Diplomatic Readiness

The ability of the Department of State to advance U.S. foreign policy interests—including supporting the overseas roles of other Federal agencies represented abroad—depends upon the quality of the Department's personnel, technologies, and infrastructure. Diplomatic readiness, a core responsibility of the Department, is the strategic asset that enables the Department to complete its mission.

The essential link between foreign policy goals and diplomatic readiness is best demonstrated by a few examples. For instance, the whole range of relations with China—whether the issue is trade, human rights, or nonproliferation—is affected by the ability of Foreign Service Officers in the Beijing Embassy and the Consulates in other Chinese cities who know Chinese politics, culture, and language, work in offices (and live in housing) that are efficient and safe, and report to Washington, D.C. through reliable and secure communications. Similarly, the successful efforts to promote democracy and free market economies in the Republics of the former Soviet Union depend upon the quality and training of the personnel serving there and the simple availability in the offices and homes of heat, running water, and electricity—basics we take for granted in the United States but which have required much effort to deliver. Other strategic goals, including protecting U.S. citizens abroad and pursuing law enforcement objectives, require an information technology infrastructure that permits timely information sharing with other agencies and the production of high-technology passports, visas, and other documents criminals find difficult to counterfeit.

Diplomatic readiness requires a high-performance organization—the right people, with the right skills and support, in the right place, to defend national security and promote national interests. At any time, around the world, U.S. representatives are negotiating treaties, responding to crises, carrying out high-level official visits, observing foreign elections, promoting American exports, providing relief to victims of natural disasters, assisting U.S. citizens in emergencies, enhancing border security, and managing overseas missions. The Embassies, Consulates, and other posts that the Department of State manages are the principal platforms for U.S. Government activities worldwide. It is from these missions that the Ambassador and the Mission staff coordinate and carry out the activities of representing the United States to the world.

Goal: Enable the U.S. Government to achieve foreign policy objectives and respond to international crises by cultivating a skilled, motivated, diverse, and flexible workforce.

People are the Department of State's most significant resource—22,000 highly qualified Civil Service, Foreign Service, and Foreign Service National employees, with many more contract employees, in more than 300 locations in the United States and overseas. Sound workforce planning and management is a critical component of diplomatic readiness, and a challenging task, especially given the complexities of operating overseas. Since the Department represents the United States to the world, its U.S. workforce must be highly skilled and truly representative of U.S. citizens, while its employment practices must demonstrate U.S. commitment to the principles of fairness and equal employment opportunity. Significant 1997 accomplishments toward achieving this goal included the following:

Developed the Overseas Staffing Model. Human resources form the foundation of every undertaking by the Department. Without the right mixture of people and skills, the Department of State cannot accomplish its mission. During 1997, the Overseas Staffing Model was developed and implemented. The Model is one of the management tools that helps determine the necessary staffing mix to achieve the goals and objectives for each U.S. Embassy and Consulate.

Improved Recruitment and Career Development. Recruitment efforts in 1997 continued to focus awareness of opportunities in the Foreign Service among diverse student and professional groups, which yielded higher percentages of minority group applicants applying and qualifying for Foreign Service positions. In addition, a new program to permit Civil Service personnel, who are predominantly employed in Washington, D.C., offices, to apply for conversion to the Foreign Service and/or assignment to Foreign Service positions overseas that are difficult to fill has been implemented.

Expanded Training at the Foreign Service Institute. Once the Department has recruited the right talent, it must ensure that the personnel system provides incentives for excellence and the opportunity for each employee to fully use his or her abilities. The Foreign Service Institute (FSI), located at the National Foreign Affairs Training Center (NFATC) in Arlington, Virginia, equips employees with first-rate language and area expertise; hones their diplomatic tradecraft skills, notably in reporting, advocacy, negotiation, and consular work; and strengthens skills needed to manage people, information, and other resources. Following are some key accomplishments realized by FSI in 1997:

- Expanded leadership and management training in the Senior Seminar, which is a 9-month curriculum for executives in both the Civil Service and Foreign Service who serve in key leadership positions both in Washington, D.C., and overseas.
- Increased training in information technology to support the Department's information system modernization efforts.
- Expanded diversity training throughout the Department in 47 sessions, including locations overseas in London, Brussels, Moscow, and Mexico City.
- Improved delivery of training services through alternative pricing mechanisms and new delivery methods, such as distance learning.
- Updated training in consular functions with new computer platforms that enable training on the most recent consular information systems programs operating overseas.

Goal: Strengthen the ability of the United States to achieve its international affairs goals and respond to crises through effective and efficient information resources management and information systems

The collection, analysis, and communication of information concerning international issues and developments of importance to the U.S. Government are essential to achieving foreign policy goals. Given the vast quantities of information available today, there is a premium on value-added and timely information. Secure and reliable information technology, along with accurate and efficient information networks, are essential tools for the policy process and operations at home and abroad. They are equally critical for the effective conduct of foreign relations and for communications with the rest of the government and the public. During 1997, the Department of State focused on two major areas:

Continued Modernization of Information Management. The Department's strategic information resource management challenge is to align information management priorities in such a way as to strike the appropriate balance between classified and unclassified information needs. Currently, resources are spread across various large-scale networks, including a closed classified record traffic network and its associated classified electronic mail systems, and an open, unclassified network. Modernizing even a single, large-scale network is challenging, given today's expensive and constantly changing information technology. In order to do well in deploying and supporting an open, unclassified network linked to the Internet, the Department is modernizing its computer and communications networks.

Addressed Year 2000 Issue. As we proceed along the track of installing new, open, unclassified systems around the world, it is essential that we also ensure that existing systems are year 2000 compliant. During 1997, the Department continued to analyze its information systems applications and renovate systems to meet the requirements of the new millennium including OMB's March 1999 mission critical application compliance deadline.

