



UNITED STATES
DEPARTMENT OF STATE

PERFORMANCE AND ACCOUNTABILITY REPORT
FISCAL YEAR 2004



SECURITY

DEMOCRACY

PROSPERITY

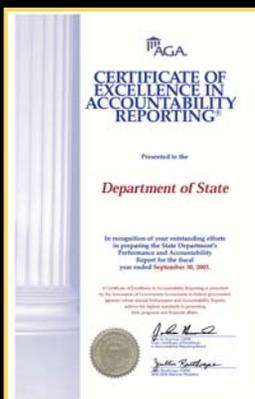
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U.S. DEPARTMENT OF STATE



*Association of Government Accountants (AGA)
Awards the*

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING



*In recognition of your
outstanding efforts
in preparing the
Department of State
Performance and
Accountability Report
for the fiscal year ended
September 30, 2003.*

*League of American Communications
Professionals (LACP) Awards the*

PLATINUM 2003 VISION AWARD

*In recognition of your
outstanding efforts in
preparing the Department
of State Highlights for
the fiscal year ended
September 30, 2003,
placing 1st in the
Government Category.*





UNITED STATES DEPARTMENT OF STATE

MISSION AND VALUES

MISSION

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

VALUES

LOYALTY

Commitment to the United States and the American people.

CHARACTER

Maintenance of high ethical standards and integrity.

SERVICE

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

ACCOUNTABILITY

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

COMMUNITY

Dedication to teamwork, professionalism, and the customer perspective.

TABLE OF CONTENTS

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Message from the Secretary	IV
Message from the Assistant Secretary for Resource Management and Chief Financial Officer	V
About This Report	VI
Financial and Personnel Highlights	VIII
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
Mission and Organization	2
Performance Summary and Highlights	6
Program Assessment Rating Tool (PART) Status	35
President's Management Agenda and Management Challenges	43
Management Controls, Financial Management Systems and Compliance with Laws and Regulations	54
Federal Managers' Financial Integrity Act	54
Federal Financial Management Improvement Act	56
Federal Information Security Management Act	56
Government Management Reform Act – Audited Financial Statements	57
Improper Payments Information Act	59
Financial Highlights	61
INSPECTOR GENERAL'S DISCUSSION AND ANALYSIS	69
Message from the Acting Inspector General	70
Summary of FY 2004 Performance	71
Management and Performance Challenges	75
PERFORMANCE SECTION	81
Introduction to the Performance Section	84
Strategic Objective #1: Achieve Peace and Security	85
Strategic Goal 1: Regional Stability	85
Strategic Goal 2: Counterterrorism	100
Strategic Goal 3: Homeland Security	113
Strategic Goal 4: Weapons of Mass Destruction	125
Strategic Goal 5: International Crime and Drugs	152
Strategic Goal 6: American Citizens	163
Strategic Objective #2: Advance Sustainable Development and Global Interests	172
Strategic Goal 7: Democracy and Human Rights	172
Strategic Goal 8: Economic Prosperity and Security	188
Strategic Goal 9: Social and Environmental Issues	200
Strategic Goal 10: Humanitarian Response	221
Strategic Objective #3: Promote International Understanding	232
Strategic Goal 11: Public Diplomacy and Public Affairs	232
Strategic Objective #4: Strengthen Diplomatic and Program Capabilities	249
Strategic Goal 12: Management and Organizational Excellence	249
Resource Summary by Strategic Goal	287



FINANCIAL SECTION	291
Independent Auditor’s Report	293
Financial Statements	311
Principal Financial Statements	312
Consolidated Balance Sheet	312
Consolidated Statement of Net Cost	314
Consolidated Statement of Changes in Net Position	315
Combined Statement of Budgetary Resources	316
Consolidated Statement of Financing	318
Notes to Principal Financial Statements	320
Required Supplementary Stewardship Information – Heritage Assets	357
Required Supplementary Information	362
Combining Schedule of Budgetary Resources	362
Intragovernmental Amounts	364
Deferred Maintenance	367
Working Capital Fund	367
Supplemental Information and Other Reporting Requirements	369
Financial Management Plans and Reports	370
Management of Obligations to the Department	377
Management of Payments	380
Management of Audit Follow-up	388

APPENDICES	391
■ Completed Program Evaluations for FY 2004	392
■ Office of Management and Budget (OMB) PART Summaries by Strategic Goal	409
■ Summary of Results Rated “Below Target”	419
■ Justifications for Changed Indicators and Targets	432
■ Directory of Key Officials and Senior Management	447
■ Department of State Locations	448
■ Major Department of State Publications	452
■ Glossary of Acronyms	454



MESSAGE FROM THE SECRETARY

I am pleased to present the Department of State's Performance and Accountability Report for Fiscal Year 2004. Along with our audited financial statements, this report highlights the continued improvement and effectiveness of our efforts to advance President Bush's foreign policy agenda and achieve the institutional objectives I set for the Department of State.

The Department of State's mission is to help President Bush shape a world of peace, freedom and hope where tyrants and terrorists cannot thrive.

To help build a secure world, the dedicated men and women of the State Department are working to strengthen our alliances and build partnerships across the globe to meet the challenges of the 21st century. American diplomacy remains essential to America's continued leadership of the worldwide campaign against terrorism, and our diplomatic efforts are crucial to the success of international reconstruction and democracy-building efforts in Afghanistan and Iraq. We also are working with friends and former foes to stem the proliferation of weapons of mass destruction and bring peaceful ends to regional conflicts.



The State Department is at the forefront of U.S. efforts worldwide to promote respect for human rights, the rule of law and democratic government and to stop trafficking in persons. We have made dramatic early progress towards meeting the ambitious five-year goals of the President's Emergency Plan for AIDS Relief: to support lifesaving drug treatment for 2 million people, prevent 7 million new infections, and support care for 10 million men, women and children infected and affected by HIV/AIDS.

We are working closely with international financial institutions, businesses and non-governmental groups to build a vigorous world economic system. We have been instrumental in getting President Bush's innovative Millennium Challenge Corporation initiative up and running – a major incentive for poor countries to pursue pro-growth policies that can lift their people out of poverty.

To convey America's message to the world, we continue to develop a wide array of public diplomacy programs that engage younger and broader foreign audiences and acquaint them with our policies and with democratic and free market principles.

Every day, the men and women of the State Department assist and protect our fellow citizens. Our embassies and consulates aid Americans abroad who are victims of crime or are in need of help. We also are increasing the capacity of foreign governments to prevent drug traffickers and other criminals from harming Americans and others. And as the first line of defense of our homeland's security, we are improving the process for identifying suspected terrorists to keep them from obtaining visas to enter the United States.

In performing these vital duties and more, we have been effective and accountable stewards of the taxpayer's money. For the eighth year in a row, independent auditors have issued an unqualified ("clean") opinion on our financial statements. I am proud to provide an unqualified statement of assurance as required under the Federal Managers' Financial Integrity Act (FMFIA) that the Department's management controls and financial systems meet the objectives of FMFIA. The financial and performance data presented herein are complete and reliable in keeping with guidance from the Office of Management and Budget and the Reports Consolidation Act. In the few instances where information is not provided, we have included specific reasons why.

With the support of President Bush and broad bipartisan backing from the U.S. Congress, the State Department has continued to focus on building institutional capacity in three key areas: human resources, information technology, and embassy construction and security. We must maintain this focus in the years ahead, so that the men and women of American diplomacy have the training, tools and infrastructure they need to serve our country safely and successfully across the globe.

Colin L. Powell
Secretary of State



MESSAGE FROM THE ASSISTANT SECRETARY AND CHIEF FINANCIAL OFFICER

The Department of State operates in approximately 260 locations in 172 countries. One hundred and eighty missions abroad submit business plans each year to the Bureau of Resource Management, while thousands of financial professionals around the globe allocate, obligate, disburse, and account for billions of dollars in annual appropriations. We deal in over 150 currencies and even more languages and cultures. In short, no corporation has the depth and variety of challenges that the men and women of the Department face daily as we work to create a more secure, democratic, and prosperous world, for the benefit of the American people and the international community.

Despite these many challenges, the Department pursues a commitment to integrity, transparency, and accountability that is the equal of any multi-national corporation and exceeds most. The quality of our past Performance and Accountability Reports has been recognized by the Association of Government Accountants (AGA) and the Mercatus Center at George Mason University.

Four years ago, the President of the United States challenged his administration to meet new rigorous standards for the issuance of financial statements. Promulgating these months after the close of the fiscal year was no longer acceptable. All agencies were required to do so just 45 days after the end of the fiscal year. Timeliness alone, however, was not enough. President Bush also set the goal for the elimination of all material weaknesses, full compliance with the Federal Managers' Financial Integrity Act (FMFIA) and Federal Financial Management Improvement Act, and attestation, by agency heads, to the integrity of the financial statements. Finally, the President established his five-point President's Management Agenda (PMA) that measured progress on these and other goals with a stop light grading system.

For the eighth year in a row, the Department has earned an unqualified opinion from our independent auditors. For the third year in a row, the Department has won the most prestigious award in federal financial and performance reporting — AGA's Certificate of Excellence in Accountability Reporting. For the second year in a row, the Department has no material weaknesses, and also for the second year, Secretary of State Powell has been able to issue an unqualified Statement of Assurance under FMFIA on both the Department's management controls and its financial systems. In addition, the Department has made enormous strides in meeting the goals of the PMA, particularly in budget and performance integration, management of human capital, and E-Government initiatives, recognized by "double green" on the OMB scorecard for each of these critical Presidential initiatives. Finally, the Department has met the accelerated reporting date of November 15th, which is months earlier than previous years.

All of the above, as well as the performance results and information presented along with the financial statements, could not have been accomplished without the superb efforts of the the men and women of the Department. Whether laboring to bring good health and prosperity to a West African village, negotiating confidence-building measures in a regional conflict, or aiding American citizens as they seek a safe and honest environment in which to travel, work, or conduct business, the Department also provides to the American people the confidence that their government is investing their taxpayer dollars with total commitment to stewardship and fiduciary responsibility.



Christopher B. Burnham
Assistant Secretary for Resource Management and Chief Financial Officer
November 15, 2004

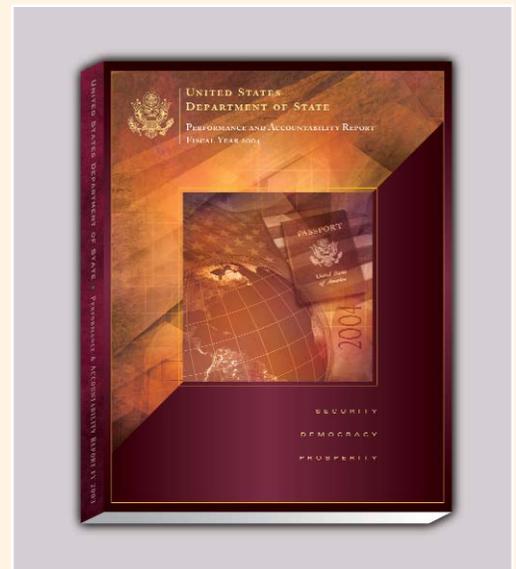


ABOUT THIS REPORT

PURPOSE OF REPORT

The Department of State's Performance and Accountability Report for Fiscal Year 2004 (Report) provides performance and financial information that enables Congress, the President, and the public to assess the performance of the Department relative to its mission and stewardship of the resources entrusted to it. This Report also satisfies the reporting requirements of the following major legislation.

- Chief Financial Officers Act of 1990
- Federal Managers' Financial Integrity Act of 1982
- Government Management Reform Act of 1994
- Government Performance and Results Act of 1993
- Improper Payments Information Act of 2002
- Reports Consolidation Act of 2000



HOW THIS REPORT IS ORGANIZED

■ MESSAGE FROM THE SECRETARY OF STATE

The Secretary's message includes a brief description of the Department's mission and how our mission is accomplished throughout the world. It also provides an assessment of whether financial and performance data in the Report are reliable and complete, and a statement of assurance as required by the Federal Managers' Financial Integrity Act (FMFIA), indicating whether the Department's management controls and financial systems meet the objectives of FMFIA.

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

The Assistant Secretary's message describes progress and challenges pertaining to the Department's financial management, integrating budget and performance, and information on the Department's management controls program under FMFIA and financial management systems under the Federal Financial Management Improvement Act of 1996.

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

The MD&A provides an overview of the entire Report. It includes an organizational overview; a summary of the most important performance results and challenges for FY 2004; a brief analysis of financial performance; a brief description of systems, controls, and legal compliance; and information on the Department's progress in implementing the President's Management Agenda. The MD&A also addresses the management challenges identified by the Government Accountability Office and the Inspector General. The MD&A is supported and supplemented by detailed information contained in the Performance Section, Financial Section, and Appendices.

■ INSPECTOR GENERAL'S DISCUSSION AND ANALYSIS

This section is an overview of the Office of Inspector General's FY 2004 performance results, which are addressed in more detail in a separate report and published as a companion to this Report; the Inspector General's summary of the most serious management and performance challenges facing the Department; and a brief assessment of the agency's progress in addressing those challenges. For more information on the OIG performance report, contact the OIG's Office of Planning, Analysis, and Results at 202-663-0367. You may also view the report on the OIG website (<http://oig.state.gov>).

■ PERFORMANCE SECTION

This section contains the annual program performance information required by the Government Performance and Results Act of 1993 (GPRA) and combined with the Appendices, include all of the required elements of an annual program performance report as specified in OMB Circular A-11, *Preparing, Submitting and Executing the Budget*. The results are presented by Strategic Goal with a chapter covering each Strategic Goal. For more information on this section, please contact the Office of Strategic and Performance Planning at (202) 647-0300.

■ FINANCIAL SECTION

This section contains the Department's financial statements and related Independent Auditor's Report, and other information pertaining to the Department's financial management. For more information on this section, please contact the Office of Financial Policy, Reporting, and Analysis at (202) 261-8620.

■ APPENDICES

This section contains more detailed information on the Department's performance results including information on Program Evaluations, summaries of OMB's Program Assessment Rating Tool (PART) analyses, and any revisions to indicators or targets. Other appendices provide information on the Department locations, key staff and publications, along with a glossary of acronyms.

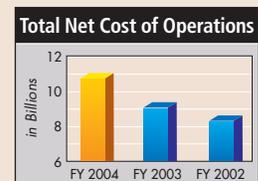
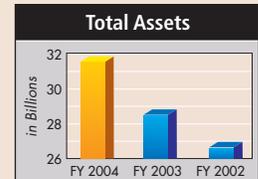
■ CD-ROM

This CD-ROM provides an electronic version of the entire report.



FINANCIAL AND PERSONNEL HIGHLIGHTS

(Dollars In Thousands)	% Change 2004 over 2003	2004	2003	2002
At End of Year:				
Condensed Balance Sheet Data:				
Investments, Net	+4%	\$ 12,846,060	\$ 12,301,173	\$ 11,750,737
Fund Balances With Treasury	+20%	11,926,434	9,953,197	8,937,139
Property and Equipment, Net	+6%	6,323,916	5,996,493	5,499,850
Other	+30%	833,465	643,783	652,431
Total Assets	+11%	\$ 31,929,875	\$ 28,894,646	\$ 26,840,157
Foreign Service Retirement Actuarial ¹	+2%	\$ 13,317,900	\$ 13,093,800	\$ 12,211,800
Liability to International Organizations	-2%	897,381	919,428	1,065,172
Other	+21%	2,142,779	1,767,908	1,547,431
Total Liabilities	+4%	16,358,060	15,781,136	14,824,403
Unexpended Appropriations	+22%	9,279,214	7,608,996	7,154,023
Cumulative Results of Operations	+14%	6,292,601	5,504,514	4,861,731
Total Net Position	+19%	15,571,815	13,113,510	12,015,754
Total Liabilities and Net Position	+11%	\$ 31,929,875	\$ 28,894,646	\$ 26,840,157
Full-time Personnel:				
Civil Service	+1%	7,831	7,731	6,999
Foreign Service	+4%	10,988	10,579	9,931
Foreign Service National	-15%	8,419	9,897	9,526
Total Full-time Personnel	-3%	27,238	28,207	26,456
Foreign Service Annuitants¹	+1%	14,668	14,581	14,392
For the Year:				
Total Cost	+13%	\$ 13,761,645	\$ 12,222,640	\$ 10,837,835
Total Earned Revenue	-1%	(3,121,078)	(3,163,023)	(2,499,096)
Total Net Cost of Operations	+17%	\$ 10,640,567	\$ 9,059,617	\$ 8,338,739
On-Time Payments (%)	+2%	94%	92%	96%
Electronic Funds Transfer Payments (%)	+1%	80%	79%	77%



¹ The Department administers the operations of the Foreign Service Retirement and Disability Fund. This Fund provides annuities to retired members of the Foreign Service (or their survivors).

