System Integration (FASI) project has been a huge failure. By scrapping the program, a cost of $200 to $250 million has been avoided. Yet, how much did it cost the Department until the program was discontinued? How much does the new messaging system replacement initiative cost? How long will it take to implement it? What, if anything, has happened to the employees who oversaw the disastrous FASI project?

Ms. Sigmund’s Response:

The Foreign Affairs System Integration (FASI) project was funded at $17 million as a pilot testing program and was initiated in response to an Overseas Presence Advisory Panel (OPAP) report recommendation. The project is just one piece of the Department’s overall efforts to establish a common technology platform for overcoming communications barriers between agencies operating overseas.

At the direction of senior department management, the FASI project was evaluated to determine its progress and lessons learned toward the overall objective of establishing a common technology communications platform. A review early in 2002 identified project flaws that were due to a poor assessment of foreign affairs agencies’ business practices and users’ needs. The entire $17 million was used on the pilot. The Department has utilized the program’s shortcomings as lessons learned and incorporated those lessons into its SMART management approach. SMART is the “State Messaging and Archive Retrieval Toolset,” which is replacing the Department’s outdated “cable” messaging system. The Department believes this system will be a much simpler toolset for providing integrated messaging, archiving, and information sharing. There are plans to deploy the SMART system in the first quarter of FY05. From the FASI project, the Department identified substantial hardware and software components, which can be leveraged and reused. This includes licenses that the Department is using for applications on other systems.

Mr. Hyde’s Question:

Weaknesses in the Department’s financial management systems are a long-standing problem. The audit of the FY ’02 financial statements identified that the Department’s financial and accounting systems were not adequate. Significant internal control weaknesses related to the management of undelivered orders now amount to over $5 billion. Other than automatic de-obligations of these amounts, what is being done to fix this problem? Are there civil actions being maintained?

Ms. Sigmund’s Response:

While weaknesses in the Department’s financial systems are a long-standing problem, the Department has made significant progress to resolve them, especially in the last few years. Substantial compliance with Federal Financial Managers Integrity Act (FFMIA) is a top priority for the Department, and a number of initiatives to achieve compliance are underway.

As required by FFMIA, the Department submitted its remediation plan to OMB and has completed a number of the initiatives identified in the plan such as the installation of the worldwide Regional Financial Management System to replace the overseas financial systems. Although the Department has completed several phases of its remediation plan and indicated that the remainder of the plan is on schedule, one major project related to managerial cost information will be only 20 percent completed by the end of 2003. The plan also does not yet adequately address management of grants made by Department offices.

Although auditors did not closely examine the growth in the balance of undelivered orders (UDO), OIG noted the balance had grown from about $3.2 billion in FY 2001 to about $5 billion in FY 2002. The Department has taken actions to address this problem such as implementing a worldwide UDO database in FY 2001 and starting a process of automatically deobligating certain types of expenditures. In addition, the Department recently implemented a process of following up with each bureau to determine if certain unobligated balances are still valid. OIG is in constant touch with the Department’s financial managers on these and related issues.

Mr. Hyde's Question:

Concerning the problems noted on the domestic travel credit cards and government purchase credit cards: Does the State Department have to pay interest on late payments? Penalties? If so, how much money does this amount to? Are the employees required to reimburse State for misuse of these cards? Mr. Burnham states in his written testimony that employees are immediately "counseled" if their statements show a charge for a "high risk" purchase, such as jewelry, massage parlors, escort services, gambling transactions, ticket agencies, or cash advances greater than $7,500. Does anything more severe happen to them?

Ms. Sigmund's Response:

The Office of Inspector General has reviewed both domestic travel cards and domestic purchases cards. With respect to the former, employee misuse of the travel card does not incur penalties or interest payments for the Department. Employees using the card are billed directly.

The travel card was introduced to achieve certain efficiencies and economies. Accordingly, misuse of the travel card has an impact on Department efficiencies. The travel card is intended to streamline the travel process, simplify government financial processes, and provide a method to improve government operations and accountability. If an employee's credit card is cancelled, then he/she may be unable to undertake official travel as required by his/her job. Moreover, widespread delinquencies could make it difficult to find a bank willing to extend the card to the Department. In addition, delinquency with respect to the travel cards lowers the rebate that the Department receives from the card company for volume business. In our report, we estimated a Department loss of $2,500 in rebates over the past three years. The Department monitors card misuse. Employees misusing their travel cards have been the subject of investigations and discipline.

Mr. Hyde's Question:

Apparently, roughly 81 percent of purchase card transactions lacked proper documentation in their last review. In addition, not all responsible State Department officials had required annual reviews of their offices' purchase card operations. What happens if these reviews are not conducted? How does State and the OIG intend to review ways for preventing waste, fraud and abuse of these programs?

Ms. Sigmund's Response:

With respect to purchase cards, OIG surveyed domestic card use two years ago. We determined that oversight of the program was spotty and that approximately 81 percent of the transactions we reviewed lacked required documentation. (However, most transactions appeared to be legitimate.) Approximately 12 percent of the transactions reviewed by OIG (around $180,000) lacked sufficient documentation to verify independently that purchases were made legitimately.

OIG also found procurement practices that, if improved, could yield additional cost savings for the Department. For example, some cards had a self-imposed limit of $1,000, so opportunities to use the cards were often missed.

In response to OIG's findings, the Department clarified guidance on required annual reviews. As part of the Department's effort to strengthen management controls, purchase card headquarters staff conduct annual reviews at selected posts and in each domestic bureau. The reviews are done in the first quarter of the fiscal year. In addition, the following requirements have been introduced:

- Training has been developed through FSI and is available on CD-rom and Internet.
- Cardholders are required to keep monthly transaction logs.
- Cardholders are required to use certain, and in some cases, approved sources of supply.
- Cardholders are required to complete a monthly reconciliation.
- Reports are reviewed on an ad hoc basis for discrepancies.
- The Department is working with Citibank to implement data mining for trends and patterns, including those that might indicate fraud.

Employees are required to reimburse the Department for misuse of the purchase cards. The Department has requested OIG assistance in reviewing allegations of abuse of the purchase card by staff.