Goal: Establish and maintain infrastructure and operating capacities that enable employees to pursue policy objectives and respond to crises

The Department of State operates and maintains a network of diplomatic and support facilities in more than 300 locations worldwide, ranging from highly developed countries with advanced infrastructure to underdeveloped or crisis-bound nations without reliable communications, transportation, or banking systems. The Department must respond to a vast array of support needs at overseas posts, ensuring that representatives from all Federal agencies and their families can live and conduct business safely and efficiently, with due regard for morale, even in unhealthy or dangerous locations.

Resource Management Improvement - ICASS

Perhaps the single most significant improvement in resource management has been to the administrative support infrastructure worldwide with the continued development and implementation of the International Cooperative Administrative Support Services (ICASS) system. It is a revolutionary change in the way the Department manages the delivery of shared administrative support services and distributes the associated costs to U.S. Government agencies located at diplomatic missions abroad. It incorporates many of the important pillars of entrepreneurial government supported by the Vice President's NPR. The new ICASS system is more than just a revised cost distribution mechanism that allocates to each agency the full costs of its presence overseas. ICASS is a paradigm shift in the way the Department of State and other Federal agencies manage the administrative platform that supports their overseas programs and activities. The primary objective is quality services at the lowest cost. There are five major principles of the ICASS system:

> **Local Empowerment.** Each Embassy forms an ICASS Council, made up of senior managers representing each agency at the post. Similar to a corporate board of directors, the Council is responsible for the overall management of shared administrative support activities, including using resources cost effectively, choosing service providers, establishing customer service standards, and setting priorities within the administrative support delivery system.
>
> **Equity.** Under ICASS, agencies pay their fair share of post administrative costs based on usage. ICASS embodies the concept that all agencies should pay the true costs of their presence overseas.
>
> **Transparency.** All costs are clearly shown by agency for all post-related and non-post-related services, using an agreed-upon method. The ICASS budget and management information system permits every post and agency to review and influence the shared administrative costs, by service and by agency.
>
> **Competitive Selection of Service Providers.** Under ICASS, diplomatic posts have the flexibility to select service providers. Through their Councils, posts have the option, where practical, of looking at other providers (governmental or commercial) to obtain administrative support, consulting, and professional services in lieu of or in addition to those provided by the Department.
>
> **Customer Service Standards and Accountability.** The local Councils establish standards for administrative services and evaluate the performance of the service providers in meeting them. The agencies at post, who are the customers, hold the service providers accountable for their performance and, through the Council, seek ways to improve services and reduce costs.

ICASS is being implemented in accordance with a four-phase plan, with the ultimate objective being the full implementation of the system worldwide in 1998. The first and second phases of the implementation plan were completed in 1996. They consisted of the initial testing of ICASS concepts at four pilot posts in Rome, Riga, Warsaw, and San Salvador; evaluating the results; and making necessary changes to the system.

On October 1, 1996, the third phase of the implementation plan was initiated—a prototype version of ICASS was installed worldwide to test and further refine policies, procedures, and systems. Although ICASS has been established at 162 diplomatic missions abroad, during 1997, participating agencies continued to reimburse the Department of State using the cost-distribution methodology of the old Foreign Affairs Administrative Support System. However, ICASS budget data from the test year formed the basis for a budget amendment request that transferred, for 1998, approximately $110 million from the Department to other participating agencies to cover their increased share under ICASS.

The last and final phase of ICASS, full implementation, will be accomplished in 1998 with agencies paying a more equitable share of the administrative support costs associated with their presence abroad. In return for increased costs, other agencies have a greater voice in the management of administrative resources at post, with a focus, as customers, on improved services in a competitive environment. This will be a significant achievement for the Department and all Federal agencies with operations overseas.

Other Management Improvements

Following are other notable management improvements realized in 1997:

Formalized Strategic Planning. Significant and lasting progress was made during 1997 toward the full implementation of the Government Performance and Results Act (GPRA) with the development of the Department's first *Strategic Plan* and the *International Affairs Strategic Plan*. By setting the long-range direction of the Department in defining its mission and that of other foreign affairs agencies/components and key goals and objectives in the *Strategic Plan*, all employees and associates in other Federal agencies as well as our counterparts in the worldwide community of diplomacy, know where the interests of the United States lie in the field of foreign affairs. The *Strategic Plan* was the result of a vigorous process involving employees at all levels of the Department and other Federal foreign affairs agencies. It presents appropriate goals based on a thorough analysis of the political, economic, and environmental status of the world.

Improved Logistics Management. During 1997, the Department continued development and implementation of a new logistics management organization that will reengineer and streamline logistics functions encompassing procurement, delivery and storage of goods, and provision of services for all Department locations worldwide.

Sharpened Focus of Real Estate Asset Management. The Department strives to maximize the economic use of its U.S. Government-owned real property overseas. Because needs and functions of diplomatic posts change, the Department reviews its real property inventory to identify those properties that may be underutilized, functionally inadequate, expensive to maintain, or otherwise excess to its needs. The focus is to identify and dispose of real estate and use the proceeds of sale to acquire, via purchase or construction, lower cost replacements, high-priority core properties, and other financially attractive properties worldwide. Ownership serves as protection from the risk of recurrent make-ready and upgrade costs and against rent escalation.

- During 1997, the Department sold nearly $102 million of real property. The amount realized from the sale of real property is not available for obligation until credited to the Security and Maintenance of U.S. Missions appropriation. In 1997, $96.7 million in proceeds were credited to this appropriation.
- The Department purchased 85 properties overseas for $34.6 million. In addition to purchase and lease methods of providing office space and housing, the Department constructs new facilities and extends the useful life of existing facilities through maintenance and rehabilitation work.