MANAGEMENT'S DISCUSSION AND ANALYSIS



FISCAL YEAR 2004 PERFORMANCE AND ACCOUNTABILITY REPORT

MISSION AND ORGANIZATION

American diplomacy in the 21st century is based on fundamental beliefs: our freedom is best protected by ensuring that others are free; our prosperity depends on the prosperity of others; and our security relies on a global effort to secure the rights of all. The history of the American people is the chronicle of our efforts to live up to our ideals. In this moment in history, we recognize that the United States has an immense responsibility to use its power constructively to advance security, democracy, and prosperity around the globe.

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

MISSION

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

OUR ORGANIZATION

Organizational Structure in Washington, DC

At its headquarters in Washington, DC, the Department's mission is carried out through six regional bureaus, each of which is responsible for a specific geographic region of the world, the Bureau of International Organization Affairs, and numerous functional and management bureaus. These bureaus provide policy guidance, program management, administrative support, and in-depth expertise in matters such as law enforcement, economics, the environment, intelligence, arms control, human rights, counternarcotics, counterterrorism, public diplomacy, humanitarian assistance, security, nonproliferation, consular services, and other areas.

Organizational Structure at Embassies

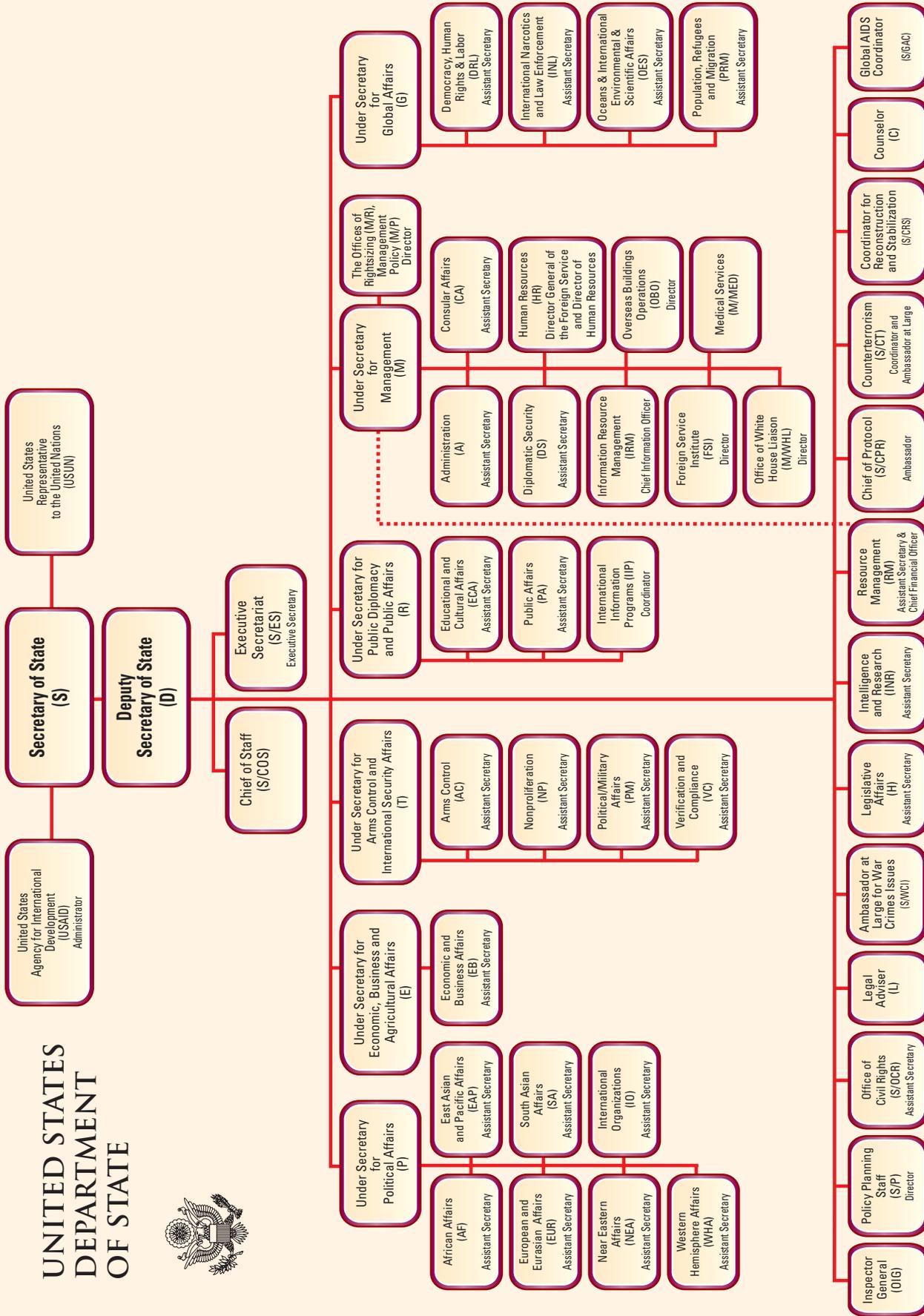
In each Embassy, the Chief of Mission (usually an Ambassador) is responsible for executing U.S. foreign policy goals and coordinating and managing all U.S. Government functions in the host country. The President appoints each Ambassador, whom the Senate confirms. Chiefs of Mission report directly to the President through the Secretary. The Diplomatic Mission is also the primary U.S. Government contact for Americans overseas and foreign nationals of the host country. The Mission serves the needs of Americans traveling and working abroad, and supports Presidential and Congressional delegations visiting the country. The Department operates approximately 260 embassies, consulates, and other posts worldwide.

Other Key Locations and Offices

The Department also operates national passport centers in Portsmouth, New Hampshire and Charleston, South Carolina; a national visa center in Portsmouth, New Hampshire, and a consular center in Williamsburg, Kentucky; two foreign press centers; one reception center; 13 passport agencies; five offices that provide logistics support for overseas operations; 20 security offices; and two financial service centers.



UNITED STATES
DEPARTMENT
OF STATE



11/15/04

OUR PEOPLE



President Bush swears in a new class of diplomats.

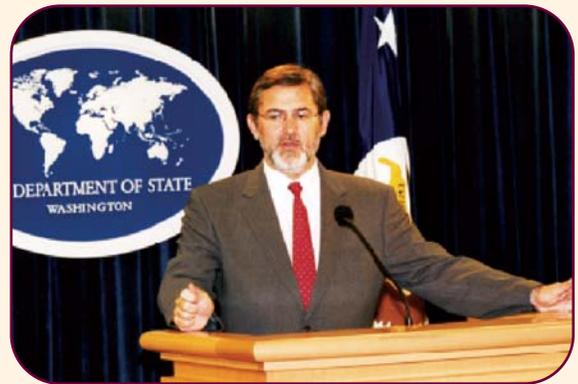
The Department of State's greatest asset is its people. The Department is a multi-faceted team with embassies, consulates, and other posts in over 260 locations, committed to carrying out the President's foreign policy agenda and to sharing American values with the world. The Department's workforce consists of employees in the Civil Service, Foreign Service, and Foreign Service Nationals. Freedom, democracy, prosperity, and peace have a place in every nation. The Department of State represents these values and the American people. We carry out our mission through our people and a whole host of activities, from international peace treaties and formal trade agreements to cultural exchanges that capture the American spirit in action.

WHAT WE DO — IN THE WORDS OF OUR PEOPLE

"I negotiated for more than a year with fifteen governments to wrap up the post-war Tripartite Gold Commission, which had been restoring bank gold looted by the Nazis, and convert its remaining holdings into a \$60 million international relief fund for aging Holocaust survivors."

"I helped negotiate a new 'Open Skies' civil aviation treaty with Italy that brought millions of dollars of new business to U.S. airlines every week, lowered prices for passengers, and brought more flights to choose from."

"In Africa, I overcame logistical challenges arranging a Presidential visit, managed human resources, developed budgets, served as a contracting officer, flew observer missions over the Sinai, tracked human rights abuses, and determined citizenship of children born to U.S. citizens overseas."



State Department Spokesperson Richard Boucher at the podium.

OUR PEOPLE — FAST FACTS

The Department of State trains its employees in more than 60 different languages in Washington, D.C. and at four overseas schools for Arabic, Chinese, Korean, and Japanese.

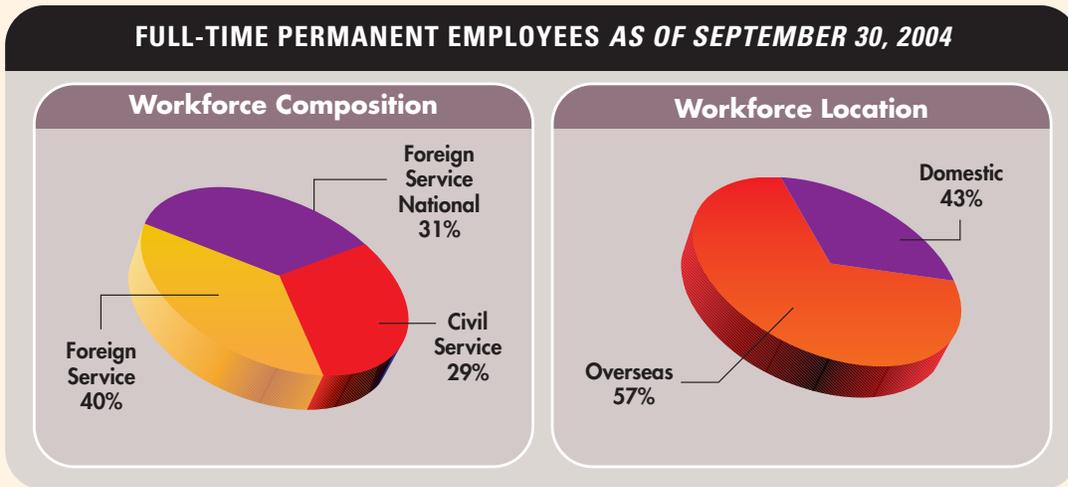
27 Fulbright Program alumni (a Department of State administered program) from 7 countries are recipients of the Nobel Prize for their contributions to humanity in the fields of chemistry, economics, medicine, and physics.

Six Secretaries of State became President of the United States: Thomas Jefferson, James Madison, James Monroe, John Q. Adams, Martin van Buren, and James Buchanan.



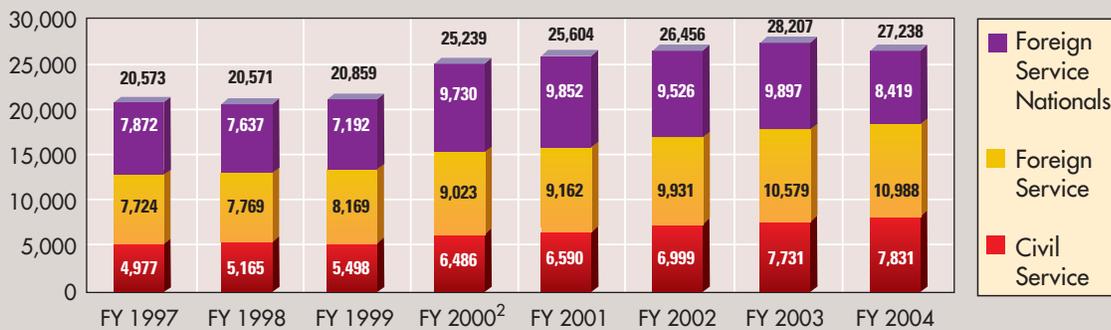
EMPLOYEE COMPOSITION AND NUMBERS

The pie charts below show the distribution of the Department's workforce by employment category, as well as what proportion of the workforce is located overseas.



Since FY 1997, the total number of employees at the Department has increased by 32% with the greatest increase manifested in the Department's Civil Service staff, which has increased by 57%. The Foreign Service staff follows with a 42% increase, while the Foreign Service National staff increased by 7%. The overall increases in staff reflect the Department's increased emphasis in the areas of security, public diplomacy, counterterrorism, and management reforms.

SUMMARY OF FULL-TIME PERMANENT EMPLOYEES¹



¹ These numbers do not include FSNs employed under personal service agreements or as personal service contractors.

² Reflects integration of employees of the United States Information Agency (USIA) and the Arms Control and Disarmament Agency (ACDA).

WHERE WE ARE LOCATED

As shown in the Appendix, the Department's embassies, consulates, and passport/visa centers are located throughout the world in support of America's foreign policy goals and to assist Americans traveling abroad.

PERFORMANCE SUMMARY AND HIGHLIGHTS

KEY FOREIGN POLICY ACHIEVEMENTS

"The security of our world is found in the advancing rights of mankind."

President Bush

UN General Assembly, New York, New York

September 21, 2004

In FY 2004, the U.S. Department of State made significant progress in fulfilling the President's objectives outlined in the National Security Strategy. The Department's efforts enhanced the security of the American people by promoting human dignity, democracy, and economic prosperity throughout the world.

The United States led vigorous and successful efforts to counter the threats of terrorism and WMD proliferation. With the Department's assistance, more than sixty nations endorsed the President's Proliferation Security Initiative (PSI). With the passage of UN Resolution 1540, the international community as a whole affirmed the President's call to criminalize WMD trafficking. Steady American and British diplomacy led Libya to renounce and verifiably eliminate its WMD programs. The United States rolled up the A.Q. Khan proliferation network, which was responsible for the spread of nuclear technology from Pakistan to Iran, Libya, and North Korea. With our partners and allies, the Department confronted Iran and North Korea on their nuclear programs.

The Department efforts promoted fundamental political, economic and educational reforms in the Middle East, producing some landmark achievements. In June, Iraqi sovereignty was transferred to the Iraqi people, and in August the National Conference paved the way for elections in early 2005 as part of our steadfast commitment to Iraq's democratic transition. American efforts to resolve the Arab-Israeli conflict continued, with the Department pressing the performance-based Road Map, which would lead to two states, Israel and Palestine, living side-by-side in peace and security. Building on the momentum generated by the Middle East Partnership Initiative (MEPI) and its efforts to expand economic, political and educational opportunities in the region, the United States led the G-8 in adopting the Broader Middle East and North Africa Initiative (BMENA). With its centerpiece the Forum for the Future, this innovative, multilateral initiative will advance freedom, democracy, education and economic reform.

In South Asia, the United States continued its operations against the remnants of the Taliban and al Qaeda. The United States has spent significant funds on the reconstruction of Afghanistan, while ensuring that women participate in the country's democratization. Over the course of the year the United States supported the rapprochement between India and Pakistan,



President Bush addresses the Veterans of Foreign Wars Convention at the Cinergy Center in Cincinnati, Ohio.

© AP/Wide World Photos

improving American bilateral relations with each country. U.S.-India relations were transformed by the Next Steps in Strategic Partnership (NSSP). America's partnership with Pakistan deepened as a result of the recent designation of Pakistan as a Major Non-NATO Ally.