Mr. Hyde's Question:

The Department does not have an adequate process in place to estimate regularly the amount of improper payments made by the Department, which amount to roughly

$2 million per year. The Department has an initiative underway to have an accounting firm develop a process to measure and report on the extent of improper payments. Isn't the Department required to do this already? Why do we need to spend more money on an outside accounting firm to develop measures and report on improper payments? How much will it cost?

Ms. Sigmund's Response:

Until recently, this has never been a requirement in law or regulation, so the Department was not required to estimate and report on its improper payments. OMB recently issued implementing regulations, which required all agencies to report annually improper payment information (Public Law 107–300). Agencies are not required to report this information until they issue their Performance and Accountability Report for fiscal years ending on or after September 30, 2004. The Department has hired an accounting firm to enable it to meet this requirement. We do not know how much it will cost, but will provide that information to you in a follow-up response.

Mr. Hyde's Question:

Why is the OIG a NON-voting member of the State Department's Management Control Steering Committee, which oversees the Department's management control program?

Ms. Sigmund's Response:

The mission of the Management Control Steering Committee is to set policy, determine management control objectives, and oversee management control processes for the Department. In contrast, the Inspector General's mission is to provide independent and objective oversight of the Department's programs and operations, to recommend policies for promoting economy, efficiency, and effectiveness, and to prevent and detect fraud, waste, and mismanagement.

In keeping with professional audit standards concerning independence and objectivity, the Inspector General cannot be a part of, nor be perceived as a part of, the Department's management. OIG, however, is a key player on the management team, which recommends management controls for ensuring effective and efficient operations and for reducing exposure to fraud and abuse. To further its goal, the Department's Management Control Steering Committee decided that the Inspector General would be consulted on every issue discussed by the committee. However, to protect the Inspector General's independence and objectivity, the committee decided that the Inspector General would participate as a non-voting member. Every chairperson by policy and practice has requested the Inspector General's input and opinion. Committee members rely on OIG for independent and objective assessments. In fact, the OIG brought many of the previously reported material weaknesses to the committee's attention.

Mr. Hyde's Question:

One way to root out waste and abuse within the government is to provide strong whistle-blower protection. Most Federal Government employee whistle-blowers (with some exceptions in national security and intelligence) have had the protection of the Whistle-blower Protection Act. Therefore, please describe for the Committee how the State Department briefs all employees on their rights and responsibilities concerning disclosure of facts that they reasonably believe constitute gross waste, gross mismanagement, violations of law, abuse of authority or serious risks to public health and safety—including policies such as reporting to Congress.

Ms. Sigmund's Response:

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Mr. Hyde's Question:

Please provide the Committee with a list of all whistle-blower complaints against the State Department for the past two years, in addition to copies of the materials provided to any Department employee or contractor during their training at the State Department, concerning rights and responsibilities on whistle-blowing issues.

Ms. Sigmund's Response:

The U.S. Office of Special Counsel (OSC) handles whistleblower complaints made by federal employees, including those pertaining to State Department programs and operations. OSC refers to the appropriate Office of Inspector General those complaints that are made anonymously. When OIG receives whistleblower complaints directly from whistleblowers, we evaluate the allegations and refer them to the appropriate authority for resolution. For example, when a Department contractor complained that he was retaliated against for expressing his views about his Department supervisor's racial comments, we referred the contractor to the Department's Office of Civil Rights. It is our policy generally to conduct investigations or open preliminary inquiries into complaints based on retaliation for cooperating with an OIG investigation, audit or inspection.

During the last two fiscal years (October 1, 2001 through mid-September 2003), we received 597 complaints that warranted action, whether through direct inquiry or referral to another entity for appropriate action. Because we do not differentiate whistleblower complaints from others in our electronic case management system, we searched the system for the following key words in order to ascertain the types of whistleblower complaints received: whistleblower, retaliation, reprisal, and retribution. The search disclosed that five complaints were made during fiscal years '02 and '03 using those terms. The complaints were too few in number to draw any conclusion as to trends or patterns.

The Department is committed to ensuring that all Department employees are aware of and understand their rights as federal employees, which include whistleblowing rights. On its intranet website, the Department posts the OSC's fact sheet, "Your Rights as a Federal Employee", which provides whistleblower information, as well as the Department's whistleblower page describing what to do if an employee wants to make a complaint. In addition, the Department reminds employees of the availability of this information through Department notices. Copies of these materials are enclosed.

QUESTIONS SUBMITTED FOR THE RECORD TO THE HONORABLE ANNE M. SIGMUND, ACTING INSPECTOR GENERAL, U.S. DEPARTMENT OF STATE, BY THE HONORABLE TOM LANTOS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND MS. SIGMUND'S RESPONSES

Mr. Lantos' Question:

In September of 2002, a number of press reports disclosed that the State Department Web site for at least a week, provided a link to a Web site run by the Republican National Committee despite federal laws prohibiting government resources from being used for partisan purposes. General Sigmund, did your office ever investigate this incident? How did it happen? Did the individuals involved face any disciplinary action? Have any safeguards been put in place to make certain it doesn't happen again?

Ms. Sigmund's Response:

We received a complaint and subsequently opened a preliminary inquiry into the matter. Upon coordinating with the U.S. Office of Special Counsel regarding the allegations and being advised that it has primary jurisdiction over Hatch Act violations, we referred the matter to that agency. In terms of precautionary measures for the future, DOS employees are required annually to attend the Department's Office of Legal Adviser's ethics training, which includes material regarding Hatch Act provisions and activities that are prohibited.

Mr. Lantos' Question:

General Sigmund, last year, your office sent two teams to New Delhi to investigate reports of dangerously low employee morale at our embassy in India. Press reports cited widespread concern about Ambassador Robert Blackwill's autocratic management style, yet Ambassador Blackwill remained in his post for another year. Was anything done to address the serious management crisis you discovered in the year that Ambassador Blackwill remained at the helm? Have you discovered any other *embassies with similar problems? Has anything been done to amend the way we train ambassadors to manage their staffs?*

Ms. Sigmund's Response:

At the Department's request, OIG sent two teams to New Delhi to evaluate concerns relating to management and morale. The first team visited New Delhi in the fall of 2001. A second team returned approximately six months later. In meetings with the newly arrived Ambassador and senior embassy staff, OIG identified a number of issues that, if addressed, would improve management controls and staff morale. The Ambassador took seriously OIG's concerns and implemented some of OIG's suggestions. The Department and OIG monitored embassy morale throughout the process and observed some improvement in the situation.