- In 1997, the Department completed several new construction and facility rehabilitations, exceeding $10 million—the construction of a new Chancery, Ambassador's residence, and Marine Security Guard quarters in Singapore, a U.S. Interests Section rehabilitation in Havana, and a Consulate General rehabilitation in Hong Kong.

Upgraded Security. The Department of State is dedicated to providing a secure working and living environment for all employees domestically and overseas. The recent bombings of the U.S. Embassies in Kenya and Tanzania are devastating and tragic examples of the risks that all U.S. Missions face in carrying out the worldwide foreign affairs program. These events have resulted in the Department requesting supplemental resources from the Congress to fund emergency activities to rebuild the destroyed Embassies in Nairobi and Dar Es Salaam and to increase security in our posts worldwide. Our security program must not only protect the lives and property of Department of State, American and Foreign National employees, but also Department facilities that provide support for other U.S. government employees working overseas (outside of military installations).

During 1997, the Department upgraded security training for local guard forces that, together with Marine Security Guard detachments, protect the perimeter and access to each post. Security was enhanced at many posts in high threat areas with new metal detection devices and closed-circuit security monitors. Also, to protect classified material or information, special intrusion detection systems were installed at 25 posts. In addition to protecting people, the Department must secure its information management systems. As part of the Department's information technology modernization effort, new stringent security standards have been adopted and analyses of hardware and software are being conducted to determine necessary security upgrades.

Strengthened Financial and Accounting Systems. At present, the Department's financial and accounting systems do not comply with government standards and regulations. The Department has been burdened with managing six financial management systems throughout the world to support its own operations as well as those of other Federal agencies with overseas operations. The long-term goal is to have a single integrated accounting system. In pursuit of this goal, over the past few years, the number of financial systems has been reduced from six to three; the three overseas financial service centers were standardized on a single foreign national payroll system (three different payroll systems existed before); and the number of disbursing offices were reduced from 18 to 3. In addition, the following actions were taken during 1997:

- Developed a standardized account code structure to improve systems integration Department-wide.
- Prepared a detailed implementation plan to upgrade the off-the-shelf accounting system software for the Central Financial Management System (CFMS).
- Conducted indepth analyses of CFMS software changes and completed programming for half of the changes, with the remainder to be completed during 1998, when the upgrade is scheduled to be installed.

Management Discussion and Analysis of Financial Statements

This is the second year that the Department has prepared Department-wide consolidated financial statements, which is an important step toward promoting improved accountability and stewardship over the public resources entrusted to the Department. Preparing these statements is part of the Department's overall goal to improve financial management and to provide accurate and reliable information that is useful in assessing performance and allocating resources.

Responsibility for the integrity and objectivity of the financial information presented in the financial statements rests with Department management. The accompanying financial statements have been prepared in conformity with the hierarchy of accounting principles approved by the Federal Accounting Standards Advisory Board (FASAB). The financial statements should be read with the realization that the Department is an agency of the executive branch of the U.S. Government, a sovereign entity. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and ongoing operations are subject to enactment of appropriations.

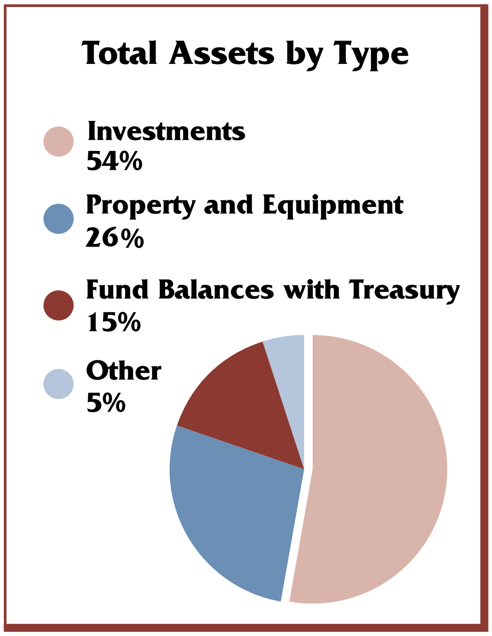
Subjecting financial statements to an independent audit enhances their reliability. Leonard G. Birnbaum and Company, independent certified public accountants, was retained by the Department's Office of Inspector General to audit the Department's 1997 consolidated financial statements. Its accompanying report is based on an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. We are pleased to report that the auditors rendered an unqualified opinion on our 1997 financial statement, the best possible outcome of an independent audit.

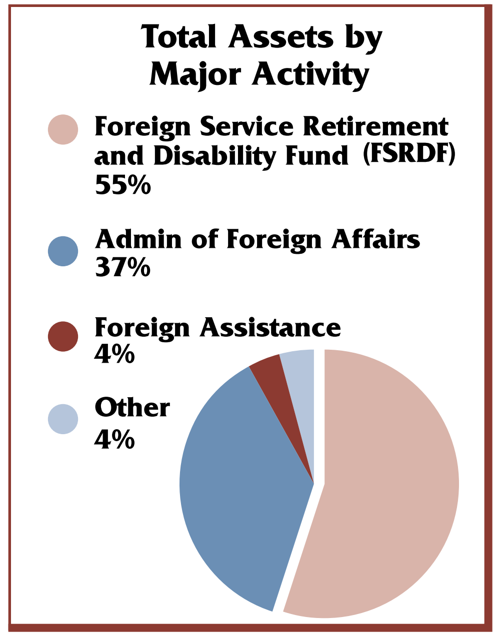
Comparative financial statements are presented for 1996 and 1997. The 1996 data have been restated to include the Bosnia Federation Fund. In 1996, the Statement of Financial Position was audited and received a qualified opinion. The opinion was qualified due to the inability of the auditors to obtain sufficient documentation on undelivered order balances.