In East Asia, the United States continued to enhance relations with its five alliance partners—Japan, South Korea, Australia, Thailand, and the Philippines—as well as its robust security partnership with Singapore. We expanded coordination and joint action with China, most notably on regional and global issues such as North Korea, Afghanistan, South Asia, and in common efforts against terrorism, narcotics, and other transnational threats. Indicative of its commitment to regional dialogue and multilateral engagement in East Asia, three rounds were held in 2003-2004 of the six-party framework talks to bring about the total, verifiable, and irreversible disarmament of North Korea's nuclear programs. The shared threat of terrorism produced closer cooperation between the United States and the nations of Southeast Asia.

In Europe, the Bush Administration oversaw the most robust enlargement in the history of NATO. Seven new members joined the Alliance, bringing membership to twenty-six and continuing the process of adapting NATO to the challenges of the 21st century. NATO continued its vital role in the reconstruction of Afghanistan. The Alliance also agreed to a training mission in Iraq. When the EU expanded by ten states, the Department led American efforts to broaden our relationship with the enlarged EU. The partnership between the United States and Russia produced cooperation on issues such as the global war on terror. With Russia's support for the Proliferation Security Initiative, announced earlier this year, U.S.-Russia cooperation and intelligence sharing will extend to WMD trafficking as well. United States assistance and support to the new government in Georgia helped quickly stabilize this key Caucasus country.

The United States remains committed to peace and stability in Africa. In working to end the bloody twenty-year civil war in Sudan, the Department galvanized the international community against genocide in Darfur. In helping Liberia recover from years of civil war, the Department focused on humanitarian assistance, security sector reform, good governance and financial sector support, as well as disarmament, demobilization, reintegration and rehabilitation programs. The Trans-Sahara Counter Terrorism Initiative (TSCTI) is evidence the United States is working closely with African partner states to address mutual security concerns.

Economic development and democracy promotion remained key priorities for the United States in Latin America. This year the Department helped conclude the U.S.-Dominican Republic-Central America Free Trade Agreement (CAFTA). Negotiations on a U.S.-Andean Free Trade Agreement (FTA) were launched with Peru, Ecuador, and Colombia, and bilateral FTA negotiations began with Panama. The United States advanced global economic growth by securing a framework agreement to conclude the World Trade Organization (WTO) Doha Development Round. FTAs were also concluded with Australia, Bahrain, and Morocco, and FTA negotiations were launched with Thailand.

Realizing the President's pledge to provide greater resources to countries taking greater responsibility for their own development, the Department played a key role in supporting the establishment of the new Millennium Challenge Corporation (MCC), which promotes good policy environments, economic growth, and poverty reduction in some of the world's poorest countries. With the Secretary in his role as chairman, the MCC Board designated sixteen countries eligible for Millennium Challenge Account (MCA) assistance and established a Threshold program to help additional countries adopt reforms and become eligible.

Demonstrating its multilateral leadership in humanitarian issues, the United States remains the largest contributor to the World Food Program and to the international fight against HIV/AIDs. The President's Emergency Plan for AIDS Relief (PEPFAR) picked up speed with the creation of the new Office of the Global AIDS Coordinator.

The United States bolstered its commitment to peacekeeping, with the adoption of the Action Plan on Expanding Global Capability for Peace Support and by joining the G-8 in promising to train 75,000 peace support troops by 2010. The Department established the Office of the Coordinator for Reconstruction and Stabilization to help societies transition from conflict to peace, laying the foundation for lasting peace, good governance, and sustainable development.

PERFORMANCE MANAGEMENT - A LEADERSHIP PRIORITY

The Department uses strategic and performance planning to ensure the organization achieves its objectives and goals, and is committed to utilizing the funds it receives from the American people through the Congress to produce successful results. Under the strong leadership of the Secretary and Deputy Secretary, the Department continues to implement organizational innovations. The State Department and USAID have issued a joint Strategic Plan that governs the planning efforts for both agencies for fiscal years 2004-2009. This historic Strategic Plan utilizes a strategic goal framework that better captures and articulates the Department's high priority goals and objectives. Guided by the Strategic Plan, the planning and resource allocation process receives the personal attention of the Deputy Secretary on an ongoing basis as he leads senior level Policy, Performance, and Resource Reviews of all bureau performance and resource plans. Another significant organizational improvement has been the creation of joint State/USAID policy and management councils as recommended in the Strategic Plan. The Secretary's leadership in establishing these councils is ensuring the alignment of foreign policy and development assistance, and is improving the necessary management and organizational coordination and collaboration between the two agencies.

The Department's ongoing performance management process is driven by senior leadership direction and coordination. Each year, the Department's diplomatic missions and Washington-based bureaus submit Mission Performance Plans (MPPs) and Bureau Performance Plans (BPPs) respectively that describe their policy and program goals, priorities and resource requirements, and evaluate performance. In FY 2004, the Department expanded the functionality of the MPP and BPP process, providing missions, bureaus, and senior officials the benefit of software applications that better support decision-making. During FY 2004, the Department fully integrated and institutionalized OMB's Program Assessment Rating Tool (PART) into the department's budget and planning processes. The integration enables State to systematically track PART Findings and Recommendations and has resulted in a number of management actions that address program/performance deficiencies.

For the first time, State and USAID developed a Joint Performance Plan for FY 2006, which further promotes the alignment of U.S. foreign policy and development assistance. The annual Performance and Accountability Report demonstrates how well the Department performed in meeting the goals and targets described in the Joint Performance Plan component of the Budget. The graphic at right shows the relationship between the key components of the performance landscape.

The Department's planning documents available to the public can be found on the State Department Website as follows:

- FY 2004 Performance and Accountability Report: <http://www.state.gov/m/rm/rls/perfrpt/>
- FY 2004-2009 State/USAID Strategic Plan: <http://www.state.gov/m/rm/rls/dosstrat/2004/>
- FY 2004 Performance Plan: <http://www.state.gov/m/rm/rls/perfplan/2004/>
- FY 2005 Performance Summary: <http://www.state.gov/m/rm/rls/perfplan/2005/>



The Department welcomes public comments on this report. Comments should be sent to U.S. Department of State, Office of Strategic and Performance Planning, 2201 C Street, NW, Washington, DC 20520 Telephone: (202) 647-0300.

HOW WE ASSESS PERFORMANCE

Six-Tiered Performance Measurement Methodology

The Department is committed to utilizing the funds it receives from taxpayers through the Congress to produce successful results. To assess performance, the Department employs a *performance management methodology* depicted in the pyramid below. Each of the components of the pyramid is defined below:

- Strategic Objectives** High-level, broad categories of action through which the Department carries out its strategic and performance goals.
- Strategic Goals** The Department's twelve long-term goals as detailed in the Strategic Plan.
- Performance Goals** The desired outcomes the Department is planning to achieve in order to attain its strategic goals. The Department has thirty-eight performance goals.
- Initiatives/Programs** Specific functional and/or policy areas, including programs as defined by the OMB Program Assessment Rating Tool (PART), which contribute to the achievement of performance and strategic goals, and to which the Department devotes significant attention. Initiatives/Programs (I/Ps) provide greater clarity and better linkage in terms of how specific performance indicators and targets relate to given policies or functions.
- Performance Indicators** Values or characteristics that the Department utilizes to measure progress achieved towards stated annual performance goals. The indicators are drawn from bureau and mission performance plans.
- Performance Targets** Expressions of desired performance levels or specific desired results targeted for a given fiscal year. Achievement of targets defines success. Where possible, targets are expressed in quantifiable terms. The FY 2004 Performance and Accountability Report reports on how well the Department achieved its FY 2004 targets.



STRATEGIC PLANNING FRAMEWORK

Strategic Objectives and Strategic Goals

Within the parameters of the performance management methodology shown on the previous page, the Department focuses its work around twelve strategic goals that capture both the breadth of its mission and its specific responsibilities. As depicted below, the Department's twelve strategic goals are centered around four core strategic objectives.



DEPARTMENT OF STATE STRATEGIC OBJECTIVES AND STRATEGIC GOALS

**STRATEGIC OBJECTIVE # 1
ACHIEVE PEACE AND SECURITY**

Strategic Goal Title	Strategic Goal Description
Regional Stability	Avert and resolve local and regional conflicts to preserve peace and minimize harm to the national interests of the United States.
Counterterrorism	Prevent attacks against the United States, our allies, and our friends, and strengthen alliances and international arrangements to defeat global terrorism.
Homeland Security	Protect the homeland by enhancing the security of our borders and infrastructure.
Weapons of Mass Destruction	Reduce the threat of weapons of mass destruction to the United States, our allies, and our friends.
International Crime and Drugs	Minimize the impact of international crime and illegal drugs on the United States and its citizens.
American Citizens	Assist American citizens to travel, conduct business, and live abroad securely.

**STRATEGIC OBJECTIVE # 2
ADVANCE SUSTAINABLE DEVELOPMENT AND GLOBAL INTERESTS**

Strategic Goal Title	Strategic Goal Description
Democracy and Human Rights	Advance the growth of democracy and good governance, including civil society, the rule of law, respect for human rights, and religious freedom.
Economic Prosperity and Security	Strengthen world economic growth, development, and stability, while expanding opportunities for U.S. businesses and ensuring economic security for the nation.
Social and Environmental Issues	Improve health, education, environment, and other conditions for the global population.
Humanitarian Response	Minimize the human costs of displacement, conflicts, and natural disasters.

**STRATEGIC OBJECTIVE # 3
PROMOTE INTERNATIONAL UNDERSTANDING**

Strategic Goal Title	Strategic Goal Description
Public Diplomacy and Public Affairs	Increase understanding for American values, policies, and initiatives to create a receptive international environment.

**STRATEGIC OBJECTIVE # 4
STRENGTHEN DIPLOMATIC AND PROGRAM CAPABILITIES**

Strategic Goal Title	Strategic Goal Description
Management and Organizational Excellence	Ensure a high quality workforce supported by modern and secure infrastructure and operational capabilities.

FY 2004 PERFORMANCE REPORTING IMPROVEMENTS

The Department has implemented several reporting improvements in the FY 2004 Performance and Accountability Report (PAR) and has a strategic vision for enhancing future PARs. The FY 2004 PAR incorporates several improvements that enhance the Report's usefulness for the Department's leadership and staff as well as for external stakeholders.

1) Comprehensive Strategic Goal Information: The Department provides a robust analysis of its FY 2004 performance within strategic goal chapters, which are presented in nine sub-sections:

Sub-Section	Purpose
Public Benefit	A concise narrative describing how pursuit of the goal benefits America and the world.
Selected Performance Trends	Graphs that show key performance trends specific to each goal.
Strategic Context	A table depicting the various components (programs, lead bureaus, and external partners) that contribute to accomplishment of a given goal.
Performance Summary	A graphic summary of results achieved for the strategic goal.
Performance Analysis	A brief analysis of the Department's performance results, highlighting the results of the most important performance targets.
Resources Invested	A summary of resources (dollars and people) devoted to the strategic and performance goals for both the current reporting period (FY 2004) and the previous reporting period (FY 2003). The resource investments immediately follow the performance summary and performance analysis to provide the reader a concise snapshot of performance and resources as related to each strategic and performance goal.
Illustrative Example	An example of a key FY 2004 achievement that is typical of the Department's work in support of the goal.
Performance Results	The current target, results, rating, and a short impact statement, with a past performance history, pertaining to each of the FY 2004 results achieved. This section has been expanded to include data quality elements, which provide information on the data source, verification, and validation.
Program Evaluations and PART Reviews	Summaries of evaluations and reviews conducted on the programs or activities related to a given strategic goal.

2) Data Completeness and Reliability: Assessing the reliability and completeness of performance data is critical to managing for results. Comparing actual performance with the projected levels of performance can only be accomplished if the data used to measure performance are complete and reliable. In accordance with the *Reports Consolidation Act of 2000*, OMB has issued guidance addressing data completeness and reliability as follows:

- Data are considered complete if actual performance data is reported for every performance goal and indicator, which may include preliminary data if those are the only data available when the report is submitted. The agency must identify those indicators for which actual data are not available at the time the report is submitted. The Department's data meets this test for completeness.
- Data are considered reliable when there is neither a refusal nor reluctance by agency managers or decision makers to use the data in carrying out their responsibilities, and data are further defined as reliable when the agency managers and decision makers use the data contained in the annual report on an ongoing basis in the normal course of their duties. The Department's data meets this test for reliability.

3) Target Weighting: The Department defines success in the form of performance results as compared to targets. In developing the FY 2004 PAR, the Department's program managers assigned a weight to each target, defining the relative importance of that target in terms of its criticality to the accomplishment of the corresponding performance goal. This information enabled the identification of the greater or lesser importance or value of the associated results.

With this information, the Department's leadership is better able to assess, for each target, not only how well the results compare to the targets, but how important these results are in the greater scheme of its policy and operational priorities. This provides an additional tool to better allocate resources, assess results based on program importance, and support decision-making.

4) Verification and Validation Assessment:

■ **Verification Score** – Program managers were required to systematically provide a verification "score," which assessed the accuracy of each of their results. To determine scores, the Department developed specific verification criteria based on four elements: completeness, reliability, comparability, and consistency of the data. Using this criteria, program managers analyzed each result, and assigned a verification score of high, medium, or low.

■ **Validation Statement** – Program managers also were required to provide a validation statement, which assessed the appropriateness of the indicator at measuring progress towards the achievement of its corresponding performance goal.

■ **Inspectors General** - Congress and OMB have requested that federal agencies' Inspectors General play a central role in the verification and validation of their agency's performance measures. To assist the Department in measuring performance and in implementing the President's Management Agenda, OIG reviews relevant performance measures in the course of its audits and evaluations. OIG also consults with the Department to identify key measures to be verified and validated, to complement the Department's own verification and validation efforts. Therefore, OIG gives priority to performance measures related to achieving the President's Management Agenda initiatives, programs being assessed by OMB's PART, and to areas OIG has identified as serious management and performance challenges.

5) Integration of Performance and Financial Information in the PAR: The Department is further integrating performance and financial information in this year's PAR by reporting resources (both dollars and people) at the performance goal level, which is the level below strategic goals. Resources are displayed at this level for both FY 2004 and FY 2003 for comparison purposes and should assist the reader to assess the relative effectiveness and efficiency of the Department's programs. The Department's thirty-eight performance goals represent a detailed view of the Department's business and is the level at which resources can be meaningfully allocated. This level is considered the unit of success and is where the Department's achievements are best evaluated.

6) Improved Performance Indicators and Targets: During FY 2004, the Department continued to evaluate and improve its performance indicators and targets. Over time, the Department has and will continue to replace weak indicators and targets with ones that measure progress more accurately on issues, provide a better measurement of success, and focus on where resources are spent. In many cases, targets and indicators have been modified or clarified. (A summary of revised indicators and targets is included in the Appendix.) The Department will continue to work to present more of its performance results using outcome-oriented indicators.

The Department also has been an active participant in the use of the OMB Program Assessment Rating Tool (PART) to assess achievement and success. Consistent with the President's Management Agenda Proud-To-Be initiative, the PART process has been fully integrated into the Department's GPRA performance planning methodology, including the development of efficiency measures for all PART programs.

In order to enable the reader to better assess and understand what is being measured, the Department has identified each of its indicators as being one of four types:

- **Input:** Measures the amount of financial or human resources being devoted to a particular activity. Inputs can take the form of skills, technology, and methods.
- **Output:** Measures what is produced as a result of resources expended, (i.e., the input level). Outputs can take the form of products or services.
- **Outcome:** Measures the result or outcome that the inputs and outputs produce.
- **Efficiency:** Measures the efficiency of the result(s) achieved. Input divided by output, taking into account the level of input variables as compared to the output(s) produced.