It is important to recognize that during that period, our mission in India was a frontline state with respect to Afghanistan and experienced an increase in workload as a result of significant new demands from Washington. Some, although by no means all, of the morale issues facing the post were caused by deteriorating security and an increased workload.

All inspection teams review in great depth the executive direction of our embassies and consulates. We note problems with respect to ambassadors' and deputy chiefs' of mission (DCMs) performance. If an ambassador or DCM has been at post for more than 120 days, the team also writes an evaluation of his/her performance, which is submitted to the Director General for inclusion into his/her personnel file. In the case of political ambassadors, the evaluation is forwarded to the White House. Inspection teams usually know management problems before arriving at post so that they can counsel ambassadors and/or DCMs about improvements in post management during the inspection.

The Secretary has placed a high priority on appointing ambassadors and DCMs, who are not only good policy officers but also effective managers with keen awareness of their employees' and dependents' morale. He has highlighted leadership and management training for all levels of the Department to develop the next generation of managers. He has also used OIG's inspection process to identify good managers and to respond to problems arising from poor ones.

Mr. Lantos' Question:

Over the last couple of years, there have been several incidents of visa fraud being conducted by Department employees abroad that have been investigated by the Diplomatic Security Service and are being prosecuted. What is your view of the effectiveness of the fraud investigation capabilities? Is the Department doing enough to ensure that Department employees are not abusing the visa system?

Ms. Sigmund's Response:

The Office of Inspector General has not evaluated the Diplomatic Security Service's (DS) effectiveness in investigating visa fraud. However, OIG plans to review the Department's anti-fraud program this Fall and will examine DS's work with consular sections and the level of their coordination with Regional Security Officers, particularly in high fraud posts such as Lagos, Manila, and Seoul. The Bureau of Consular Affairs recently established a vulnerability unit within the Office of Consular Fraud Prevention to analyze visa issuances and trends. Moreover, the Bureau of Diplomatic Security is increasing the number of its agents to work in consular sections.

Mr. Lantos' Question:

A June 2002 study by the GAO found significant staffing shortfalls at hardship posts that have resulted in junior officers working well above their pay grade or skill level. As a result, these officers have inadequate training and tools for their assignments. For instance, the study found that 62% of the Foreign Service officers posted in China and 41% of those posted in Russia had insufficient language skills. So far, the Department has mainly focused on the problem of inadequate facilities and inadequate compensation as barriers to getting the best officers to bid on hardship posts, but doesn't the bidding system also have to be overhauled to make sure that career officers are available for postings anywhere in the world?

Ms. Sigmund's Response:

The Office of Inspector General has not examined the bidding system specifically. However, in the report on Non Immigrant Visa Issuance Policy and Procedures, Report number ISP–I–03–26, OIG made several recommendations to address shortages of experienced consular staff in posts. These included discontinuing most junior officer rotational assignments, utilizing alternate staffing programs, reviewing consular positions to determine the appropriate position grade, and establishing procedures to ensure that only officers who have completed at least one consular assignment are assigned to a one-person consular section. Some of these measures may apply to other positions that are hard to fill.

Staffing shortfalls overseas are due in part to chronic shortages in personnel. For several years, the Department hired at a rate less than attrition. For the past three years, the Department has aggressively recruited much needed Foreign Service staff. The Department continues to look for ways to mitigate the hardships in some posts, where staffing gaps and inexperience exacerbate the already difficult conditions in which these missions operate. In recent years, financial inducements and administrative measures have been implemented to encourage more bidders for the hard to fill jobs (differential pay, extra R&Rs, adjusting the assignment process to fill the hard to fill jobs first, stretch assignments, etc.). However, the Department simply does not have enough people at the right grades to fill these positions. Personnel shortages will move through the ranks. Eventually, the Department may confront a shortage of senior managers and leaders. OIG has observed, based on recent inspections, that as new FSOs gain experience, greater numbers can be assigned to more responsible positions, including those that are hard to fill. However, some posts will continue to experience staffing gaps. When OIG inspects overseas posts, we look carefully at the staffing and workload and make appropriate recommendations and findings to management.

The Department has also moved toward more regionalization of some activities and support services as a way to mitigate the assignment problem and to provide better support and oversight to the hardship posts. The Frankfurt Regional Center is an example of such consolidation.

Mr. Lantos' Question:

General Sigmund, last year, your office investigated allegations that discussions between American officials emboldened or encouraged individuals involved in a two-day coup in April 2002, against Venezuela's President, Hugo Chavez. Your report exonerated the Department and Embassy Caracas, as well as the International Republican Institute (IRI) for its controversial public statement in the midst of the coup. Many have criticized the work of your office in this case, charging that the investigators did not bother to interview any Venezuelans or other witnesses that could challenge what the embassy officials told them. Does this charge have any merit? How many Venezuelans were interviewed? The Department recently notified Congress of its intention to fund IRI activities in Venezuela in the run-up to the upcoming referendum and possible subsequent elections. What steps have been taken to ensure that IRI programming in Venezuela does not aggravate the political tension in the country?

Ms. Sigmund's Response:

Our report on Venezuela concluded that the Department and the embassy had responded appropriately in an environment that was confused and, at times, chaotic. We interviewed more than 80 people, including the Department's top officials. We also interviewed representatives of NGOs and reviewed more than 2000 documents. Our review was independent and thorough. However, we decided not to interview Venezuelan citizens because we did not want to undermine the embassy's legitimacy and credibility with the government and Venezuelan political leaders in an unstable environment.

At the time of the review, the National Endowment for Democracy (NED), which provided subgrants to others, including the International Republican Institute, was developing broader guidelines for avoiding the appearance of partisanship. The Office of Inspector General is currently conducting an audit of certain NED grants and will follow-up on whether the guidelines were finalized and implemented.