The breadth of scope of the Department's financial activity is shown in the consolidating statements by major functional area, which are included as supplemental data. These areas are Administration of Foreign Affairs, the Foreign Service Retirement and Disability Fund (FSRDF), International Organizations and Conferences, International Commissions, and Other Funds. Except for FSRDF, which is part of Administration of Foreign Affairs, this classification is consistent with the *Budget of the U.S. Government*. FSRDF is displayed separately because it contains more than 50% of the Department's assets.

Financial Condition. The Department had total assets of $16.8 billion as of September 30, 1997. Investments in U.S. Government Securities of $9 billion and Property and Equipment (net) of $4.4 billion make up nearly 80% of this amount. The investments consist entirely of investments by the FSRDF and Gift Funds. Property and Equipment is primarily composed of overseas real property of $3.8 billion under the Security and Maintenance of U.S. Missions Fund. The Administration of Foreign Affairs and FSRDF activities contain approximately 92% of the Department's total assets.

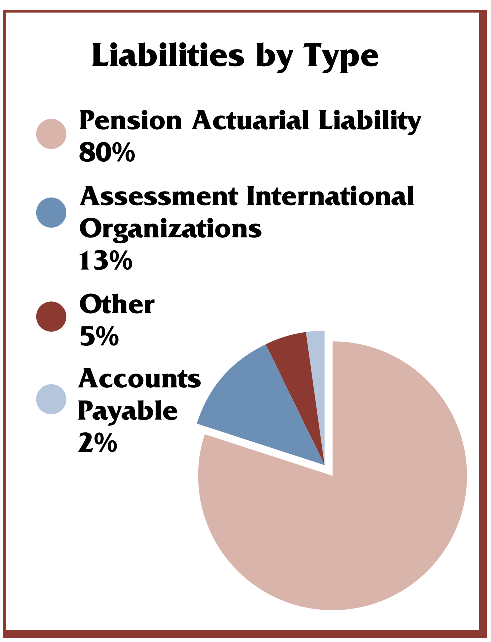
Total assets increased only $0.8 billion, from the $16.0 billion in total assets as of September 30, 1996. Investments increased by almost $0.6 billion due to interest earned. Intragovernmental receivables decreased slightly due to prompt billing and more aggressive collection actions. The increase in governmental receivables of $0.2 billion was primarily due to the establishment of accounts receivable for several real property sales for which payments have not been received.

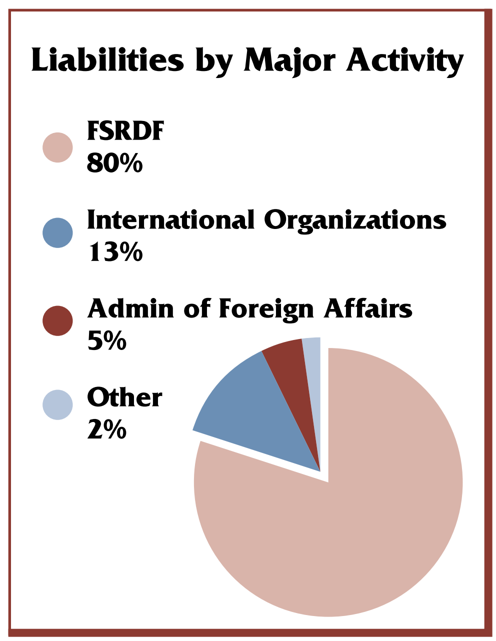




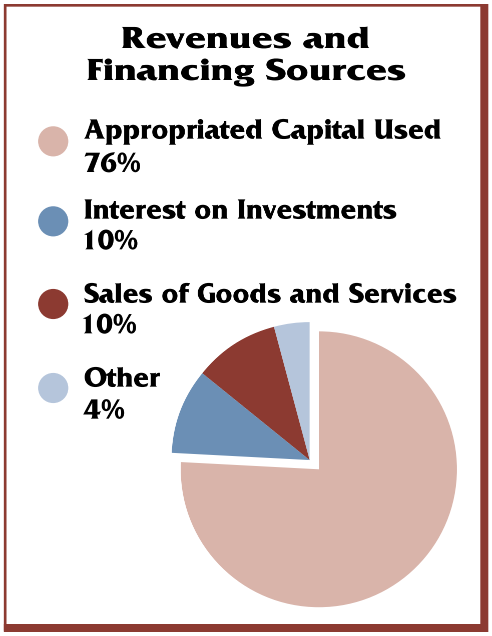
The Department had total liabilities of $13.1 billion as of September 30, 1997. Of this amount, $10.5 billion (80%) was for the FSRDF's Pension Actuarial Liability and $1.7 billion (13%) was for Assessments from International Organizations. The FSRDF and International Organizations activities contain 93% of the Department's liabilities. Of the Department's total liabilities, $3.4 billion (26%) was unfunded, i.e., not covered by budgetary resources. The largest portion of the unfunded liabilities is $1.7 billion in accumulated arrears on assessments from international organizations.

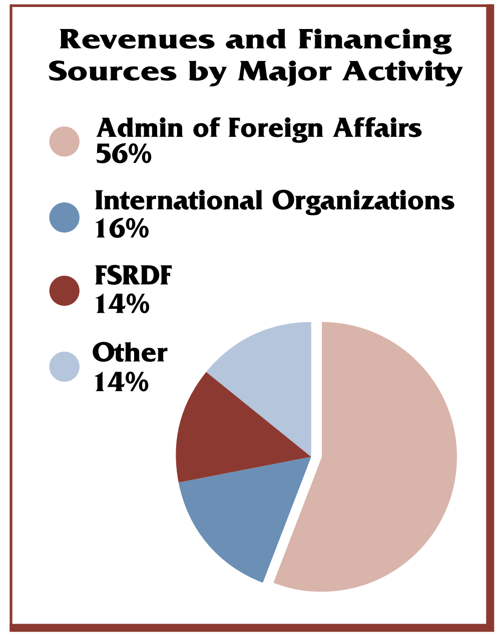
Since 1996, total liabilities increased by $1.3 billion. This increase was due primarily to a change in the method for reporting the actuarial liability for the FSRDF.