7) Assessments of Program Performance: In any given fiscal year, outside organizations perform in-depth assessments of the Department's programs. These assessments benefit the Department because they provide managers with an objective assessment of performance and specific recommendations for improvement. Moreover, the data helps the Department determine whether program managers have incorporated the recommendations for improvement into their strategies for achieving performance targets. In turn, this increases program manager accountability for attaining desired performance levels. This report contains summaries of these assessments in the completed Program Evaluations and PART Summaries appendices.

FUTURE PERFORMANCE REPORTING IMPROVEMENTS

The Department continues to improve its performance, planning and budget reporting capabilities. The Department's strategic vision for enhancing the integration of financial and performance information in future PARs includes continued refinement of the allocation of costs to strategic and performance goals, funding by PART programs, and more focus on trend analysis. As more programs are reviewed by the PART process and eventually include all the Department's programs, the costs per PART program will become more integral to analyses and displays in future PARs.

Future PARs, by definition, will reflect the strategic vision for enhancing the integration of financial and performance information that will be included in the performance components of future performance budgets. The Department's vision includes more integration of all aspects of performance planning with USAID that derives from the joint State/USAID Strategic Plan for FY 2004 - FY 2009. In addition, planning is underway for better linkages between mission level planning systems between the two agencies, and implementation of a joint financial management system is on track for FY 2006 as described below. The strategic vision also includes expanding interagency collaboration to include other agencies with foreign affairs program and the sharing of performance information via a dashboard reporting application.

1) Joint State and USAID Performance Plan: In FY 2004, consistent with the Administration's efforts to better integrate foreign policy and development assistance, State and USAID developed a joint annual Performance Plan, as an integral component of the FY 2006 Performance Budget. This first-ever annual Joint Performance Plan for FY 2006 fosters a more coordinated focus on indicators/targets shared by both agencies and drives improved collaboration at the mission and bureau planning levels. Other benefits include:

- Greater collaboration and communication between agencies during the strategic planning process

- Standardization of evaluation tools, indicators, and benchmarks
- Increased effectiveness and efficiency through more integrated program execution
- Further budget and performance integration

2) Joint Financial Management System: The Joint Financial Management System (JFMS) investment is a cooperative effort by the Department of State and the U.S. Agency for International Development (USAID) to improve service and save money through collaboration on financial systems and functions. Implementation of a common financial management system will lead to greater efficiencies in planning and reporting. The goal of the JFMS is to create a common financial platform for State and USAID to manage all domestic and overseas financial management activities beginning in FY 2006. The JFMS investment combines the former State Department Global Financial Management System (GFMS) and USAID Phoenix investments into one, common financial management platform located at the State Department's Financial Service Center in Charleston, South Carolina.

The JFMS will eliminate redundancy and duplication of effort through consolidation of financial systems computer operations, hardware platforms, software application versions, licensing, testing and release management.

OUR PERFORMANCE RATING SYSTEM

To assess FY 2004 performance results against established targets, the Department applies a results rating methodology. Program managers use this methodology to assign one of five performance ratings for a given result. Based on established parameters shown below, managers assign a performance rating that reflects the extent to which a given target was achieved.

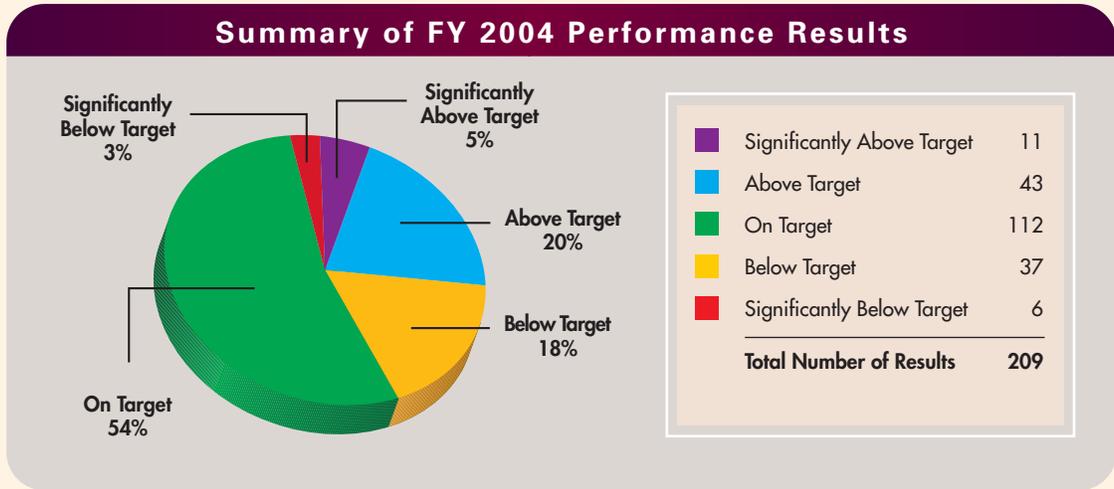
PERFORMANCE RESULTS RATING SYSTEM					
Performance Rating	Significantly Below Target	Below Target	On Target	Above Target	Significantly Above Target
Criteria	Parameters				
Target Status	Missed FY 2004 target by a significant margin	Missed FY 2004 target by a slight margin	Met FY 2004 target	Slightly exceeded FY 2004 target	Significantly exceeded FY 2004 target
Budget Status	Spent significantly over budget	Spent slightly over budget	Spent on budget	Spent slightly under budget	Spent significantly under budget
Timeliness	Missed most critical deadlines	Missed some critical deadlines	Met all critical deadlines	Met some critical deadlines early	Met most critical deadlines early
Impact on Future Operations	Significantly impairs program's ability to achieve future years' performance targets, requiring major downward revisions to future targets	Slightly impairs program's ability to achieve future years' performance targets, requiring minimal downward revisions to future targets	No change in program's ability to achieve future years' performance targets	Slightly improves program's ability to achieve future years' performance targets, requiring minimal upward increases to future targets	Significantly improves program's ability to achieve future years' performance targets, requiring major upward increases to future targets

This methodology represents an important step towards using a standard tool to evaluate the Department's work. Where applicable, estimates of performance results were made. All estimated data was subject to verification and validation analysis.

SUMMARY OF FY 2004 PERFORMANCE RESULTS

Summary of All Results

The following pie chart shows the ratings distribution for all performance results reported in FY 2004. As shown below, 79% of the results were "On Target" or above, meaning performance results met or exceeded performance targets. This represents a slight improvement over FY 2003, when 77% of results met or exceeded performance targets.



Summary of Strategic Goal Results

This table compares the FY 2004 average with the FY 2003 average of the performance ratings for all reported results for each strategic goal.

Average Performance Rating ¹			
Strategic Goal	FY 2003	FY 2004	Change From Last Year
1 Regional Stability	Below Target	Below Target	↔
2 Counterterrorism	On Target	On Target	↔
3 Homeland Security	On Target	On Target	↔
4 Weapons of Mass Destruction	On Target	Below Target	↓
5 International Crime and Drugs	On Target	On Target	↔
6 American Citizens	Below Target	On Target	↑
7 Democracy and Human Rights	Below Target	On Target	↑
8 Economic Prosperity and Security	On Target	On Target	↔
9 Social and Environmental Issues	On Target	On Target	↔
10 Humanitarian Response	On Target	On Target	↔
11 Public Diplomacy and Public Affairs	On Target	On Target	↔
12 Management and Organizational Excellence	On Target	On Target	↔

¹ Based on the average of all performance result ratings within a strategic goal.

Summary Performance Goal Results

The table below provides performance results for each of the Department's FY 2004 annual performance goals. The inverted black triangle represents the average of all performance ratings assigned to results associated with the Performance Goal. The numbers below the rating scale show how the ratings were distributed among the reported FY 2004 results. In addition, for comparison purposes, the FY 2003 performance rating average is represented by the inverted gray triangle. Also represented in the table below is the amount of "Budget Authority" and "Human Resources" applied to each Strategic Goal for FY 2004. This resource data is further defined by Performance Goal in each Strategic Goal chapter under "Resources Invested."

Strategic Goal with Resources Invested	Performance Goal (Total Number of Reported Results)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Below Target	On Target	Above Target	Significantly Above Target
Regional Stability Budget Authority: \$6,641 Million Human Resources: 1,160 Positions	Close, strong, and effective U.S. ties with allies, friends, partners and regional organizations. <i>7 Results</i>					
	Existing and emergent regional conflicts are contained or resolved. <i>10 Results</i>					
Counterterrorism Budget Authority: \$1,160 Million Human Resources: 898 Positions	Coalition partners identify, deter, apprehend, and prosecute terrorists. <i>3 Results</i>					
	U.S. and foreign governments actively combat terrorist financing. <i>5 Results</i>					
	Coordinated international prevention and response to terrorism, including bioterrorism. <i>2 Results</i>					
	Stable political and economic conditions that prevent terrorism from flourishing in fragile or failing states.	USAID addresses this performance goal. ¹				
Homeland Security Budget Authority: \$237 Million Human Resources: 562 Positions	Denial of visas to foreign citizens who would abuse or threaten the U.S. while facilitating entry of legitimate applicants. <i>4 Results</i>					
	Implemented international agreements to stop the entry of goods that could harm the U.S., while ensuring the transfer of bona fide materials. <i>4 Results</i>					
	Protection of critical physical and cyber infrastructure networks through agreements and enhanced cooperation. <i>1 Result</i>					

¹ Department of State and USAID share the same goal framework.

Strategic Goal with Resources Invested	Performance Goal (Total Number of Reported Results)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Below Target	On Target	Above Target	Significantly Above Target
Weapons of Mass Destruction Budget Authority: \$431 Million Human Resources: 514 Positions	Bilateral measures, including the promotion of new technologies, combat the proliferation of WMD and reduce stockpiles. <i>15 Results</i>					
	Strengthened multilateral WMD agreements and nuclear energy cooperation under appropriate conditions. <i>11 Results</i>					
	Verification integrated throughout the negotiation and implementation of nonproliferation and arms control agreements and commitments, and rigorous enforcement of compliance with implementation and inspection regimes. <i>10 Results</i>					
International Crime and Drugs Budget Authority: \$1,482 Million Human Resources: 695 Positions	International trafficking in drugs, persons, and other illicit goods disrupted and criminal organizations dismantled. <i>7 Results</i>					
	States cooperate internationally to set and implement anti-drug and anti-crime standards, share financial and political burdens, and close off safe-havens through justice systems and related institution building. <i>6 Results</i>					
American Citizens Budget Authority: \$60 Million Human Resources: 551 Positions	U.S. citizens have the consular information, services, and protection they need to reside, conduct business, or travel abroad. <i>3 Results</i>					
	Effective and timely passport issuance, with document integrity assured. <i>2 Results</i>					
Democracy and Human Rights Budget Authority: \$1,100 Million Human Resources: 822 Positions	Measures adopted to develop transparent and accountable democratic institutions, laws, and economic and political processes and practices. <i>2 Results</i>					
	Universal standards protect human rights, including the rights of women and ethnic minorities, religious freedom, worker rights, and the reduction of child labor. <i>12 Results</i>					

Strategic Goal with Resources Invested	Performance Goal (Total Number of Reported Results)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Below Target	On Target	Above Target	Significantly Above Target
Economic Prosperity and Security Budget Authority: \$3,270 Million Human Resources: 1,539 Positions	Institutions, laws, and policies foster private sector growth, macroeconomic stability, and poverty reduction. <i>2 Results</i>					
	Increased trade and investment achieved through market-opening international agreements and further integration of developing countries into the trading system. <i>10 Results</i>					
	Secure and stable financial and energy markets. <i>2 Results</i>					
	Enhanced food security and agricultural development.	USAID addresses this performance goal ¹				
Social and Environmental Issues Budget Authority: \$2,367 Million Human Resources: 281 Positions	Improved global health, including child, maternal, and reproductive health, and the reduction of abortion and disease, especially HIV/AIDS, malaria, and tuberculosis. <i>8 Results</i>					
	Partnerships, initiatives, and implemented international treaties and agreements that protect the environment and promote efficient energy use and resource management. <i>15 Results</i>					
	Broader access to quality education with emphasis on primary school completion.	USAID addresses this performance goal ¹				
	Effective and humane international migration policies and systems. ² <i>1 Result</i>					
Humanitarian Response Budget Authority: \$1,126 Million Human Resources: 547 Positions	Effective protection, assistance, and durable solutions for refugees, internally displaced persons, and conflict victims. <i>8 Results</i>					
	Improved capacity of host countries and the international community to reduce vulnerabilities to disasters and anticipate and respond to humanitarian emergencies.	USAID addresses this performance goal ¹				

¹ Department of State and USAID share the same goal framework.

² No gray triangle is shown for this performance goal because this goal was new for FY 2004.

Strategic Goal with Resources Invested	Performance Goal (Total Number of Reported Results)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Below Target	On Target	Above Target	Significantly Above Target
Public Diplomacy and Public Affairs Budget Authority: \$538 Million Human Resources: 2,230 Positions	Public diplomacy influences global public opinion and decision-making consistent with U.S national interests. <i>2 Results</i>			1	1	
	International exchanges increase mutual understanding and build trust between Americans and people and institutions around the world. <i>4 Results</i>			2	1	1
	Basic human values embraced by Americans are respected and understood by global publics and institutions. <i>2 Results</i>			1		1
	American understanding and support for U.S. foreign policy, development programs, the Department of State, and USAID. <i>4 Results</i>			3	1	
Management and Organizational Excellence Budget Authority: \$4,861 Million Human Resources: 9,585 Positions	A high performing, well-trained, and diverse workforce aligned with mission requirements. <i>15 Results</i>			5	6	3
	Modernized, secure, and high quality information technology management and infrastructure that meets critical business requirements. <i>7 Results</i>				4	3
	Personnel are safe from physical harm and national security information is safe from compromise. <i>6 Results</i>			2	2	2
	Secure, safe, and functional facilities serving domestic and overseas staff. <i>9 Results</i>			1	6	2
	Integrated budgeting, planning, and performance management; effective financial management; and demonstrated financial accountability. <i>5 Results</i>			2	2	1
	Customer-oriented, innovative delivery of administrative and information services, acquisitions, and assistance. <i>5 Results</i>			1	1	2