Mr. Lantos' Question:

In September of 2002, a number of press reports disclosed that the State Department Web site for at least a week, provided a link to a Web site run by the Republican National Committee despite federal laws prohibiting government resources from being used for partisan purposes. General Sigmund, did your office ever investigate this incident? How did it happen? Did the individuals involved face any disciplinary action? Have any safeguards been put in place to make certain it doesn't happen again?

Ms. Sigmund's Response:

We received a complaint and subsequently opened a preliminary inquiry into the matter. Upon coordinating with the U.S. Office of Special Counsel regarding the allegations and being advised that it has primary jurisdiction over Hatch Act violations, we referred the matter to that agency. In terms of precautionary measures for the future, DOS employees are required annually to attend the Department's Office of Legal Adviser's ethics training, which includes material regarding Hatch Act provisions and activities that are prohibited.

QUESTIONS SUBMITTED FOR THE RECORD TO THE HONORABLE JOHN MARSHALL, ASSISTANT ADMINISTRATOR FOR MANAGEMENT AND CHIEF INFORMATION OFFICER, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID), BY MEMBERS OF THE COMMITTEE ON INTERNATIONAL RELATIONS, AND MR. MARSHALL'S RESPONSES

Question:

In preparing the fiscal year 2005 budget, is USAID reviewing and evaluating programs, operations, staffing, etc. in order to make solid budget requests? Are there any programs or procedures that you have found that could be reduced or eliminated that may yield savings? Are you finding that advances in technology are helping to reduce costs?

Mr. Marshall's Response:

USAID is exploring several activities that we hope will produce better services at lower cost. First, we are working with the Department of State to explore areas in which we can cooperate or consolidate the provision of services such as finance, procurement and information technology. We have already agreed that we will share a single financial management system by the end of FY 2005 and we are working actively on collaboration of common activities in the other areas indicated above. These efforts are being supported by a new Joint Management Council. In addition, we are also examining areas in which we can regionalize some of our program and administrative operations to reduce cost without sacrificing quality. We also anticipate cost savings to be recognized as a result of advances in technology.

Question:

What efforts has USAID made to identify areas within its budget where applying strong management practices have the potential to produce efficiencies that could result in cost savings?

Mr. Marshall's Response:

Over the past two years, USAID has studied the way it delivers administrative services overseas, with a focus on financial and procurement services. USAID is currently reviewing whether these services can be delivered more efficiently on a regional basis rather than country-by-country, and will adopt the most cost effective approach as we deploy new finance and procurement software packages worldwide over the next two years. We are also studying a number of areas where we may combine our efforts with those of the Department of State to produce better services at lower cost for both agencies. USAID and State already collaborate in a number of areas; among additional areas where integration is being reviewed are accounting, procurement and information technology infrastructure.

Question:

Mr. Marshall, your statement includes many of the areas targeted for reform. Are you able to quantify savings that could result from such improvements?

Mr. Marshall's Response:

As we study each area, we are reviewing both the costs and the benefits that will result from improvement or collaboration. As an example, a review of potential regionalization of finance and procurement functions completed a year ago identified up to 100 foreign national jobs that could be saved (eliminated) by regionalizing functions. We need to be sure, however, that essential services to our field posts and required reporting to headquarters will continue if we regionalize.

Question:

In FY '02, USAID received an overall qualified audit opinion. Within the 2002 GMRA Audit, the OIG recognized seven internal control material weaknesses. What are they, and what is the status of closure of them? What recommendations, if any, have you made for the next audit cycle?

Mr. Marshall's Response:

In the 2002 GMRA Audit, the OIG recognized seven internal control material weaknesses. Six of the seven have been resolved through OIG audit recommendations. The recommendations associated with the following six weaknesses are closed based on corrective actions taken:

- Process for Allocating Program Expenses Statement of Net Cost
- Accounts Payable Process
- Reconciling and Classifying Advances to Grantees (Repeat Finding from FY 2001)
- Recognizing and Reporting Accounts Receivable (Repeat Finding from FY 2001)
- Calculating Credit Program Allowances
- Unliquidated Obligations

The remaining internal control material weakness is related to the process for reconciling the fund balance with Treasury. This material weakness stems from the failure to reconcile differences between field mission and Washington records, and State and Treasury data. Ultimately, the worldwide deployment of Phoenix (Agency's name for our core accounting system), will result in a single integrated USAID accounting system and this will mitigate this internal control material weakness. Actions to resolve the weakness and close the related audit recommendation in the interim include developing a web-based reconciliation process and using automated methods to match mission and Treasury reported disbursements. The implementation of Phoenix and increased accessibility of Treasury data online have facilitated this process. We are in the process of closing this audit recommendation, as we expect to have the web-based process in place and functioning in the near future.

Question:

Under the Improper Payments Information Act of 2002, agencies are required to institute a method of reviewing all programs and identifying those it believes are susceptible to significant erroneous payments. Which programs are most susceptible within USAID? What is the total amount of erroneous payments that have been made over the past ten years? If an erroneous payment exceeds $10 million, yet does not satisfy the other prong of the threshold requirement of 2.5 percent, does it get reviewed?

Mr. Marshall's Response:

USAID has taken steps to review and analyze programs that might be subject to the provisions and thresholds established by the Improper Payments Information Act. We have not identified any particular programs as being susceptible to significant erroneous payments. USAID does not have entitlement programs, but administers its programs through contracts and grants. Since the total dollar value of our grants and contracts currently exceeds $500 million, we are using them as the basis for our program. Potential improper payments are identified through questioned costs from annual financial audits of our contractors and grantees. To determine whether USAID meets the threshold, we analyzed data for fiscal year 2002, and have found that out of $2 billion of grants and contracts, the sustained questioned costs were under $4 million, which is approximately 0.2%, far below the 2.5 % threshold requirement for establishing recovery audits. We do not believe that we will meet the reporting thresholds for the Improper Payments Act, but we will further develop this methodology and implement a system for annual review of questioned costs from contracts and grants to verify the amounts. If we meet either criteria for review and reporting under the Act, we will comply. Our approach has been discussed with the IG, GAO, and OMB. In addition, we will continue to monitor recovery efforts under audits. For FY02, the recovery rate for sustained questioned costs was 99%.