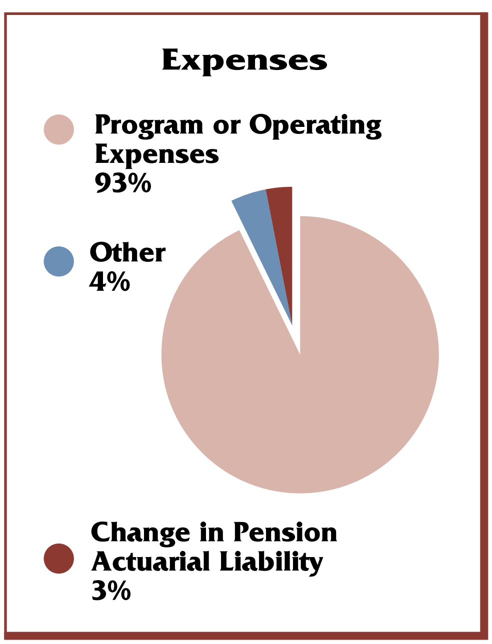


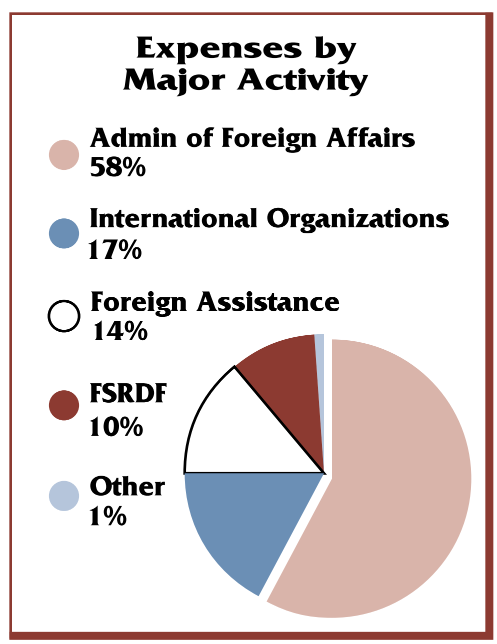
Results of Operations. For the fiscal year ending September 30, 1997, the Department had $6.8 billion in revenues and financing sources. Appropriated Capital Used of $5.2 billion makes up 76% of this amount. The Department realized Sales of Goods and Services of $1.2 billion. Of this amount, approximately $632 million was for passport and other consular fees, $464 million of which was deposited in the U.S. Treasury as general receipts. The other $521 million in Sales of Goods and Services realized were primarily for reimbursable services provided to other Federal agencies through ICASS. The Department also received $675 million in interest earned on investments, primarily in the FSRDF. Prior to interfund eliminations, the Administration of Foreign Affairs, International Organizations, and FSRDF make up 56%, 16%, and 14%, respectively, of the total Revenues and Financing Sources.





For the fiscal year ending September 30, 1997, the Department incurred $6.2 billion in expenses. Program or Operating Expenses of $5.8 billion make up 93% of this amount. Of the $5.8 billion in Program or Operating Expenses, $2.1 billion (36%) was for grants and contributions (primarily to international organizations), and $1.4 billion (25%) was for personnel compensation. The Administration of Foreign Affairs, International Organizations, and Foreign Assistance make up 58%, 17%, and 14%, respectively, of the total expenses prior to interfund eliminations.





Total expenses decreased in 1997 by $1.6 billion, primarily due to a one-time recognition in 1996 of $1.7 billion in accumulated arrears for unfunded assessments from the United Nations, its affiliated agencies, and other international organizations. This also accounts for the decrease, from 37 to 17%, for International Organizations as a percentage of total expenses.

For the fiscal year ending September 30, 1997, the Department reported an $580 million excess of net revenues and financing sources over total expenses. More than 60% of this amount is due to revenues generated by FSRDF. Other activities contributing to this total include sales of real property, consular fees retained by the Department, and a decrease in the unfunded liability for international organizations.

Budgetary Issues. The Department's operating budget provides the basic platform for the delivery of the nation's foreign policy as well as the infrastructure to support all U.S. Government civilian operations overseas. The operating budget has been essentially flat since 1993, and buying power has been eroded by 17% due to inflation. As a result, the Department has had to cut nearly 3,000 employees, close more than 30 embassies and consulates, and defer essential modernization of infrastructure and communications. At the same time, workload has increased, including growing visa and passport issuance, an increasing number of crises to manage, more difficult-to-support overseas posts, and increased security threats, such as terrorism, nuclear smuggling, and international crime.

While operating within a complex environment, the Department's infrastructure has eroded, resulting in crucial staffing and training gaps, inadequate Foreign Service National pay plans, and unmet vehicle, furniture, telephone, and information technology equipment needs. In 1999, the Department faces major infrastructure investment demands for worldwide security, information technology equipment modernization, increased telecommunications capacity, and year 2000 compliance. The Department also faces challenging policy demands, including implementation of the Dayton Peace Accords, the Middle East Peace Process, Asian economic crisis, trade negotiations, North Korea nonproliferation issues, environmental programs, relations with China, NATO expansion, relations with the United Nations and other international organizations, and relations with rogue states, each of which requires resource allocations.