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES¹

During FY 2004, the Department responded on many levels to the many challenges the United States is facing. Highlights of the most important results and continuing challenges are shown below by Strategic Goal.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES	
Positive Results	Continuing Challenges
REGIONAL STABILITY	
<ul style="list-style-type: none"> ◆ Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia joined NATO, expanding the alliance to twenty-six member states. The new members will be able to improve their military capabilities and cooperation with international security issues, including the Global War on Terrorism. ◆ Bilateral relations between rival nuclear powers India and Pakistan improved in FY 2004, including improved dialogue and the implementation of confidence-building measures. ◆ China hosted and facilitated Six-Party talks between the U.S. and North Korea. China's ongoing efforts have been key to North Korea agreeing to future rounds of discussion. A China that increasingly shares our commitment to world peace and stability, open markets and cooperation on pressing global issues better serves our interests. ◆ The United States, France, Chile, as well as other Western Hemisphere countries sent troops and supplies under the auspices of the Multinational Interim Force (MIF) to restore order and improve humanitarian conditions in Haiti after political turmoil and social chaos rendered it ungovernable. Argentina, Uruguay, Bolivia, and Chile, participants in the U.S. -led effort, have each been recipients of the Department's Enhanced International Peacekeeping Capabilities Initiative (EIPC) training in recent years 	<ul style="list-style-type: none"> ◆ Lead international efforts to assist Iraq in creating the environment necessary for elections in January 2005, continued economic reconstruction, and improved social conditions. ◆ Maintain the focus of our allies and partners in combating terrorists, and build momentum for political, social, and economic change in the greater Middle East, including Afghanistan. ◆ Work with the Quartet, the Israelis, and the Palestinians to resume negotiations and progress on the roadmap for peace and a two-state solution. ◆ Encourage a meaningful upgrade in the military capabilities of new and longstanding NATO allies to strengthen NATO's ability to deter, prevent, and respond to international terrorist threats and other twenty-first century conflicts. ◆ Transform EIPC program to focus on developing regional peacekeeping capabilities instead of country-based programs. Improved training of peacekeeping forces worldwide reduces the demands placed on U.S. forces for regional peacekeeping operations. ◆ Persuade China to increase its coordination with the USG and like-minded states on North Korea's complete elimination of its nuclear programs. Press China to resume cross-Strait dialogue, promote confidence-building measures and reduce its military threat posture with regard to Taiwan.
COUNTERTERRORISM	
<ul style="list-style-type: none"> ◆ The Foreign Emergency Support Team (FEST) was deployed to Athens, Greece in support of counterterrorism security arrangements for the Athens Summer Olympic Games and contributed to the successful, safe completion of the games. ◆ The Technical Support Working Group (TSWG) completed work on and fielded several technical innovations designed to prevent terrorist attacks and protect lives. These include the first-ever, standoff detection system for identifying suicide bombers; "spray-on-armor" capability to provide protection in the field for unarmored vehicles from improvised explosive devices; and an escape mask that provides up to fifteen-minutes of respiratory and ocular protection. ◆ The Counterterrorism Finance program assisted Indonesia, Philippines, Kenya, Thailand, and Paraguay to draft and/or pass anti-money laundering counterterrorism financing statutes that meet international standards. 	<ul style="list-style-type: none"> ◆ Strengthen the Foreign Emergency Support Team (FEST) program to adequately respond to international terrorist events and to develop a training and exercise program that will assist the Government of Italy with security arrangements for the 2006 Turin, Italy Winter Olympic Games. ◆ Technical Support Working Group: The nature of the terrorist threat is continually changing in terms of tactics, targets, groups, and technical sophistication. There is an ongoing need to invest wisely in appropriate countermeasure technological development in order to stay one step ahead of the terrorists.
HOMELAND SECURITY	
<ul style="list-style-type: none"> ◆ Expanded information sharing between the Department and other USG agencies; improved U.S. border security; and quality of visa adjudications. ◆ Worldwide deployment of biometric visa capability achieved ahead of legislative deadline to improve U.S. national security. ◆ Measurable gains made in international cybersecurity program. ◆ Developed strong ties with Department of Homeland Security on the development and implementation of international cybersecurity programs. 	<ul style="list-style-type: none"> ◆ Improve coordination of the Department's IT infrastructure with other USG agencies. ◆ Support international cybersecurity programs, especially when asked by other nations and multilateral organizations; maintain and build sufficient staffing levels; and travel to and participate in necessary international programs.

¹ Certain events and conditions reported in this section occurred subsequent to the submission of the FY 2004 plan, and thus Indicators and Targets related to those results and challenges have not been included in the Performance Section of this report.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Positive Results

Continuing Challenges

WEAPONS OF MASS DESTRUCTION

- ◆ On December 19, 2003, Libya made a commitment to dismantle or eliminate their nuclear/chemical weapons and MTCR class missile programs. Libya has since signed/ratified the Chemical Weapons Convention (CWC) and IAEA additional Protocol, and is cooperating with the U.S./UK to remove equipment from their Nuclear weapons program. Except for irradiated fuel, irradiated targets and yellowcake, virtually all items were transported to the U.S. by March 22, 2004. Libya has acceded to the CWC, destroyed chemical weapons (CW) munitions, and the entire SCUD C missile inventory was removed.
- ◆ Moscow Treaty's Bilateral Implementation Commission held its first meeting in April, 2004.
- ◆ Russia resolved a U.S. concern regarding Russia's practice of basing some deployed SS-25 road-mobile launchers outside their declared START facility.
- ◆ President Bush emphasized that Proliferation Security Initiative (PSI) cooperation must not just address shipments of WMD, but should also include efforts to shut down proliferation networks and to bring justice to those involved in facilitating this deadly trade. Core PSI partners have developed a series of practical steps that establish the basis for supportive States' involvement in the PSI activities. To date, over 80 nations have expressed their support for and interest in participating in the PSI. The Operational Experts Working Group, now consisting of 18 nations, continues to move aggressively forward to further implement the initiative.

- ◆ Sustain international agreement on the need for Iranian compliance with the International Atomic Energy Agency (IAEA) and of the threat created by Iran's acquisition and processing of nuclear material.
- ◆ Strengthen Six-Party talks to address the threat posed by North Korea's indigenous ballistic missile program and export of related technologies. Maintain consensus on the need for the complete, verifiable, and irreversible dismantlement of North Korea's nuclear programs.
- ◆ Educating States Parties to the Nuclear NonProliferation Treaty (NPT) on the inherent responsibility for compliance determinations and enforcement of the "Global Norm" against the use or proliferation of weapons of mass destruction.
- ◆ Motivating Russia to join the U.S. in translating the "new strategic relationship" declared by Presidents Bush and Putin into practical cooperation and transparency across the broad range of areas of common interest.
- ◆ The U.S. participated in Core Group discussions of the Convention on Physical Protection of Nuclear Material (CPPNM) to coordinate diplomatic strategy and supported an Austrian effort to submit draft amendments in the fall of 2004. Previously, the Drafting Group concluded its work without reaching consensus on a revision proposal, but did identify a set of possible amendments warranting further consideration by States Parties as the basis for a proposal.

INTERNATIONAL CRIME AND DRUGS

- ◆ Latin American coca cultivation projected to decline for third straight year; and opium poppy cultivation expected to decline for second straight year. Opium poppy cultivation in Southeast Asia projected to decline for fourth straight year.
- ◆ To help restore the rule of law in post-conflict Afghanistan and to provide a secure environment for national elections, the Department trained approximately 20,000 civilian police and helped establish the first-ever nationwide police communication system.
- ◆ To help restore stability and build rule of law in post-war Iraq, the Department established training facilities in Jordan and Baghdad on an expedited basis and continues to train Iraqi civilian police.

- ◆ The Afghan government's continuing difficulties in extending its authority throughout the country has limited its efforts to curb the increasing cultivation of opium poppy.
- ◆ Insufficient levels of institutional capacity in Afghanistan following long periods of civil strife and Taliban rule mean that the development of the justice sector — police, courts, and prisons — will be a long and slow process.
- ◆ Political violence in Iraq continues to hamper U.S. and international ability to support police development, especially critical field training, and the conduct of normal policing activities and operations.
- ◆ Shortage of anti-money laundering experts continues to create bottlenecks in meeting assistance needs of requesting nations, including high priority terrorist financing countries.
- ◆ International criminal groups — drug traffickers, organized crime, and terrorists — demonstrate increasing sophistication in exploiting the globalized economy and advances in communication, including the Internet.



MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Positive Results

Continuing Challenges

AMERICAN CITIZENS

- ◆ The development of the Department's Online Registration System makes it easier for Americans to inform consular sections of their presence in country, and makes it easier for posts to communicate with Americans in emergency situations.
- ◆ Increased frequency of Consular Information Sheet revisions ensures Americans have access to more up-to-date information on host country conditions and specific concerns for U.S. citizens.

- ◆ Several steps remain in the implementation of the Inter-country Adoption Act and Entry into Force of the Hague Adoption Convention, including: (1) meeting and negotiating with potential private non-profit and state licensing accrediting entities; and (2) issuing revised regulations on accrediting adoption service providers in the Federal Register.
- ◆ Meet challenges of assisting Americans abroad in the face of continued terrorist threats.

DEMOCRACY AND HUMAN RIGHTS

- ◆ Elections in Afghanistan in early October 2004 drew millions of voters and the results were respected internationally and among the Afghan people.
- ◆ Efforts taken to expose the human rights crisis in Darfur through multilateral efforts, public outreach, and reporting.
- ◆ Advancement of religious freedom in Turkmenistan.
- ◆ Sustained improvements in reporting, particularly the continued publication of Supporting Human Rights and Democracy.
- ◆ Expansion of programming efforts through the Human Rights and Democracy Fund.

- ◆ Promotion and acceptance of religious freedom in countries of particular concern and problem regions.
- ◆ Viability of the UN Commission on Human Rights (UNCHR) and the ability to address the worst human rights violations.
- ◆ Continuing to support democratic reform in the Middle East.

ECONOMIC PROSPERITY AND SECURITY

- ◆ Expanded market opportunities for U.S. businesses, including telecommunications and IT sectors, through trade agreements, international commitments on standards (agreements with China and Korea), and advocacy with host nations on behalf of U.S. firms.
- ◆ Successful negotiation of five aviation liberalization agreements, including one with China, resulted in millions of dollars of revenue to U.S. firms and cities due to direct and indirect income generation.
- ◆ The Department provided key support to the emergent Millennium Challenge Corporation (MCC), including determining the selection criteria and naming of the first sixteen candidate countries. The MCC initiative assists developing countries that govern justly, invest in their own people, and promote economic freedom.
- ◆ Energy supplies secured through concluding the financing arrangements for Baku-Tblisi-Ceyhan oil and gas pipelines.
- ◆ Successful negotiation of Paris Club debt relief for developing countries in support of the international financial architecture
- ◆ Concluded four free trade agreements (FTAs) and initiated a fifth, each involving countries offering important business expansion opportunities for U.S. firms.

- ◆ The Department will continue to assist the now-independent MCC to facilitate interactions with candidate countries and provide essential economic and political analysis as the initiative matures.
- ◆ While China's implementation of World Trade Organization commitments has shown a positive trend in general, protection of Intellectual Property Rights (IPR) has lagged behind, harming U.S. business interests.



MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Positive Results

Continuing Challenges

SOCIAL AND ENVIRONMENTAL ISSUES

- ◆ The President's Emergency Plan for AIDS Relief (PEPFAR) received \$2 billion in FY 2004, the first year of the five-year and \$15 billion initiative committed to turning the tide in combating the HIV/AIDS pandemic.
- ◆ Eighteen high value projects totaling \$3 million that enhance capacity in areas of health, water supply and quality, standards and accreditation, education, digital technologies, and strengthening the scientific links were initiated under the U.S.-Pakistan Science and Technology Agreement.
- ◆ The U.S. is in the final phases of negotiating a set of Science and Technology Agreements with Algeria, Morocco, and Tunisia that will enable each of these countries to collaborate with the U.S. both on a bilateral basis and regionally as a group.
- ◆ Significantly expanded verification and training in the use of turtle excluder devices (TEDs) in shrimp trawl fisheries around the world and broadened the program to the Western Indian Ocean for the first time.
- ◆ In support of U.S. efforts to enhance global health and security, the Department and the other countries of the Global Health Security Action Group (GHSAG) completed a successful international anthrax workshop to test laboratory procedures and also developed plans with the World Health Organization (WHO) for distribution of training materials on smallpox vaccination procedures. Furthermore, Germany, Canada, and the U.K. have made contributions (in-kind or financial) to the WHO Global Smallpox Vaccine Reserve.

- ◆ The agreements in North Africa, along with the existing Agreements with Bangladesh, Egypt and Pakistan, and the environmental cooperation with Morocco and Jordan, reinforce public participation, foster science-based economic development and environmental stewardship, and promote regional stability. Although the Agreements address many of the fundamental sources of extremism in these countries, and are strategic in their value to U.S. public diplomacy and our outreach to the Muslim world, funding for a rigorous program under each Agreement is uneven, or non-existent.
- ◆ Until the WHO clarifies the legal and liability issues surrounding the Global Smallpox Vaccine Reserve, many nations will continue to defer decisions on whether to participate in and contribute towards the reserve.
- ◆ Nations—including the U.S.—remain hesitant to discuss mechanisms for possible international sharing of medical countermeasures (i.e., vaccines, drugs) in the event of a bioterrorist attack.

HUMANITARIAN RESPONSE

- ◆ Repatriation and reintegration have been achieved on a near historic scale for refugees from several protracted situations. Over 1.5 million refugees and Internally Displaced Persons returned to Afghanistan, Angola, Burundi, Iraq, and Liberia in 2004.
- ◆ For the first time since September 11, 2001, U.S. refugee admissions reached the regional ceiling authorized by the President. As a result of significant effort, resources and coordination among USG agencies and partners, over 52,868 refugees achieved a durable solution through resettlement to the United States.
- ◆ Rumbeck Airfield in Sudan was demined in order to allow upgrades that will facilitate the delivery of World Food Program aid.
- ◆ In the Fizuli area of Azerbaijan, both a water pipe route and a power line route were cleared in order to provide water and electricity for returning internally displaced persons.

- ◆ Ongoing conflict in the Darfur region of Sudan continues to force refugees to flee, with over 200,000 arriving in neighboring Chad in FY 2004. Harsh environmental conditions and protection concerns have hindered humanitarian access. Meeting refugees' basic needs (in order to prevent excess mortality and malnutrition) continues to be a serious challenge.
- ◆ Disruptions in feeding operations by the World Food Program continue to jeopardize the lives of refugees, internally displaced persons, and conflict victims. Such breaks in the supply of food commodities force humanitarian agencies to cut rations, placing refugees' health at serious risk, impairing their ability to work and participate in the local economy and, in some cases, creating a source of conflict.
- ◆ Many countries lack sufficient information on the impact of landmines in their territory to support the creation of results-based national plans. This complicates the Department's process to allocate resources and monitor program performance.



MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Positive Results

Continuing Challenges

PUBLIC DIPLOMACY AND PUBLIC AFFAIRS

- ◆ Reinstated the Fulbright Program with Iraq and Afghanistan, helping those nations rejoin the community of nations.
- ◆ Expanded U.S. outreach to and engagement of Arab and Muslim successor generations by implementing the U.S. Government's first-ever high school program, Partnerships for Learning YES (Youth Exchange and Study) and a new undergraduate program, PLUS (Partnerships for Learning Undergraduate Studies), directed at young people from non-elite and under-served sectors of society.
- ◆ Created CultureConnect, a public-private partnership that brings American men and women of accomplishment together with broad and diverse groups of young people around the world.
- ◆ After coming to the United States, several Afghan teachers are now back in Afghanistan conducting workshops in basic education and English language skills for approximately 500 teachers and distributing educational materials and recruiting other teachers to their profession.
- ◆ Over 400,000 copies of the Department's publication, Muslim Life in America, were distributed in 28 languages around the world, including to Islamic schools, madrassas and mosques.
- ◆ The Arabic language Hi Magazine and its associated websites, produced for 18-35 year olds, are now available at newsstands in 18 countries. A website survey of readers shows that 50 percent of respondents said Hi gave them a more positive view of America.
- ◆ Meiguo Cankao (MCGK), the Department's Chinese language Internet service, averaged 20,000 page requests per day, and its material on America and its policies appeared with attribution frequently on major Chinese websites.
- ◆ Based on information gained through U.S. Speakers programs and International Visitor grants, the Korean Judicial Reform Committee announced a new American-style law school system to be introduced in 2008.
- ◆ The Department created a Public Diplomacy Office of Policy, Planning and Resources to better coordinate and measure the impact of public diplomacy. This office will address the issues raised in public diplomacy studies and reviews.

- ◆ Visa requirements for exchange visitors still result in some invited and selected visitors not being able to participate in programs.
- ◆ With a global audience, a significant challenge is measuring the impact of our messages to targeted audiences. Measuring the effect on the hearts and minds in foreign media markets, including whether our wide range of products influences attitudes towards the U.S. and increases understanding of U.S. foreign policy, is a universal challenge.
- ◆ More comprehensive, systematic efforts to counter anti-American misinformation need to be established, to answer false charges that are increasingly common in certain parts of the world.
- ◆ Chinese official government press continues to portray the United States in a negative light. Large numbers of Chinese hold less than positive images of the United States.
- ◆ Through the interagency Muslim World Outreach Policy Coordinating Committee, the Department is making a major effort to identify new approaches and technologies for more effective communication with the Muslim and Arab worlds and to counter the impact of hostile influences.

MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

- ◆ The Department began awarding "bonus points" for hiring persons who proficiently speak a critical needs language and who independently pass the Foreign Service oral exam. This practice has already assisted in the hiring of many speakers of Arabic, Russian, and Chinese, among others.
- ◆ Training hours for State personnel in critical languages such as Arabic, Pashtu, Dari/Afghan, Tajiki, Persian/Farsi/Iranian, Urdu, and Uzbek have increased almost 20% over FY 2003.
- ◆ The Department is 15% ahead of schedule in its plan to provide mandatory leadership training to a target of approximately 7,000 employees by the end of CY 2006.
- ◆ The Department established a new Global Information Technology Modernization office, which is providing an aggressive life-cycle modernization program for both classified and unclassified IT infrastructure.
- ◆ Increased partnerships with Homeland Security, Intelligence community, Joint Terrorism Task Forces, INTERPOL, International Law Enforcement Academy, federal state and local law enforcement organizations.
- ◆ Accelerated acquisition of New Embassy Compound sites: seven in FY 2004 and another eight under contract to ensure that Capital Construction Program will remain in "high gear."

- ◆ Additional training positions are required to assure readiness in critical needs languages and area studies, especially in Arabic and other hard languages. The training and development of our officers must adjust to meet the demands of diplomacy in the 21st Century.
- ◆ Providing additional offerings of mandatory leadership training to meet a shifting audience as employees are promoted into and retire out of the target grades.
- ◆ Maintain Department's mandatory cyber security compliance, continue cyber security institutionalization and verify proper security.
- ◆ Meeting the security responsibilities of ever-changing international events, supporting the global war on terrorism, and opening our embassy in Baghdad.
- ◆ Working closely with other agencies and stakeholders to ensure close coordination when planning and executing capital construction projects.

ILLUSTRATIVE EXAMPLES OF SIGNIFICANT ACHIEVEMENTS

STRATEGIC GOAL#1: REGIONAL STABILITY

Peacekeeping Participation



Many peace support operation (PSO) recipient countries have supported coalition operations led by the U.S., such as those in Afghanistan and Iraq. For example, assistance was provided to Mongolia in FY 2000, 2001 and 2003. Prior to 2000 Mongolia did not have a national policy to deploy forces beyond its borders, yet this was the first country to offer an infantry battalion to the coalition in Iraq.

Soldiers of New York State Army National Guard stand during the closing ceremony of a multinational platoon exercise for U.N. peacekeepers at Peace Support Operation Training Institute in Kukuleganga, Sri Lanka.

© AP/Wide World Photos

STRATEGIC GOAL#2: COUNTERTERRORISM

Terrorist Interdiction Program

During FY 2004, the number of countries cooperating with the United States in conducting effective terrorist watch-listing at key ports of entry continued to expand beyond the 12 that were partners in FY 2003, with six additional countries indicating their interest in, and willingness to participate in the program. Initial or expanded deployments of the Personal Identification Secure Comparison and Evaluation System (PISCES) watch listing system were carried out in five countries in FY 2004. In some countries, the Terrorist Interdiction Program (TIP)/PISCES program has served as the cornerstone of the U.S. mission's counterterrorism relationship with the host government and, as a result, has fostered increased counterterrorism cooperation and action on the part of that government.

Iraqi Interim Prime Minister Iyad Allawi, second from right, asks questions about the PISCES computer system used by Iraqi border agents as he tours the Muntheria border crossing on the Iran-Iraq border. Also joining the tour are National Security Advisor Muwfaq al-Rubai, left, Minister Of Defense Hazem Sha-alam, second from left, and Interior Minister Falah al-Nakib, right. ©AP/Wide World Photos/Maya Alleruzzo/POOL



STRATEGIC GOAL#3: HOMELAND SECURITY

Container Security Initiative

The Department spearheaded global efforts to protect transportation networks through stronger shipping and aviation security rules. Nineteen of the 20 largest world ports committed to participate in the Container Security Initiative (CSI). In addition, the program expanded to other strategic ports including Malaysia and South Africa. CSI is now operational in twenty-six ports and at least two countries, Canada and Japan, have utilized the reciprocal aspects of the program to have their customs officials present at U.S. ports to observe cargo bound for their countries.



A boat patrols near a ship that unloads containers in the port of Balboa in Panama City. © AP/Wide World Photos/Arnulfo Franco

STRATEGIC GOAL#4: WEAPONS OF MASS DESTRUCTION

Libya

In December 2003, Libya made a commitment to dismantle or eliminate its nuclear/chemical weapons and Missile Technology Control Regime class missile programs. Libya has since signed/ratified IAEA additional Protocol, and is cooperating with the U.S./UK to remove equipment from its nuclear weapons program. Libya has acceded to the CWC, destroyed CW munitions, and facilitated the removal of its entire SCUD C missile inventory.

President Bush talks with Jon Kreykes, manager of National Security Advanced Technology as they look over vacuum cases for centrifuges collected from Libya at the Oak Ridge National Laboratory in Oak Ridge, Tennessee.

© AP/Wide World Photos/Susan Walsh

STRATEGIC GOAL#5: INTERNATIONAL CRIME AND DRUGS

Andean Counterdrug Initiative

The Andean Counterdrug Initiative has begun paying high dividends in the fight against illegal cocaine and heroin from the Andean region of South America. In 2003, the Andean coca crop dropped to its lowest levels since the USG estimates began back in 1986. Total cultivation was down 16 percent in 2003. The U.S.-backed aerial eradication program in Colombia, the primary source of cocaine coming to the United States, was particularly effective, reducing coca



cultivation by 21 percent in 2003 and by 33 percent over the past two years. Opium poppy cultivation in Colombia, which, along with Mexico, provides 90 percent of the illegal heroin consumed in the United States, also declined by 10 percent. For 2004, the aerial eradication operation is on a glide path for a third straight year of reduced coca and opium poppy cultivation. During this same period, the U.S.-helped Colombia establish a security presence in 158 municipalities formerly left to narco-terrorists, leading to a dramatic fall in violent crime and displaced people.

Anti-narcotics police officers disembark at a coca field in the rural area of Sotomayor, in the southern Narino state. The police destroyed two labs as part of their counternarcotics effort in that area of the country. According to a United Nations report, land under cultivation for coca in Colombia has declined 16 percent last year. © AP/Wide World Photos/Javier Galeano

STRATEGIC GOAL#6: AMERICAN CITIZENS

International Child Adoption

The Department's Adoption Unit in the Office of Children's Issues protects and promotes the option of intercountry adoption as a way to provide a permanent family placement for a child who cannot find one in his or her home country. The Department coordinates policies on intercountry adoption with other countries and the international community, and



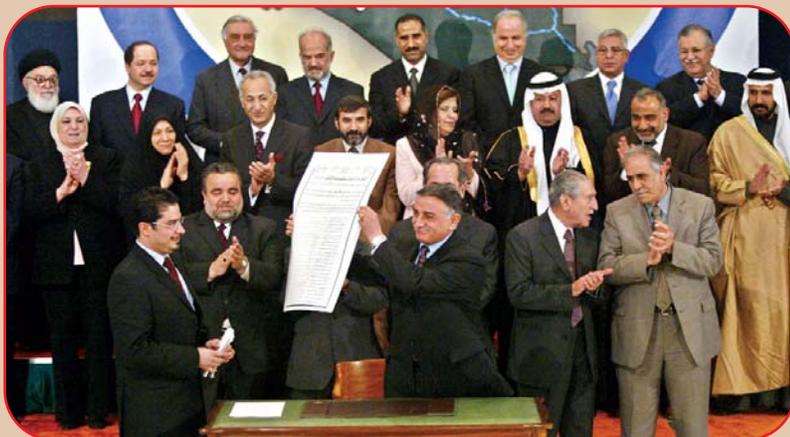
promotes Convention-compliant national adoption legislation and policies. The Department firmly supports intercountry adoption within the context of strong safeguards for the interests of children, birth parents and adoptive parents, as embodied in the Hague Convention on Protection of Children and Cooperation in Respect of Intercountry Adoption.

The Department's Bureau of Consular Affairs assisted this American couple with the intercountry adoption of their infant daughter. Department of State Photo

STRATEGIC GOAL#7: DEMOCRACY AND HUMAN RIGHTS

Equality in Iraq

Iraqi women occupy numerous positions in the new government. The Iraqi cabinet, announced in May 2004, includes six women ministers of a total of 33 individuals. In addition, seven women were appointed to hold deputy minister positions, women occupy six of the 37 seats on the Baghdad City Council, 81 serve on neighborhood and district councils around the capital, and many women have also been elected to district, local, and municipal councils in most other regions of Iraq. The Department also backed the successful efforts to persuade the Iraqi Governing Council to repeal Resolution 137, which would have imposed Shari'ah family law on Iraqi women.



Iraqi Governing Council member Younadem Kana raises the newly-signed Iraqi interim constitution as other members applaud in the background during signing ceremony on March 8, 2004 in Baghdad, Iraq. © AP/Wide World Photos/Peter Andrews

STRATEGIC GOAL#8: ECONOMIC PROSPERITY

Recovering Iraqi Assets

The Department worked with Treasury to recover from non-U.S. sources more than \$800 million in assets of Saddam Hussein and the former Government of Iraq, which will be used to fund Iraq's reconstruction. The successful effort built on the unique asset recovery provisions of UN Security Council Resolution 1483 previously negotiated by the Department, which required all UN Member States to freeze and transfer these assets to the Development Fund for Iraq (DFI). Iraqi ministries used DFI funds for purposes that directly benefited the people of Iraq, such as Iraqi government operations, including salaries for teachers, health workers, security, etc. The DFI also funded the repair of electrical infrastructure and the refurbishing of water plants, as well as for Iraqi defense and police forces that are today taking on more of the fight against insurgents.



U.S. Ambassador to Iraq John Negroponte, left, shakes hands with National Security Adviser Condoleezza Rice during a ceremony at the State Department in Washington. © AP/Wide World Photo/Ron Edmonds

STRATEGIC GOAL#9: SOCIAL AND ENVIRONMENTAL ISSUES

The President's Emergency Plan for AIDS Relief

The President's Emergency Plan for AIDS Relief is the largest commitment ever by a single nation toward an international health initiative. It is a five-year, \$15 billion effort to combat HIV/AIDS in more than 100 countries around the world. In 15 of the hardest-hit countries, the Emergency Plan will prevent seven million new HIV infections, provide antiretroviral treatment to two million HIV-infected individuals, and provide care for ten million individuals infected and affected by HIV/AIDS, including orphans and vulnerable children. In July 2004, just six months after the Emergency Plan received its first appropriation from Congress, preliminary reports from nine of the fifteen focus countries indicated that the Emergency Plan was supporting antiretroviral therapy for at minimum, 24,900 HIV-infected men, women and children. With this early success and continued work to rapidly expand capacity, the President's Emergency Plan is on track to have over 200,000 people on treatment by June 2005 - a number that will be approximately double the number of persons receiving treatment in sub-Saharan Africa.



U.S. Global AIDS Coordinator, Ambassador Randall Tobias, looks on at his results after taking an HIV test during his visit to a provincial hospital in Xai Xai northeast of Maputo, Mozambique. Tobias underwent a public HIV test to help fight the stigma associated with AIDS. © AP/Wide World Photos/Themba Hadebe

STRATEGIC GOAL#10: HUMANITARIAN RESPONSE

Response to Humanitarian Crisis in Chad and Darfur

The USG has led the international response to the humanitarian emergency resulting from the ongoing conflict in Darfur, Sudan. Working closely together, the Department and USAID have provided over \$200 million in FY 2004 to meet the urgent humanitarian needs of 200,000 Sudanese refugees in Chad and 1.2 million internally displaced persons in Darfur. The Department and USAID are actively engaged with multilateral and non-governmental organizations to ensure strong management of assistance programs under challenging conditions. The USG is also a leading advocate for the protection of civilians affected by the conflict.

Constance Berry Newman, Assistant Secretary of State for African affairs, listens to a USAID official as she visits Abu Shouk camp, in North Darfur, Sudan, where more than 40,000 displaced Sudanese receive food and shelter from international aid agencies. © AP/Wide World Photos/Amr Nabil



STRATEGIC GOAL#11: PUBLIC DIPLOMACY AND PUBLIC AFFAIRS

Former Exchange Participants Lead "Revolution of Roses" in Georgia

Ten years of individual and institutional exchange programming in Georgia reached a critical mass as exchange alumni led the opposition in democratic ferment. The backbone of a new Georgian era is a network of participants in U.S. visits for students and young government officials, professionals, and experts in a variety of fields, who were introduced



Georgian President Mikhail Saakashvili, right, and the U.S. Secretary of State Colin Powell seen during their meeting in Tbilisi, Georgia in early 2004. © AP/Wide World Photos/Giorgi Abdaladze

to U.S. counterparts in carefully designed programs on themes ranging from "Human Rights Protection" to "U.S. Democratic Principles." In the new Georgian government, exchange alumni include: The President (FSA Muskie 2-year graduate program, International Visitor), the Prime Minister (International Visitor), Head of National Security (International Visitor), Minister of Foreign Affairs (Voluntary Visitor), Minister of Defense (Muskie Fellowship), Minister of Infrastructure and Development (Fulbright), and members of parliament and leaders of major political parties and voluntary associations.

STRATEGIC GOAL#12: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Protecting the American Public



Diplomatic Security was on the front lines supporting the Department in the Global War on Terrorism, particularly in the overseas environment, and protecting the American public. Agent deployment to highly non-permissive environments continued at an increased rate. The Regional Security Office in Baghdad remains fully engaged in security operations throughout Iraq while transition planning proceeds full force. Dignitary protection was provided for Afghan President Karzai and the interim President and Prime Minister of Haiti. Diplomatic Security was also a part of a massive USG-wide effort to assist the Greek security authorities in preparation for the 2004 Summer Olympics.

An U.S.-Swiss airship flies behind the Parthenon temple on the ancient Acropolis hill in Athens to help provide security at the Olympic Games.

© AP/Wide World Photos/Petros Karadjias

SUMMARY OF RESULTS

RATED "SIGNIFICANTLY BELOW TARGET"

The results of the following six targets of the total of 209 included in this Performance and Accountability Report were rated "significantly below target." As some of the data provided below is in summary form, the full text can be found in the Strategic Goal chapters. A similar analysis of results rated "below target" is provided in the Appendix.

STRATEGIC GOAL 1: REGIONAL STABILITY	
Initiative/Program #3: Conflict Management and Resolution	
Indicator # 1: Number of African Armed Conflicts Resolved and Peace Support Missions Concluded	
Target	Two conflicts resolved (Congo-Great Lakes, Sudan).
Result	<ol style="list-style-type: none"> 1. Congo-Great Lakes: The transitional government was formed and began a process of consolidation and institutional development. 2. Sudan: In Darfur, a civil war and a heavy-handed Sudanese government response included acts of genocide and produced a humanitarian crisis that slowed progress toward consolidating the peace throughout the country. Humanitarian conditions improved somewhat in southern Sudan and were much improved in the Nubas.
Reason for Performance Shortfall	<ol style="list-style-type: none"> 1. Congo-Great Lakes: Chaos in eastern part of the Democratic Republic of Congo (DRC) remained endemic, creating difficulties for the political process in Kinshasa. 2. Sudan: The Sudanese government has been unable to completely commit to a peace and reconciliation agenda owing to competing negative influences within its inner circle. Instability and egregious violations of human rights in Darfur played a major role in the performance shortfall.
Steps Being Taken to Improve Performance	<ol style="list-style-type: none"> 1. Congo-Great Lakes: The UN Mission in the Congo (MONUC) has increased its force structure and mandate in recognition of the need to ameliorate conditions in the eastern DRC and further buttress the ability of the transitional government to stabilize the area. 2. Sudan: The Department will continue to work closely with African and European partners to press for a comprehensive north-south peace agreement, and a robust response in terms of an African Union military presence and UN Security Council sanctions and other actions as a result of the genocide in Darfur.
Impact of Shortfall	<ol style="list-style-type: none"> 1. Congo-Great Lakes: The UN increased the size of the peacekeeping force in the country, underlining the fragile nature of the parties' adherence to the Lusaka and follow-on agreements. It appears likely that MONUC will remain in DRC for at least an additional year. 2. Sudan: The crisis in Darfur has resulted in over 70,000 dead and over 1.5 million displaced in an area of Sudan encompassing one-fifth of the population. Deployment of UN peacekeepers is delayed.