For your information, the following sustained questioned cost amounts have been recovered for previous years:

FY1998: $4.5 million (71% recovery rate)
FY1999: $10.5 million (99.9% recovery rate)
FY2000: $6.6 million (67% recovery rate)
FY2001: $40.9 million (70% recovery rate)
FY2002: $3.8 million (99% recovery rate)

Question:

Mr. Mosely testified as to the performance audit for a cargo preference audit that the OIG performed. He indicated that USAID and USDA have been working to resolve the $175 million dispute with the OMB. What is the status of this negotiation? Are there other agencies that owe USAID money?

Mr. Marshall's Response:

Recent discussions with the Maritime Administration have been productive and we expect resolution on this matter soon. All parties have reached tentative agreement on the major outstanding issues. GAO has been helpful in providing assistance. We do business with a number of other government agencies through interagency agreements. Currently, we are owed no large balances by other agencies.

Question:

How are USAID employees held accountable for waste or abuse of program funds?

Mr. Marshall's Response:

Agency staff conducts intensive program reviews of operating units and programs at least once every three years. The purpose of the program review is to examine thoroughly how each program is proceeding, to provide an opportunity to examine planned and actual progress toward results, and to review future resource requirements.

In addition, the annual financial audits and the Agency's audit follow-up program are vehicles for detecting and addressing potential fraud.

USAID also has an aggressive management controls program, which implements the Federal Managers' Financial Integrity Act (FMFIA). This is an internal program for reviewing management controls, identifying risks and deficiencies, and establishing corrective action plans to address the issues.

Procedures for reporting fraud, waste or abuse are communicated via policies and procedures, in our Automated Directives System (ADS) which include management, financial and budget policies. In addition, General Notices announcing new policies and Agency training programs facilitate understanding and awareness. The latter includes a Financial Management Overview course and required Contract Technical Officer (CTO) certification courses.

Question:

What additional management practices do you recommend that you believe will have the potential to produce cost savings to USAID?

Mr. Marshall's Response:

We are beginning to apply performance measurements to all of our administrative functions. The use of metrics, common in the private sector, have already proved to be effective in USAID's administrative functions and this has enabled us to reallocate resources to areas where workload is heaviest.

As one subset of measurement, we have set customer service standards for our administrative functions, so that both providers and customers understand what services will be provided and in what timeframes. This has led to a good dialogue within the Agency about how quality services can be provided in the most timely and cost-effective way. We are now expanding the use of customer service standards to the bureaus at headquarters that administer programs.

Question:

Please explain the status of the implementation of the Development Readiness Initiative. Will the additional hires slated in the FY '04 budget satisfy the human capital required to handle the responsibilities outlined with the HIV/AIDS funding requirements? Doesn't AID rely heavily on contractors vs. direct hires?

Mr. Marshall's Response:

In FY 2002, for the first time in more than a decade, the Agency hired adequate numbers to replace attrition. But it is clear that this is an insufficient response to the workforce crisis. Assuming funding in FY 2004, USAID will follow the lead of the Secretary of State's Diplomatic Readiness Initiative by establishing a Development Readiness Initiative (DRI). The Agency's DRI will increase its ability to respond to new foreign policy priorities, establish training positions in overseas missions, and to provide coverage when staffing gaps occur because of training and transfers.

USAID is meeting staffing demands for HIV/AIDS using a combination of solutions. In the short-term we are using limited non-career appointments to the Foreign Service so that we may obtain senior level officers. In the meantime, we are recruiting significant numbers of junior officers with health and related expertise so that we may address the long-term demands associated with addressing the HIV/AIDS pandemic.

Question:

One way to root out waste and abuse within the government is to provide strong whistle-blower protection. Most Federal Government employee whistle-blowers (with some exceptions in national security and intelligence) have had the protection of the Whistle-Blower Protection Act. Therefore, please describe for the Committee how USAID briefs all employees on their rights and responsibilities concerning the disclo-

sure of facts that they reasonably believe constitute gross waste, gross mismanagement, violations of law, abuse of authority or serious risks to public health and safety—including policies such as reporting to Congress. Please provide the Committee with a list of all whistle-blower complaints against USAID for the past two-years, in addition to copies of the materials provided to any USAID employee or contractor during their training at USAID, concerning rights and responsibilities on whistle-blowing issues.

Mr. Marshall's Response:

There have been no whistle-blower complaints against USAID during the past two years. The Office of the Inspector General (OIG) has a Hotline page on its website to report waste, fraud and abuse and where it states that the IG Act and other pertinent laws provide for the protection of persons making Hotline complaints. The OIG, among other actions, places posters in Agency office space with information on reporting waste, fraud and abuse. We will incorporate information on whistle-blower protection into an Agency training video and make it required viewing for a new, mandatory training course for Agency supervisors.

QUESTIONS SUBMITTED FOR THE RECORD TO THE HONORABLE EVERETT MOSLEY, INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID), BY MEMBERS OF THE COMMITTEE ON INTERNATIONAL RELATIONS, AND MR. MOSLEY'S RESPONSES

Answers to Questions for the Record Following the September 4, 2003 Hearings Entitled "Government Accountability: Efforts to Identify and Eliminate Waste and Mismanagement"

1. Under the Improper Payments Information Act of 2002, agencies are required to institute a method of reviewing all programs and identifying those it believes are susceptible to significant erroneous payments. Which programs are most susceptible within USAID? How much money in total erroneous payments has been made over the past ten years? If an erroneous payment exceeds $10 million, yet does not satisfy the other prong of the threshold requirement of 2.5 percent, does it get reviewed?

Answer. USAID, with assistance from my office, is in the process of determining whether any of its programs are susceptible to significant erroneous payments. As defined in OMB Memorandum M-03-13, significant erroneous payments are defined as annual erroneous payments exceeding both 2.5 percent of program payments and $10 million.

For those programs, if any, that are determined to be susceptible to significant erroneous payments, USAID will then develop a statistically valid estimate of the level of erroneous payments, devise a plan to reduce erroneous payments, and report in its Performance and Accountability Report on the level of erroneous payments and progress in reducing them.

Over the past ten years, OIG audit and investigations work has resulted in sustained recoveries to the U.S. Treasury of $305 million and other savings of $866 million. However, there is no ongoing tracking of erroneous payments per se. Please see the attached schedule that shows the results of OIG audits and investigations since April 1, 1993.