While carrying out its mission, the Department must continue to pursue the President's plan to consolidate the Arms Control and Disarmament Agency and the United States Information Agency into the Department, thus better integrating arms control and public diplomacy into the mainstream of foreign policy.

The Department's 1999 budget request of $4.9 billion includes a small (about 4.8%) increase, enough to cover overseas and domestic inflation, key program and investment initiatives, and partial replacement of obsolete information technology. The Department's $4.9 billion request represents approximately 24% of the overall International Affairs request, which is only 1% of the total Federal budget. For 1998, the Department of State is requesting $1.4 billion in supplemental funding to improve overseas security, restore the Embassies in Kenya and Tanzania to full capacity and cover costs already incurred resulting from the bombings (such as evacuation costs and medical expenses for care of American and local employees). Also, funds are included to accomodate immediate security needs at other posts, upgrade physical security worldwide and construct new facilities both for the Department and other agencies.

In 1997, the Department implemented two major reforms to improve the management of diplomacy. The first, a new overseas administrative arrangement—the ICASS program—more equitably allocates among all agencies with an overseas presence the costs of overseas administrative support. The second reform is a reengineering of the Department's logistics system that eliminates cumbersome procedures, provides faster services, and significantly reduces the cost of those services. The 1999 budget proposes funding for two significant, new projects:

- Construction of a new embassy building and related facilities in Beijing, where current arrangements are inadequate to conduct diplomacy with a major world power and to ensure security from espionage.
- Construction of an embassy building in Berlin, where U.S. personnel have been in temporary facilities since their move to the new German capital.

The Department attempts to manage its financial resources in the most businesslike and effective manner possible. However, the nature of the Federal budget process means it is subject to national economic conditions and political pressures in a constantly changing world. Obtaining resources is subject to the uncertainties of Congressional action on executive branch budget requests, and adjustments and changes can be made at various points during the authorization and appropriations processes.

Other Reporting Requirements

This *Accountability Report* consolidates reporting to the President and the Congress for a number of separate laws. This section contains reports on those subject areas of financial and program management currently mandated by Congress.

Debt Collection Improvement Act of 1996

The Department uses a combination of methods to improve its debt collection record. These include the use of installment payment plans, collection agents, invalidating passports, and the IRS Refund Offset program. Under normal commercial loan situations, these methods would be effective. However, because of the nature of the loans, recovery rates are low.

Department of State FY 1993-1997 Debt Management Activities

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Total debt outstanding end of FY	$5,058,000	$7,405,097	$8,462,304	$8,549,231	$8,347,570 (1)
% of outstanding debt:					
• Delinquent	92.0%	95.4%	86.0%	77.2%	78.9%
• Estimated to be uncollectible	29.5%	69.6%	65.6%	51.9%	20.3%
% of debt collected	27.9%	12.1%	44.9%	16.2%	25.1%
% of debt written-off	0.2%	0.0%	0.0%	9.7%	48.3%
Total Receivables	$5,058,000	$7,405,095	$8,462,304	$8,549,231	$8,347,570
Total Collections	1,413,000	893,113	3,795,503	1,388,468	2,093,908
Total Write-Offs	11,000	0	0	833,261	4,031,306
Total Estimated Uncollectible	1,492,000	5,154,139	5,551,961	4,441,052	1,694,082
Total Receivables Net of Allowance	3,566 000	2,250,956	2,910,343	4,108,179	6,653,488
Aging Schedule of Delinquent Debt:					
• 180 days or less	$1,402,000	$444,878	$952,134	$374,854	$2,103,750
• 181 to 365 days	603,000	197,186	444,646	356,983	940,458
• > 365 days	2,647,000	6,419,396	5,879,531	5,871,343	3,542,867
• Total Delinquent Debt	$4,652,000	$7,061,460	$7,276,311	$6,603,180	$6,587,075

(1) FY 1997 does not include $188,992,562 Proceeds of Real Estate Sales due from the Public.

The total debt outstanding at the end of 1997 was $8.3 million and includes direct loans, noncredit accounts receivable, interest, and late charges. In 1997, $6.6 million or 79% of the Department's $8.3 million accounts receivable due from the public were delinquent.

The majority of the delinquent debt is comprised of loans made for repatriation of Americans from overseas locations back to the United States. Outstanding repatriation loans total $2.9 million in principal, interest, and late charges. The Department has provided repatriation loans for more than 50

FY 1997 Accounts Receivable and Total Debt Outstanding (1)

Receivable Type	Principal	Interest and Late Charges	Debt Outstanding	Percentage of Total Debt Outstanding
Repatriation Loans	$2,640,429	$217,334	$2,857,763	34%
Travel Advances	1,537,170	14,512	1,551,682	19%
Value Added Tax Refunds	1,454,281	0	1,454,281	17%
Domestic Accounts Receivable	1,071,983	41,347	1,113,330	13%
Retirement Overpayments	780,971	0	780,971	9%
Miscellaneous Allowances Receivables	589,543	0	589,543	8%
Totals	$8,074,377	$273,193	$8,347,570	100%

(1) Does not include FY 1997 $188,992,562 Proceeds of Sale due from the Public.

years to U.S. citizens around the world needing assistance to pay for return transportation, food and lodging, or medical expenses. It is only after all sources of financial assistance have been exhausted that a repatriation loan is granted. The application process requires that relatives and friends be the primary source of funding, but, when that fails, the Department becomes the lender of last resort. A promissory note is executed by the borrower without collateral. However, because of their economic situation, many repatriated individuals experience financial hardship upon their return to the United States and they are unable to repay the debt. Ability to repay and creditworthiness are not criteria for making these loans. These factors seriously impact the Department's ability to collect repatriation loans. Consequently, the loans are made anticipating a low rate of recovery and represent approximately half of the September 30, 1996 loan balances written off during 1997.