STRATEGIC GOAL 1: REGIONAL STABILITY (continued)

Initiative/Program # 5: An Enhanced and Expanded Euro-Atlantic Partnership

Indicator # 3: Implementation of Adapted Conventional Forces in Europe (CFE) Treaty

Target	U.S. and NATO Allies agree that Russia has fulfilled all Istanbul commitments, allowing for U.S. ratification and, after all other CFE States Parties ratify, entry into force of the Adapted CFE Treaty, and then other key states accede.
Result	The U.S. and NATO continued to press Russia to fulfill these commitments, but there has been no progress to report in FY 2004. Russia and the new Georgian government have been meeting, but progress on a Russian withdrawal from remaining bases has fallen victim to broader Russian-Georgian problems. There has been little progress on Russian withdrawal from Moldova.
Reason for Performance Shortfall	Russia has not yet taken the actions necessary to fulfill its Istanbul commitments regarding its bases and the withdrawal of its forces from Georgia and Moldova.
Steps Being Taken to Improve Performance	The Department will continue to work with NATO Allies so that NATO maintains a united position regarding the need for Russia to fulfill its Istanbul commitments before NATO member nations consider ratification of the Adapted CFE Treaty.
Impact of Shortfall	Failure to achieve entry into force of the Adapted CFE Treaty does not materially affect U.S. security. It does, however, undermine the confidence and stability gained by the 1990 CFE Treaty.

Initiative/Program # 7: Restrict Advanced Conventional Weapons (ACW) Treaty

Indicator # 5: Effectiveness of Wassenaar Arrangement (WA) Control Lists

Target	Have 150 states participate in the UN Register of Conventional Arms Transfers, including China.
Result	Only 112 states participated in the UN Register in FY 2004; China did not.
Reason for Performance Shortfall	Some states remain unconvinced of the value of reporting. China remains unwilling to participate as long as there remains a reference to Taiwan.
Steps Being Taken to Improve Performance	The Department will continue to try to persuade states, including China, of the value of the UN Register.
Impact of Shortfall	The UN Register provides transparency about arms transfers; the non-participation of major arms exporting states, like China, limits the confidence-building effect of the Register.

STRATEGIC GOAL 4: WEAPONS OF MASS DESTRUCTION

Initiative/Program # 10: All Source Intelligence Collection and Technology R&D

Indicator # 3: Intelligence Collection Resources Promoted to Support Arms Control and Nonproliferation Verification Objectives

Target	Identify and fund Verification Assets Fund projects which are important for monitoring WMD activities.
Result	Limited funds were used to support technical analysis of samples related to nuclear weapons activities, development of a missile monitoring system, acquisition of covert nuclear weapons testing data, and evaluation of open source material of biological weapons.
Reason for Performance Shortfall	Funding was not provided for the verification assets fund, and there was a shortfall in staffing.
Steps Being Taken to Improve Performance	Pursue an increase in funding and hiring of new staff members.
Impact of Shortfall	Support was limited to combating WMD and delivery means.

STRATEGIC GOAL 8: ECONOMIC PROSPERITY AND SECURITY

Initiative/Program # 1: Development Strategies

Indicator # 1: Average Developing Country Growth Competitiveness Index (GCI)

Target	Increase in average GCI by 3%, from 4.81 to 4.95.
Result	GCI data not available until April 2005. The target, determined in FY 2002, was based on a different methodology than is currently being used. Thus the target and results will not correspond. One element of the GCI, growth performance, has strengthened from 4.8% in FY 2002 to a projected 6.6% in FY 2004 (IMF World Economic Outlook data), which would indicate some improvement in the GCI. However, without actual data, the projection will be "significantly below target."
Reason for Performance Shortfall	Countries in the representative GCI average sample failed to adopt the technologies, processes, and policies necessary to sustained economic growth in the medium term.
Steps Being Taken to Improve Performance	The Department will pursue an aggressive diplomatic strategy to highlight the fight against corruption, and support for rule of law, good governance, and growth-oriented economic policies for countries considered in the indicator.
Impact of Shortfall	The decline in the GCI average suggests that developing countries are failing to adopt rapidly economic policies and governance conducive to achieving sustained growth over the medium term.

STRATEGIC GOAL 10: HUMANITARIAN RESPONSE

Initiative/Program # 4: Humanitarian Demining

Indicator # 7: Number of U.S. Program Countries in Sustainment or End State (Cumulative)

Target	17
Result	13
Reason for Performance Shortfall	The criteria enumerating specific performance goals and objectives for mine action was altered in FY 2004 to reflect a clearer understanding of what needs to be done to reach end state. The resultant effect was fewer countries being classified as reaching end state. ¹
Steps Being Taken to Improve Performance	Greater clarity in the definition of end state, as well as a more rigorous planning and program management process will enable program managers to better monitor progress and address program inefficiencies.
Impact of Shortfall	During FY 2004, one program country, Djibouti, reached end state when it declared itself mine-safe. Since no additional countries reached end state, it will take longer for more countries to reach end state. End state is the end of significant U.S. funding assistance.

¹ USG program end state is the end of significant U.S. funding assistance. Depending on the situation in each country (availability of resources, severity of impact, etc.) the end state might be when the country is mine safe, i.e. mines no longer impact society, or it may be when the country has the indigenous capability to become mine safe.

PROGRAM ASSESSMENT RATING TOOL (PART) STATUS

The Office of Management and Budget (OMB) uses the Program Assessment Rating Tool (PART) to assess federal programs. The PART is a series of diagnostic questions used to assess and evaluate programs across a set of performance-related criteria, including program design and purpose, strategic planning, program management, and results. PART results are then used to inform the budget process and improve program management to ensure the most effective and efficient use of taxpayer dollars.

To date, the Department of State and OMB have conducted 27 PART reviews for State's programs. PART reviews conducted this year include both new assessments (11) and reassessments from previous years. For CY 2004 (FY 2006 budget process), some of the programs that were newly evaluated include the Andean Counterdrug Initiative, Global Educational & Cultural Exchange programs, and the Human Rights & Democracy Fund. All of State's programs assessed to date fall within the "Adequate" to "Effective" categories. State has no programs rated as "Results Not Demonstrated" or "Ineffective." (See table below.)

One of the Department's programs, Educational and Cultural Exchange Programs in Near East Asia and South Asia, ranked as the highest scored PART program in the Federal Government. Three of the Department's programs, Global Educational and Cultural Exchanges, Capital Security Construction Program, and Security Assistance Programs to Sub-Saharan Africa, tied with two other Federal Government programs in having the second highest PART scores government-wide this year.

Based on the analysis of this year's assessment, the Department shows strength in its program purpose and design, program management, and strategic planning efforts. The results are summarized on the following pages by strategic goal, including major findings and recommendations, and actions taken or planned to address the findings and recommendations.

The results from the PART reviews are summarized below by strategic goal. On the following pages, information also is provided describing how bureaus have addressed and implemented findings and recommendations for FY 2004 PARTs (see Table 1), and FY 2005 PARTs (see Table 2). For FY 2006 PARTs (see Table 3), "major findings/recommendations" and "actions taken/planned" were not yet final at the time of this printing and thus are not shown.

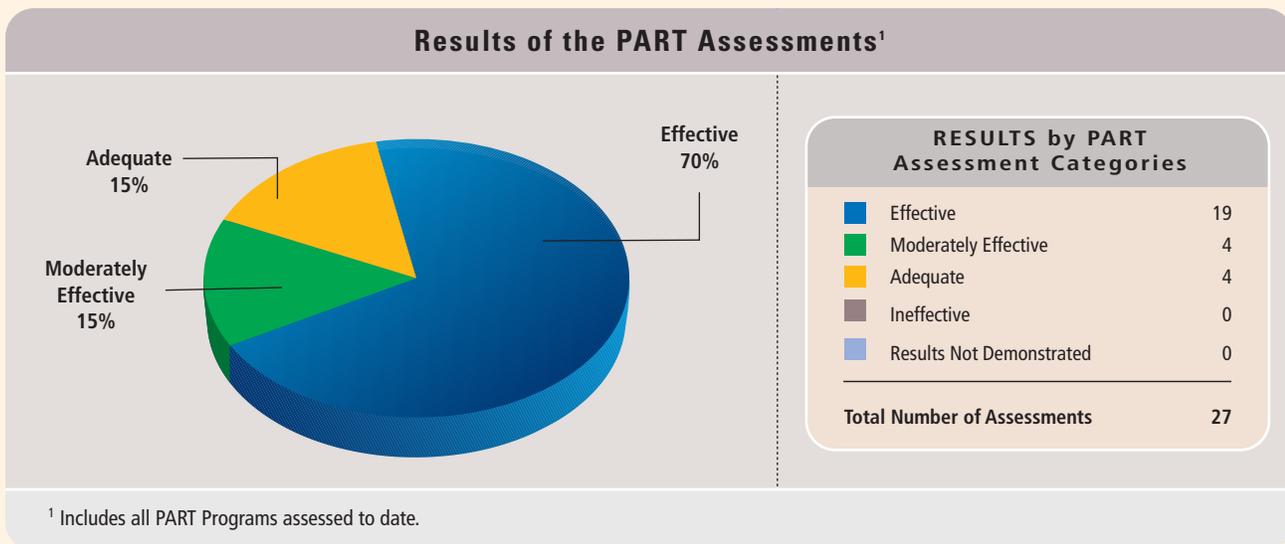


TABLE 1
FY 2004 PROGRAM ASSESSMENT RATING TOOL (PART) SUMMARIES BY STRATEGIC GOAL

STRATEGIC GOAL 1	REGIONAL STABILITY
Program Name	Peacekeeping Operations – OSCE
Ratings	<ul style="list-style-type: none"> ◆ CY 2002: Results Not Demonstrated ◆ CY 2003: Moderately Effective ◆ CY 2004: Not Reassessed
Lead Bureau	◆ European and Eurasian Affairs (EUR)
Major Findings/ Recommendations	◆ PM, EUR, and USOSCE should develop measurable criteria for the assessment of peacekeeping efforts in Organization for Security and Cooperation in Europe (OSCE) states.
Actions Taken/Planned	◆ USOSCE Mission Performance Plan established detailed performance indicators for resolution of conflicts in OSCE states and refined efficiency indicators for peacekeeping missions. (Action Completed)
Program Name	Security Assistance to Sub Saharan Africa
Ratings	<ul style="list-style-type: none"> ◆ CY 2002: Results Not Demonstrated ◆ CY 2003: Moderately Effective ◆ CY 2004: Effective
Lead Bureau	◆ African Affairs (AF)
Major Findings/ Recommendations	◆ Program and program partners not achieving all annual performance goals.
Actions Taken/Planned	◆ Provided proposed measures to OMB for review. Provided performance data for use in Department's Performance and Accountability Report.
Program Name	Military Assistance to New NATO and NATO Aspirant Nations
Ratings	<ul style="list-style-type: none"> ◆ CY 2002: Moderately Effective ◆ CY 2003: Not Reassessed ◆ CY 2004: Not Reassessed
Lead Bureau	◆ European and Eurasian Affairs (EUR)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ No regularly scheduled evaluation of program effectiveness exists by independent parties. ◆ DoS and DoD differ on priorities and do not produce coinciding budget schedules.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ The European Command Inspector General conducts annual inspections independent of the unified command. ◆ DoD goals are discussed in interagency meetings to balance DoD requirements with Department goals. This produces a single, agreed upon recommendation.

STRATEGIC GOAL 2	COUNTERTERRORISM
Program Name	Anti-Terrorism Assistance
Ratings	<ul style="list-style-type: none"> ◆ CY 2002: Moderately Effective ◆ CY 2003: Effective ◆ CY 2004: Not Reassessed
Lead Bureau	<ul style="list-style-type: none"> ◆ Coordinator for Counterterrorism (S/CT)
Major Findings/Recommendations	<ul style="list-style-type: none"> ◆ Seek to improve long-term outcome measure to capture qualitative improvements to host country capabilities. ◆ Demonstrate progress on newly developed efficiency measure and incorporate refined measure into the FY 2006 budget.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Working with OMB, S/CT has improved long-term outcome measures to better capture improvements in host country capabilities. ◆ A revised efficiency measure has been developed and submitted with the PART input for this year's reassessment. The measure has been approved by OMB.

STRATEGIC GOAL 3	HOMELAND SECURITY
Program Name	Border Security
Ratings	<ul style="list-style-type: none"> ◆ CY 2002: Moderately Effective ◆ CY 2003: Moderately Effective ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ Consular Affairs (CA)
Major Findings/Recommendations	<ul style="list-style-type: none"> ◆ The managers of this program and the program itself have made great progress over the past two years. The reassessment found that the program is not effectively tracking its own progress due to overly broad performance goals and measures, and Department of Homeland Security (DHS) and law enforcement agencies are not always including the State Department in early stages of deliberation over new policies which would enhance coordination and collaboration over long-term goals.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ CA has revised its long-term and annual goals and more clearly defined the linkages between the two. CA is working closely with DHS and the FBI, in particular, on mutual goals. This has resulted in a significantly improved score for the recent reassessment in calendar year 2004.

STRATEGIC GOAL 10		HUMANITARIAN RESPONSE	
Program Name		Refugee Admissions to the U.S.	
Ratings		<ul style="list-style-type: none"> ◆ CY 2002: Adequate ◆ CY 2003: Moderately Effective ◆ CY 2004: Effective 	
Lead Bureau		<ul style="list-style-type: none"> ◆ Population, Refugees, and Migration (PRM) 	
Major Findings/ Recommendations		<ul style="list-style-type: none"> ◆ Review the relationship for refugee reception and placement between the Refugee Admissions program at the Department and the Office of Refugee Resettlement at the Department of Health and Human Services (HHS). ◆ Continue ongoing efforts to improve strategic planning to ensure that goals are measurable and mission-related. 	
Actions Taken/Planned		<ul style="list-style-type: none"> ◆ Because of the Homeland Security Act, attention has been focused on other aspects of the HHS program in FY 2003 and early FY 2004. OMB action to complete. ◆ Measurable goals included in FY 2005 PART and will also be included in the FY 2005 Budget. (Action Completed) 	
Program Name		Humanitarian Migrants to Israel	
Ratings		<ul style="list-style-type: none"> ◆ CY 2002: Adequate ◆ CY 2003: Moderately Effective ◆ CY 2004: Effective 	
Lead Bureau		<ul style="list-style-type: none"> ◆ Population, Refugees, and Migration (PRM) 	
Major Findings/ Recommendations		<ul style="list-style-type: none"> ◆ Establish better long-term goals, as well as more annual goals, with the United Israel Appeal in the 2003 grant agreement. Establish efficiency measure. 	
Actions Taken/Planned		<ul style="list-style-type: none"> ◆ Long-term and annual goals agreed with United Israel Appeal in 2003 and grant agreement finalized for 2004. Efficiency measure established and approved by OMB. (Action Completed) 	

STRATEGIC GOAL 11		PUBLIC DIPLOMACY AND PUBLIC AFFAIRS	
Program Name		Educational Exchanges in Near East Asia and South Asia	
Ratings		<ul style="list-style-type: none"> ◆ CY 2002: Results not demonstrated ◆ CY 2003: Effective ◆ CY 2004: Effective 	
Lead Bureau		<ul style="list-style-type: none"> ◆ Education and Cultural Affairs (ECA) 	
Major Findings/ Recommendations		<ul style="list-style-type: none"> ◆ Clearly define targets and timeframes. ◆ Create regional long-term goals. ◆ Set long-term goals relative to baseline. ◆ ECA is taking on additional management and administrative responsibility in 2005. This includes expansion of ECA coordination and management of policy, planning and development of standardized performance and evaluation tools and methods for all Public Diplomacy programs. 	
Actions Taken/Planned		<ul style="list-style-type: none"> ◆ Department provided proposed measures and goals and process to OMB for review. Measures have been approved by OMB and resulted in a dramatic increase for the recent reassessment in CY 2004. ◆ Regional goals established through coordination with regional bureaus and approved by OMB. ◆ Long-term and annual goals are set to established baselines, targets and timeframes now included in performance indicators. ◆ ECA has consulted with public diplomacy bureaus on PART, Evaluation and Strategic Planning. ECA has conducted public briefings on PART and Evaluation, and is coordinating evaluations of several programs. 	