All erroneous payments that are discovered by USAID through OIG audits or investigations or other means are reviewed to see whether a claim can be established against the recipient of the payment.

2. Mr. Mosley, you testified as to the performance audit for a cargo preference audit that the OIG performed. You indicated that USAID and USDA have been working to resolve the $175 million dispute with the OMB. What is the status of this negotiation? Are there other agencies that owe USAID money?

Answer. USAID is still at an impasse with the Maritime Administration. USAID has requested GAO to look at this issue and provide a ruling. GAO is considering this request.

As of September 30, 2002, USAID's financial statements indicated that USAID was owed approximately $496 million by other Federal agencies.

3. What is the total amount of money that the OIG has determined through investigations that has been taken from USAID over the past ten years due to alleged violations of laws, rules, or regulations by recipients of USAID funds or by employees? Total recoveries? How does USAID seek restitution from violators?

Answer. The OIG tracks court ordered restitution and fines, civil judgments, and administrative recoveries by USAID. Not all attempted recoveries are successful, as collection efforts are not always successful. On the other hand, in some cases, criminal or civil judgments result in double or triple damages and/or fines in excess of the actual loss.

Over the past ten years, OIG investigations resulted in recoveries and fines totaling about $187 million and other savings of about $137 million. Please see the attached schedule that shows the results of OIG investigations since April 1, 1993.

4. How are USAID employees held accountable for waste or abuse of program funds?

Answer. When the OIG finds that agency employees are in part responsible for the loss of program funds, either through failure to exercise their responsibilities or other negligence, the facts are reported to agency officials for appropriate disciplinary action based on USAID's table of offenses. If an OIG investigation finds that agency employees have deliberately misused program funds, the case is referred to the Department of Justice for prosecution.

5. One way to root out waste and abuse within the government is to provide strong whistle-blower protection. Most Federal Government employee whistle-blowers (with some exceptions in national security and intelligence) have had the protection of the Whistle-blower Protection Act. Therefore, please describe for the Committee how USAID briefs all employees on their rights and responsibilities concerning disclosure of facts that they reasonably believe constitute gross waste, gross mismanagement, violations of law, abuse of authority or serious risks to public health and safety – including policies as to reporting to Congress. Please provide the Committee with a list of all whistle-blower complaints against USAID for the past two years, in addition to copies of the materials provided to any USAID employee or contractor concerning rights and responsibilities on whistle-blowing issues during their training at USAID.

Answer. USAID has an active program to encourage employees to report fraud, waste, and abuse to the OIG, including advising employees of the protections afforded under the Whistleblower Protection Act. Employees receive a series of briefings when first entering on duty, including a briefing from the OIG. We encourage employees to report incidents of fraud, waste, and abuse to our office and advise them of the OIG's policy towards whistleblowers. The USAID Office of General Counsel provides annual ethics briefings to all USAID employees and reminds their audiences of the provisions of the Whistleblower Protection Act.

The OIG maintains a hotline that allows employees and others to make complaints anonymously if they choose. The OIG web page describing the hotline makes it clear that complainants may request confidentiality. The hotline is also publicized through fraud awareness briefings, posters, and the OIG's semiannual reports to the Congress.

The OIG provides fraud awareness briefings to USAID employees, contractors, and other partners in which we emphasize that whistleblowers will have their identities protected, insofar as allowed under the law. Since October 1, 2000, the OIG has provided fraud awareness training to approximately 4,650 USAID employees, contractors, and other partners in 42 countries. At these briefings, the OIG staff has emphasized the whistleblower protections available under the act. In addition to the briefings the OIG has provided a videotape version of the briefing to all USAID missions overseas that emphasizes whistleblower protection.

The OIG does not track complaints filed by those who formally describe themselves as whistleblowers separately from other complaints, because the OIG as a matter of policy allows all those who file a complaint to request that their identities not be disclosed. The OIG protects the identities of those complainants unless it becomes necessary to disclose their identity in a legal proceeding. The OIG separately identifies cases where a complainant asserts that he or she was retaliated against as result of making an allegation to OIG. Such allegations are treated very seriously but, in the past two years, there have been no such allegations. The OIG is not aware of any complaints filed with the Office of Special Counsel in the past two years that were based upon retaliation for a complaint made to OIG.

6. Mr. Mosley, over the past decade, USAID has seen a steady decline in its direct-hire staff levels. As a result, USAID has changed from an agency that directly implements foreign assistance projects to one that plans and monitors them. Mission directors have also become reliant on other types of employees, such as personal service contractors, to manage mission projects implemented by third parties, such as contractors and NGOs. In your Semiannual Report to Congress (Oct. 31, 2001), your office indicated that the steady decline in the number of foreign service and civil service employees with specialized technical expertise resulted in an insufficient number of personnel with needed skills and experience. You also stated

in this report that less experienced personnel are managing increasingly complex overseas programs, which is drastically affecting USAID's ability to effectively carry out its foreign assistance programs. What is being done to address this issue and how is your office monitoring this disturbing trend?

Answer. USAID is working toward bringing aboard new direct hire staff. Currently, USAID is recruiting experienced civil service employees through the civil service hiring process and using two other programs designed to bring talented new professionals into Federal service. Those programs are the New Entry Professional (NEP) Program, and Presidential Management Intern (PMI) Program.

The NEP Program is USAID's program for bringing well-qualified applicants into the Agency's Foreign Service. USAID's Foreign Service provides successful applicants with a career-long system of rotational assignments in Washington, D.C. and overseas. Promotion is based upon merit with selections being made for promotion at various established points in an employee's career. USAID recruits NEPs in the following skill areas: Democracy and Governance, Environment/Natural Resources/Energy, Financial Management, Population/Health/Nutrition, Program/Project Development, Contract Management, Administrative Management, Education, Private Enterprise, Agriculture/Rural Development, Food for Peace, and Economics. USAID managers reported that since fiscal year 1999, USAID has hired about 260 NEPs, including 53 NEPs in fiscal year 2003.