Other significant outstanding noncredit accounts receivable include: travel advances totaling $1.6 million, anticipated refunds of value added taxes paid to foreign governments overseas totaling $1.5 million, domestic accounts receivable totaling $1.1 million, retirement annuity overpayments of $781,000, and miscellaneous accounts receivable totaling $590,000.

Federal Civil Penalties Inflation Adjustment Act

The Federal Civil Penalties Inflation Adjustment Act established annual reporting requirements for civil monetary penalties assessed and collected by Federal agencies. Civil penalties are defined as any noncriminal penalty, fine, or other sanction for which a given dollar amount or maximum amount is specified by Federal law, and which is assessed or enforced by an agency as a result of an administrative proceeding or civil action in Federal courts.

During 1996, no civil monetary penalties were assessed. During 1997, civil monetary penalties were assessed in the amount of $300,000, of which $200,000 was collected as the first installment payment of the civil penalty imposed by the Assistant Secretary of State for Political-Military Affairs, on Delft Instruments, N.V., for the concealment of a material fact involved in the unauthorized transfer to Iraq and Jordan of U.S.-origin defense articles. The remaining payments are due in five annual installments of $20,000 beginning on August 21, 1998 (this payment has been received).

Prompt Payment Act

The Prompt Payment Act (PPA) requires that Federal agencies pay their bills on time or, if late, pay an interest penalty and report annually on the promptness of their payments. Through the end of 1995, the Department had reported its lack of compliance with the requirements of the PPA as a material weakness in its annual *Federal Managers' Financial Integrity Act* (FMFIA) *Report*. The Department resolved the material weakness by implementing an Office of Inspector General-approved Quality Control Program, along with several other actions. The first full year of operation of the Quality Control Program was during 1996. Implementation of the Quality Control Program, coupled with increased use of government charge cards, has improved the Department's performance under the PPA.

The Department continued to improve its overall compliance with the PPA in 1997. The timeliness of the Department's payments improved to 92% in 1997, up 5% from 87% on-time payments in 1996. A corresponding decrease occurred in late payments. However, while the percentage of late payments decreased, the dollar value of interest paid increased by $356,000 to $779,000. This was primarily due to the continuing application of the Quality Control Program, which improved compliance to accurately calculate and pay interest when due.

TIMELINESS OF PAYMENTS
FY 1995-1997

		1995	1996	1997
On-time		68%	87%	92%
Early		12	-	-
Late		20	13	8
	Total	100%	100%	100%
Late payments:				
Interest paid		4%	5%	4%
Interest not due (under $1)		9	8	4
Interest due but not paid		7	-	-
	Total	20%	13%	8%

SELECTED PAYMENT DATA
FY 1995-1997

	1995	1996	1997
Number of Payments	269,183	180,941	334,093
Interest Paid ($ in 000)	447	423	779
Interest under $1 not due ($ in 000)	22	14	10
Interest due but not paid ($ in 000)	12	0	0
Number of IMPAC Charge Card Transactions (Paid Simultaneously with Purchase)	---	18,479	25,692

Management Integrity and Accountability

Management Control Program

The Federal Managers' Financial Integrity Act requires annual reviews of the adequacy of program and activity management controls. The Management Control Steering Committee oversees the Department's management control program. The Committee is chaired by the Chief Financial Officer, and is composed of nine other Assistant Secretaries, including the Chief Information Officer and the Inspector General, and two additional high-ranking officials.

Individual assurance statements from Ambassadors overseas and office directors in Washington, D.C., serve as the primary basis for the Department's assurance that management controls are adequate. The officers' statements are based on information gathered from various sources, including the managers' own knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations, and reviews, audits, or inspections and investigations performed by the Inspector General and/or the General Accounting Office.

Each year, Department organizations with material weaknesses in program and/or administrative activities must submit plans to correct these weaknesses to the Committee for review and approval. These plans, combined with the individual assurance statements, provide the framework for monitoring and improving the Department's management controls on an ongoing basis.

Status of Management Controls and Report on Material Weaknesses and Nonconformance

The Department evaluated its management controls and financial management systems for the fiscal year ending September 30, 1997. This evaluation provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved in 1997. The Management Control Steering Committee approved the closure of the following three previously reported material weaknesses: (1) Foreign Affairs Administrative Support System (FAASS), (2) Accounting for Travel Advances, and (3) Accounting for Accounts Receivable. The Committee also approved the addition of one new material weakness on Information Systems Security. This brings the total number of pending material weaknesses, including the financial management system nonconformance, to 13. During the last four years the Department has made significant progress, reducing the number of material weaknesses from 20 to 13, which includes the closure of nine and the addition of two. The following tables show the progress made over the past four years in correcting and closing material weaknesses, and a list of pending material weaknesses and the nonconformance, along with targeted correction dates.

Number of Material Weaknesses by Fiscal Year

Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of FY
1994	20	1	–	19
1995	19	2	–	17
1996	17	3	1	15
1997	15	3	1	13

Pending Material Weaknesses and Nonconformance

Title	Targeted Correction Date FY
Information Management - Contingency Planning	1999
Information Management - Modernization	2000
Information Management - Mainframe Security	2000
Information Management - Information Systems Security	2001
Management of Major Acquisitions	1998
Rehabilitation and Maintenance of Real Property Overseas	1998
Personal Property Management	1998
Inadequate Administrative Staffing Overseas	1998
The Passport Process	1999
Strengthen Immigrant and Nonimmigrant Visa Processing	1999
Accounting for the Working Capital Fund	1998
Worldwide Disbursing and Cashiering	1998
Financial and Accounting Systems - Nonconformance	2000

Material Weaknesses Closed in 1997

Following is a description of the three weaknesses approved for closure by the Management Control Steering Committee during 1997 with a brief description of the actions taken to correct them.

Foreign Affairs Administrative Support System. FAASS allocated Department of State costs to support other Federal agencies' overseas presence. FAASS did not capture the Department's full costs, resulting in the Department's subsidizing activities of other agencies. Complicated procedures for allocating expenses often led other agencies to believe they were being overcharged. The Department engaged the President's Management Council to develop a remedial system. The Council commissioned an interagency working group to develop and test the alternative system, ICASS, in 1997 with full implementation in 1998. The Council recommended cost sharing for three additional administrative support categories: (1) nonresidential local guards and related Washington overhead, (2) building operating expenses for government-owned and long-term leased buildings, and (3) the community liaison office. The ICASS Executive Board accepted these recommendations. In addition, an ICASS Service Center has been chartered, dually reporting to the Department's Chief Financial Officer and the Board. The Center issued software and a handbook, and is coordinating regional training. This new methodology, with interagency participation, will more equitably distribute costs of administrative services overseas.

Accounting for Travel Advances. Monitoring and liquidating travel advances had been a continuing problem. A number of factors contributed to the complexity including advances obtained and liquidated at more than 250 locations worldwide, inaccurate accounting data and transactions, untimely filing of vouchers, and inefficient processing of vouchers to clear advances. Many actions have been taken to improve controls over travel advances. A travel advance handbook was drafted and several procedural letters on travel and advances were issued to streamline the reporting and reconciliation of accounts. Also, the Department has significantly reduced the number of advances issued. Appropriate and timely action is now being taken to collect delinquent advances, such as enforcing liquidation of outstanding travel advances through salary offset and other collection techniques. As of the end of August 1997, $6.2 million (3,085 accounts) were cleared for fiscal years 1996 and prior. This is a 62% reduction in outstanding advances for this period. More than 90% of the remaining balance has been reconciled and is awaiting final disposition.

Accounting for Accounts Receivable. The Department had neither an integrated financial management system that captured and reported collection and debt activity nor a standardized methodology for recording collections and disbursements. As a result, the Department was unable to estimate the magnitude of the problem, ensure that accounting for debt was accurate, timely and complete, and ensure that uncollectible accounts were written off as required. Controls have improved dramatically. Draft procedures were developed for all major areas of accounts receivable (e.g., medical, proceeds of sales, etc.), and training was provided. Billings and related actions for domestic accounts receivable are being processed as received and previous collection backlogs from IRS and collection agents have been eliminated. A new accounts receivable system has been implemented, which allows for effective accounts receivable management and provides accurate, complete, and timely financial data and reports.

Management Followup to OIG Recommendations

This information on the Department of State's followup on the status of audit recommendations covers the period April 1, 1997, to September 30, 1997. It is required by the Inspector General Act of 1978, as amended, and provides information on the status of the recommendations more than one year old without final management decisions, and Management Statistical Summary.

Status of Audit Recommendations Without Management Decisions

The Department of State is currently tracking 31 audit reports that are more than 1 year old that include a total of 139 recommendations for which final action has not been taken to bring closure to the recommendations. These audits contain more than $1 million in disallowed costs and recommended actions which, when implemented, could result in up to $7 million being better used. The Department is working to bring closure to the 31 audits (see table below) and recognizes that the followup actions and compliance with the recommendations are essential to improving the effectiveness and efficiency of the program operations.

Audits Over One Year Old Requiring Final Action

Program Area	Number of Audit Reports	Number of Audit Recommendations
Counter Intelligence	4	5
Financial Management	8	27
Information Management	5	11
Security Oversight	10	72
Support Programs	2	20
Property Management and Procurement	2	4
Totals	**31**	**139**

Management Statistical Summary

Status of Audits With Recommendations That Funds be Put to Better Use

As of October 1, 1996, there were six audits with management decision on which final action had not been taken with recommendations to put funds to better use, with a value of $8.6 million. The Department had two audits where final action was taken during 1997 resulting in a savings of $631,655. As of September 30, 1997, there were four audits with recommendations to put funds to better use awaiting final action with a value of $7.9 million.

Status of Audits Disallowed Costs

As of October 1, 1996, there was one audit with management decision on which final action had not been taken, with a dollar value of disallowed costs totaling $2,151. During 1997, management decision was made on the audit. The Department had one audit in which final action was taken during the fiscal year.

Funds Put to Better Use and Disallowed Costs in Audit Reports
As of September 30, 1997

Category	Number of Reports: Funds Put to Better Use	Number of Reports: Disallowed Costs	Amounts: Funds Put to Better Use	Amounts: Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken as of October 1, 1996.	6	1	$8,566,063	$2,151
B. Audit reports on which management decisions were made during FY 1997.	–	1	$ –	$1,400,000
C. Total audit reports pending final action during FY 1997.	6	2	$8,566,063	$1,402,151
D. Audit reports on which final action was taken during the period.	2	1	$631,655	$2,151
1. Costs Recovered	–	1	–	2,151
• Collections and Offsets	–	1	–	2,151
• Property	–	–	–	–
• Other	–	–	–	–
2. Costs Written Off	–	–	–	
3. Total of 1 and 2	–	1	–	$2,151
1. Dollar value of recommendations that were actually completed.	2	–	$567,655	–
2. Dollar value of recommendations that management concluded should not or could not be implemented.	1	–	64,000	–
3. Total of 1 and 2	* 2	–	$631,655	$ –
E. Audit reports needing final action as of September 30, 1997 (subtract D3 from C).	4	1	$7,934,408	$1,400,000

* One report had amounts in both categories.