USAID also participates in the Presidential Management Intern (PMI) Program, which is administered by the Office of Personnel Management. This program is USAID's vehicle for hiring qualified civil service employees at the GS-9 level. The program is designed to attract graduates of master's degree programs with a commitment to public administration. This fiscal year, USAID managers expect to hire 20 to 22 PMIs.

Currently, USAID has a recruitment plan for Foreign Service staffing and is working on a civil service recruitment plan. In March 2004, USAID will begin using the International Development Intern program designed to hire entry-level Foreign Service employees from a variety of disciplines.

However, even with the above hiring efforts, it is likely that USAID will still be reliant on other categories of non-direct hires to supplement its workforce. As we stated in our report Audit of USAID's Human Capital Data (9-000-03-002-P), at the end of fiscal year 2001, most of USAID's workforce was composed of non-direct hires. At that time, USAID's workforce consisted of 7,000 individuals. Of the 7,000, USAID employed 1,951 U.S. citizens working as direct hires in USAID/Washington and overseas. The workforce included more than 5,000 individuals in its non-direct hire workforce. The bulk of these non-direct hires were Foreign Service nationals and third country nationals who worked overseas as personal service contractors. In addition, USAID's direct hire workforce is aging. At the end of fiscal year 2001, the average age of U.S. direct hires was 48 years old. By fiscal year 2006, an estimated one-quarter of USAID's civil service workforce, and more than one-half of the Foreign Service workforce will be eligible for retirement.

The OIG will continue its audit efforts in the human capital area. Currently we are working on the Audit of the Use of Non-direct Hire Workforce to Help Carry out the Agency's Missions, and we have several audits planned in the human capital area over the next several years.

7. Mr. Mosley, your office recently did a risk assessment on USAID programs in Afghanistan, specifically focusing on the risk exposure of the Infrastructure Rehabilitation Program and the Economic Governance Program. The report stated

that the overall risk exposure for the Infrastructure project is high and medium for the Economic Governance Program. Given the security situation in Afghanistan, what are your suggestions for ensuring the success of the USAID mission in Afghanistan? What areas in the USAID mission/programs are in need of improvement?

Answer. Thus far we have performed a general risk assessment of Mission operations. We have also begun our first in a series of concurrent financial audits of the Infrastructure Rehabilitation Program. These audits are being done by a CPA firm under the oversight of our RIG/Manila office. RIG/Manila staff are also reviewing on an on going basis whether the road reconstruction and rehabilitation under the Rehabilitation of Economic Facilities and Services (REFS) Program is on schedule to complete the Kabul to Kandahar highway by December 31, 2003.

The OIG's *Risk Assessment of Major Activities Managed by USAID/Afghanistan* (Report No. 5-306-03-001-S, dated March 11, 2003) noted three material weaknesses identified by the Mission related to Afghanistan's difficult security situation. These are:

Unsuitable working and living conditions,
Inability to readily travel to project sites, and
Retention of personnel and delays in the assignment of personnel.

The OIG agrees that each of these weaknesses presents a challenge for the achievement of program objectives.

The OIG's *Risk Assessment of Major Activities Managed by USAID/Afghanistan* included individual activity risk assessments for the two major subprograms under the Mission's portfolio.

Among the risks noted for the Rehabilitation of Economic Facilities and Services (REFS) Program, the major program directed toward rehabilitating infrastructure, were:

The high risk that subcontractors may not be reliable, may be entirely new to Afghanistan, and/or that required heavy equipment may not be readily available.
The risk that subcontractor procurement irregularities could occur.
The risks associated with making in-country transactions in cash, since Afghanistan is a total cash economy.

The inherent risks of construction activities which are inherently vulnerable to such things as fraud, theft of assets and construction materials, and/or nonperformance or poor performance.

The major security risks that the road reconstruction project faces the highway traverses mine fields, areas of ongoing military operations, and banditry.
The risks of construction delays as a result of partner organizations not performing their roles as relying on organizations

The risks for the Sustainable Economic Policy and Institutional Reform Support (SEPIRS) Program, the program to implement policy and institutional reforms to improve economic management, were basically two:

Activities are inherently risky because of the challenge of trying to influence host government policies while having little real authority to do so.
The risk that the security situation may deteriorate to the point where the prime contractor cannot fulfill the terms of the contract.

The above risks are issues that the Mission must deal with as best it can to implement the program. The ability to monitor the situation on the ground and make timely decisions to address the issues certainly would increase the likelihood that the programs will be successfully implemented while minimizing fraud, waste and abuse.

The OIG for its part will continue its oversight of the financial audit program whereby regional CPA firms conduct concurrent audits of USAID program resources. Additionally, the OIG's RIG/Manila staff will continue to conduct performance audits of the USAID/Afghanistan program and investigate any allegations of fraud and abuse.

QUESTIONS SUBMITTED FOR THE RECORD TO JESS FORD, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GENERAL ACCOUNTING OFFICE, BY MEMBERS OF THE COMMITTEE ON INTERNATIONAL RELATIONS, AND MR. FORD'S RESPONSES

Question:

Evaluation of program results is critical, as you have testified to. Do you see the Department of State and the U.S. Agency for International Development (USAID) effectively assessing program outcomes and results? If not, what can they be doing to more effectively gauge successes?

Mr. Ford's Response:

While State's performance plans fell short of Government Performance and Results Act (GPRA) requirements from 1998 through 2000, the department has recently made strides in its planning and reporting processes. State has made improvements to its strategic planning process, both at headquarters and overseas, that are intended to link staffing and budgetary requirements with policy priorities. For instance, State has developed a new strategic plan for fiscal years 2004 through 2009 which, unlike previous plans, was developed in conjunction with USAID and aligns diplomatic and development efforts. However, our recent review of State's public diplomacy efforts shows that State is not systematically and comprehensively measuring progress toward its public diplomacy goals. We found that the department's overseas performance measurement efforts focus on anecdotal evidence and program outputs, rather than indicate progress in changing foreign publics' understanding and opinions of the United States. Thus, we recommended that the Secretary of State develop a strategy that directs public diplomacy efforts toward measurable objectives.

USAID continues to face difficulties in identifying and collecting the data it needs to develop reliable performance measures and accurately report the results of its programs. Our work and that of USAID's Office of the Inspector General (OIG) have identified a number of problems with the annual results data that USAID's operating units have been reporting. USAID has acknowledged these concerns and has undertaken several initiatives to correct them. Although the agency has made a serious effort to develop improved performance measures, it continues to report numerical outputs that do not gauge the impact of its programs.

Question:

Are the domestic and overseas staffing models effective tools to match people to the needs of the mission? Are they flexible enough that if priorities or duties change, staffing adjustments can be made? Are there savings to be achieved through utilization of an effective model?

Mr. Ford's Response:

GAO has not conducted an in-depth evaluation of State's overseas staffing model. In general, the overseas staffing model provides the department with guidance in assigning its full-time American direct hire staff, but it does not include comprehensive guidance on linking staffing levels to security, workload requirements, cost, and other elements of rightsizing. It also does not provide guidance on staffing levels for Foreign Service Nationals or for other agencies at a post. Our rightsizing framework, endorsed by State, is a more comprehensive approach. It suggests consideration of options for doing business differently—such as relocating positions back to the United States, or using competitive sourcing—that could potentially result in cost savings.

Question:

Please explain how best practices such as competitive sourcing can save the State Department money at overseas posts.

Mr. Ford's Response:

The 2001 *President's Management Agenda*

Question:

states that competition historically has resulted in a 20- to 50-percent cost savings for the government, and competitive sourcing is one of the administration's top management priorities. However, GAO has not studied competitive sourcing specifically at the State Department.

In general, at posts where the salary for foreign nationals is particularly high, competitive sourcing could potentially result in cost savings if goods and/or services can be purchased from the private sector at a lower cost. During the course of our work at the U.S. embassy in Paris in 2002, we found numerous positions that were commercial in nature, including painters, electricians, and plumbers, that could potentially be contracted out to the private sector. Indeed, we found another U.S. embassy in Europe that was competitively sourcing many of these types of services. In addition, in 1998, we found that many leading U.S. companies had competitively sourced homefinding and destination services to professional international relocation companies. At a few of the posts we studied, we found that posts could potentially achieve significant cost savings by using relocation companies. In determining whether to transfer the provision of services to the private sector, decision makers will need to consider the security, mission, and cost trade-offs associated with competitive sourcing.

Question:

How do you assess State's cost-sharing plan that would charge other federal agencies for the cost of their overall overseas presence?

Mr. Ford's Response:

In general, we support the concept of cost sharing, as I testified to in April 2003 before the House Government Reform Committee's Subcommittee on National Security, Emerging Threats, and International Relations. While we have not specifically assessed State's cost-sharing plan, we generally agree with the administration that if agencies were charged for the space they use overseas, they would be more likely to scrutinize their overseas staffing levels. The administration is currently working on this issue, and as I have previously testified, the devil will be in the details in terms of ensuring that any new mechanism distributes costs equitably among all users of facilities overseas.

Question:

GAO has conducted numerous studies relating to management weaknesses at both State and USAID. Overall, have both agencies been cooperative and amenable to suggested changes?

Mr. Ford's Response:

As I testified on September 4, 2003, on the one hand, both State and USAID have made improvements in recent years in addressing management deficiencies that GAO has identified. State's Bureau of Overseas Buildings Operations, in particular, has been quite receptive to GAO's recommendations regarding the management of real property and embassy construction programs. We have also seen improvements in the area of overseas staffing following the issuance of our hardship posts report in 2002. On the other hand, we released a report on September 2, 2003, on the U.S. government's purchase of a facility in Frankfurt, Germany, that the department indicated it would use as a regional center for diplomatic and consular operations. While State indicated that it was following a rigorous rightsizing analysis in determining which staff would be relocated to the facility, known as Creekbed, State's comments on a draft of our report were inconsistent with its stated expectations that the Frankfurt project would achieve the department's key rightsizing goals. Thus, we question the seriousness of State's effort, as well as its commitment to the overall rightsizing process.

USAID has been cooperative and amenable to suggested changes and recommendations for improving its workforce planning and management systems. USAID agreed with the findings and recommendations in our most recent report on the agency's performance in these areas, which is still restricted. Throughout the assignment, the staff from USAID's Management and Policy and Program Coordination Bureaus, as well as overseas missions, cooperated with repeated requests for personnel data and information on the agency's workforce planning efforts.

Question:

GAO has stated that USAID's computer systems are vulnerable and in need of better security controls. Is the agency spending money wisely in this area?

Mr. Ford's Response:

USAID's OIG has reported that computer security deficiencies expose USAID to the risk that resources and data will not be adequately protected from loss, theft, alterations, or destruction. USAID has made some progress in correcting some of its systems and internal control deficiencies and is in the process of revising its plan to fix financial management weaknesses as required by the Federal Financial Management Improvement Act of 1996.

Question:

Is USAID collaborating with other key U.S. agencies and foreign donors in the effective implementation of U.S. foreign policy, and does the GAO have further recommendations for additional success?

Mr. Ford's Response:

USAID's relationships and collaboration with other key U.S. agencies and other donors are mixed. During our review of hurricane reconstruction assistance in Latin America, we found that USAID and other international donors generally did a good job of planning overall strategies. For example, in Nicaragua the donors agreed to divide the work functionally both to maximize coverage and minimize duplication. However, many of the dozen or so U.S. agencies that received part of the supplemental reconstruction funding were new to overseas work, particularly in developing countries. As a result, the initial pace of implementation was somewhat slow as USAID brought these agencies up to speed on local conditions and the types of programs that would be most beneficial. USAID's missions also provided much of the administrative assistance for these agencies. In general, we found that the agencies with technical expertise not found at USAID—such as the National Oceanic and Atmospheric Administration, U.S. Geological Survey, U.S. Department of Agriculture, and the Army Corps of Engineers—provided the most value to the reconstruction program.

In our review of democracy and rule of law programs in Latin America, we found that USAID, State, and Justice did not take a strategic, coordinated approach to providing such assistance. Their strategic plans did not identify how U.S. agencies and foreign donors would coordinate their efforts, as required by GPRA. We also found that information-sharing among U.S.-funded program implementers has been limited and that agencies did not take advantage of lessons learned to ensure that funds are spent in the most cost-effective manner.

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