STRATEGIC GOAL 12	MANAGEMENT AND ORGANIZATIONAL EXCELLENCE
Program Name	Capital Security Construction
Ratings	<ul style="list-style-type: none"> ◆ CY 2002: Moderately Effective ◆ CY 2003: Effective ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ Overseas Buildings Operations (OBO)
Major Findings/Recommendations	<ul style="list-style-type: none"> ◆ Effects of management changes in OBO were not fully known at the time of the FY 2004 PART review. ◆ Develop new goals that closely link performance to the budget.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Effects on management changes were well documented in the FY 2005 PART process and OBO received a strong score for this PART program. (Action Completed) ◆ Goals/performance measures were developed/linked to OBO budget. (Action Completed)

TABLE 2

FY 2005 PROGRAM ASSESSMENT REVIEW TOOL (PART) SUMMARIES BY STRATEGIC GOAL

STRATEGIC GOAL 1	REGIONAL STABILITY
Program Name	Security Assistance for the Western Hemisphere
Ratings	<ul style="list-style-type: none"> ◆ CY 2003: Moderately Effective ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ Western Hemisphere Affairs (WHA)
Major Findings/Recommendations	<ul style="list-style-type: none"> ◆ Long-term goals need more definition, with specific targets and timeframes. ◆ Annual resource needs and budget requests of State and Defense Departments could be presented in a more complete and transparent manner.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Resubmitted goals and specific targets. ◆ Established a more formal arrangement for coordinating security assistance.

STRATEGIC GOAL 2	COUNTERTERRORISM
Program Name	Terrorist Interdiction Program (TIP)
Ratings	<ul style="list-style-type: none"> ◆ CY 2003: Results Not Demonstrated ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ Coordinator for Counterterrorism (S/CT)
Major Findings/Recommendations	<ul style="list-style-type: none"> ◆ Complete program management staff improvements. ◆ Develop targets for long-term goal of system installations. ◆ Seek to improve long-term outcome measure to capture qualitative improvements to host country capabilities. ◆ Demonstrate progress on newly developed efficiency measure and incorporate refined measure into the FY 2006 budget.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Targets have been initially established for long-term goal of providing the TIP watchlisting system to every country on the joint-agency developed "tier list." ◆ Improved long-term outcome measures to capture improvements in host country capabilities which have been approved by OMB. ◆ A revised efficiency measure has been submitted and approved by OMB.

STRATEGIC GOAL 4	WEAPONS OF MASS DESTRUCTION
Program Name	Nonproliferation and Disarmament Fund (NDF)
Ratings	<ul style="list-style-type: none"> ◆ CY 2003: Effective ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ Nonproliferation (NP)
Major Findings/Recommendations	<ul style="list-style-type: none"> ◆ Add long-term measures.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Nonproliferation and Disarmament Fund will now track all measures.

STRATEGIC GOALS 7 & 8	DEMOCRACY AND HUMAN RIGHTS / ECONOMIC PROSPERITY AND SECURITY
Program Name	Coordination of Support for East European Democracy (SEED) and Assistance for the Independent States of the Former Soviet Union (FSA)
Ratings	<ul style="list-style-type: none"> ◆ CY 2003: Results Not Demonstrated ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ European and Eurasian Affairs (EUR)
Major Findings/Recommendations	<ul style="list-style-type: none"> ◆ Unclear linkage between BPP/MPP process & Coordinator's office budget allocation process. ◆ SEED and FSA annual reports do not contain sectoral performance measures.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ The MPP/BPP, Annual Reports and Country phase out process have been synchronized to guide budget allocation decisions. ◆ Posts included sectoral performance measures in their 2003 Annual Report submissions.

STRATEGIC GOAL 8	ECONOMIC PROSPERITY AND SECURITY
Program Name	United Nations Development Program (UNDP)
Ratings	<ul style="list-style-type: none"> ◆ CY 2003: Results Not Demonstrated ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ International Organizations (IO)
Major Findings/Recommendations	<ul style="list-style-type: none"> ◆ This year's Performance Plan is a significant improvement over the previous year's. The plan contains measurable targets for UNDP programs. It is also demonstrated that Federal managers are accountable to advance U.S. interests through participation in the UNDP Executive Board. ◆ The performance plan does not currently include any efficiency measures.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ The OMB-approved efficiency indicator is included in the FY 2005 Department Performance Plan.

STRATEGIC GOAL 10	
HUMANITARIAN RESPONSE	
Program Name	Humanitarian Demining
Ratings	<ul style="list-style-type: none"> ◆ CY 2003: Effective ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ Political/Military Affairs (PM)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Review the relationship between annual and long-term goals and develop revised goals as necessary for the FY 2006 budget. ◆ Demonstrate progress on newly developed efficiency measures and incorporate into the PART for the FY 2006 budget.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Revised existing annual performance measures and developed an additional performance measure. (Action Completed) ◆ The efficiency measure increased from 3.4 to 3.7 from FY 2002 to FY 2003, respectively. (Action Completed)
Program Name	United Nations High Commissioner for Refugees (UNHCR)
Ratings	<ul style="list-style-type: none"> ◆ CY 2003: Moderately Effective ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ Population, Refugees, and Migration (PRM)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Department should use "Framework of Cooperation" to set policy priorities and common objectives. ◆ Department should work with UNHCR to establish an integrated financial system. Establish efficiency measure.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Framework was signed on February 12, 2004. Consultations between Department and UNHCR occur regularly to review progress; last consultation occurred in July 2004. ◆ System was launched in phases, beginning with Finance and Supply Chain (FSC) in 2004, followed by Human Resources and Payroll in 2005. FSC was launched on January 30, 2004. Efficiency measure established and approved by OMB.

STRATEGIC GOAL 12	
MANAGEMENT AND ORGANIZATIONAL EXCELLENCE	
Program Name	Worldwide Security Upgrades
Ratings	<ul style="list-style-type: none"> ◆ CY 2003: Moderately Effective ◆ CY 2004: Effective
Lead Bureau	<ul style="list-style-type: none"> ◆ Diplomatic Security (DS)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Develop effective annual goals and targets. ◆ Work to develop performance measures for major programs to support annual performance goals and ensure long-term effectiveness.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Develop effective annual goals and targets. ◆ Baseline performance measures now developed for major programs to support annual performance goals and ensure long-term effectiveness.

TABLE 3
FY 2006 PROGRAM ASSESSMENT RATING TOOL (PART) SUMMARIES BY STRATEGIC GOAL

FY 2006 PARTs "major findings/recommendations" and "actions taken/planned" were not yet final at the time of this printing and thus are not shown.

STRATEGIC GOAL	Program Name	Rating	Lead Bureau
Regional Stability	Contributions for International Peacekeeping Activities	Effective	International Organization Affairs
Weapons of Mass Destruction	Nonproliferation of WMD Expertise	Moderately Effective	Nonproliferation
Weapons of Mass Destruction	Export Controls	Effective	Nonproliferation
International Crime	International Narcotics Control and Law Enforcement - WHA	Adequate	International Narcotics and Law Enforcement
International Crime	Andean Counterdrug Initiative	Adequate	International Narcotics and Law Enforcement
Democracy and Human Rights	Human Rights and Democracy Fund	Adequate	Democracy, Human Rights and Labor
Economic Prosperity and Security	Economic Support Fund	Moderately Effective	Western Hemisphere Affairs
Social and Environmental Issues	International Fisheries Commissions	Adequate	Oceans, International Environmental and Scientific Affairs
Public Diplomacy and Public Affairs	Educational Exchanges - Global	Effective	Educational and Cultural Affairs
Management and Organizational Excellence	Regular Asset Management Construction Program	Effective	Overseas Buildings Operations

THE PRESIDENT'S MANAGEMENT AGENDA AND MANAGEMENT CHALLENGES

THE PRESIDENT'S MANAGEMENT AGENDA

The Department has made substantial progress on all five of President's Management Agenda (PMA) initiatives, as well as the Overseas Right-sizing initiative. Each quarter, the Office of Management and Budget (OMB) releases an executive scorecard that rates progress and overall status in each of the President's Management Agenda initiatives. The progress and status ratings use a color-coded "stop-light" system that is based on OMB standard criteria used to assess all agencies. As of September 2004, the Department achieved five "green" scores for progress on implementation. With respect to overall status, the Department has made significant improvements in several areas, with the status scores for Strategic Management of Human Capital, Budget and Performance Integration, and Expanded Electronic Government now at "green." The following is a brief overview of the Department's overall PMA progress:

 Progress	BUDGET AND PERFORMANCE INTEGRATION	 Status
<p>◆ Goal</p> <ul style="list-style-type: none"> ● Improve the performance and management of the federal government by linking performance to budget decisions and improve performance tracking and management. The ultimate goal is to have better control over resources and greater accountability over results. 		
<p>◆ Progress During FY 2004</p> <ul style="list-style-type: none"> ● Fully integrated all Program Assessment Rating Tool (PART) elements into planning documents (Department & Bureau Performance Plans) and created efficiency measures for all PART designated programs. ● Developed a Performance Indicator and Analysis catalogue. ● Developed Quarterly Management Reports to ensure performance information is used to make decisions on a regular basis and address marginal cost issues. ● Developed Knowledge Management repository for PART information. ● Completed Version one Pilot of the Dashboard Reporting Module, an executive reporting tool that will allow the sharing of performance and budget data among other agencies with foreign affairs programs. 		
<p>◆ Upcoming Actions</p> <ul style="list-style-type: none"> ● Further institutionalization of PART and expand program evaluation. ● Work with OMB to create Congressional justification documents that better link performance goals to resource requests. ● Create a methodology that allows the Department to capture actual costs related to performance goals, so that this information can be used to better estimate the marginal cost of changing performance goals. ● Further develop Central Financial Planning System modules including the Bureau Resource Management System, the Bureau Allotment Control System, the Bureau Reimbursement Management module, and the Planning and Performance module (Dashboard) to include PART reports. ● Automation of Quarterly Management Reports in the Bureau Performance Plan application. 		

 Progress	<h2 style="margin: 0;">STRATEGIC MANAGEMENT OF HUMAN CAPITAL</h2>	 Status
<ul style="list-style-type: none"> ◆ Goal <ul style="list-style-type: none"> ● Build, sustain, and deploy effectively a skilled, knowledgeable, diverse, and high-performing workforce aligned with mission objectives and goals. 		
<ul style="list-style-type: none"> ◆ Progress During FY 2004 <ul style="list-style-type: none"> ● Implemented third year of the Diplomatic Readiness Initiative that increases personnel strength, improves recruitment, and streamlines hiring process. ● Completed third year of mandatory leadership and management training initiative; and delivered expanded training in public diplomacy, consular affairs, and foreign languages. ● Developed plan to improve Civil Service hiring with milestones to attain Office of Personnel Management (OPM)'s 45 day model. ● Updated comprehensive Human Capital Plan to 1) incorporate strategic milestones for restructuring/process redesign, 2) incorporate Domestic Staffing Model (DSM) findings, and 3) ensure alignment with the Department's Strategic Plan. ● Made management decisions and took action to begin implementation of approved DSM recommendations. ● Completed work on changes to the SES and Civil Service performance appraisal system to better differentiate levels of performance. ● Completed implementation assessment report on first year of accountability system. 		
<ul style="list-style-type: none"> ◆ Upcoming Actions <ul style="list-style-type: none"> ● Implement Operational Readiness plans to increase the numbers of employees with skills needed to respond to new foreign policy challenges through development of expanded skills databases and plans for more rapid identification and deployment of personnel – including retirees, contractors, and Foreign Service Nationals. ● Implement pay for performance system for Senior Executive Service and Senior Foreign Service. ● Complete strategic human capital milestone plan for OMB's "Proud to Be" II. ● In partnership with OPM/OMB, obtain certification for SES/Senior Foreign Service systems. 		

 Progress	<h2 style="margin: 0;">COMPETITIVE SOURCING</h2>	 Status
<ul style="list-style-type: none"> ◆ Goal <ul style="list-style-type: none"> ● Achieve efficient, effective competition between public and private sources and establish infrastructure to support competitions. 		
<ul style="list-style-type: none"> ◆ Progress During FY 2004 <ul style="list-style-type: none"> ● Completed Streamlined Competition for Archiving (3 FTEs). ● Established transparent web-based collaborative FAIR Act Inventory process and submitted inventory on time. ● Completed five streamlined competitions within the OMB mandated timeframes. ● Completed groundwork in preparation for announcing first standard competition. 		
<ul style="list-style-type: none"> ◆ Upcoming Actions <ul style="list-style-type: none"> ● OMB and State will continue to work to meet the criteria for "green" in FY 2005. ● Complete the challenge and appeals process for 2004 inventory. ● Announce first standard competition by end of first quarter FY 2005, and complete two additional streamlined competitions by end of second quarter FY 2005. 		



Progress

IMPROVED FINANCIAL PERFORMANCE



Status

◆ Goal

- World-class financial services that support strategic decision-making, mission performance, and improved accountability to the American people.

◆ Progress During FY 2004

- The Department's FY 2004 Financial Statements received an unqualified opinion, marking the eighth consecutive unqualified opinion, and were issued by the accelerated deadline of November 15, 2004. The Independent Auditor's Report cited no material weaknesses in internal controls.
- The Department's FY 2003 Performance and Accountability Report received the prestigious Certificate of Excellence in Accountability Reporting (CEAR) Award.
- The Secretary issued the Department's second consecutive unqualified Statement of Assurance under the Federal Managers' Financial Integrity Act.
- Relocated the majority of Washington, DC-based financial operations to the Charleston Financial Services Center.
- The collaborative effort between the Department and USAID to establish a common financial systems platform for the beginning of FY 2006 continued on schedule.

◆ Upcoming Actions

- Work with OMB to achieve "green" status by the end of the 1st quarter of FY 2005.
- Complete consolidation of Washington, DC-based financial operations to the Charleston Financial Service Center.
- Collaboration with USAID to establish a common financial systems platform by the beginning of FY 2006.
- Provide additional examples of "financial data integration," including ICASS, Peacekeeping, Embassy Security, and International Crime and Law Enforcement, and finalize the expansion plan.



Progress

EXPANDED ELECTRONIC GOVERNMENT



Status

◆ Goal

- Expand the federal government's use of electronic technologies (such as e-procurements, e-grants, and e-regulation), so that Americans can receive high-quality government service.

◆ Progress During FY 2004

- Completed the certification and accreditation project that resulted in full authorization of 5 general support systems, 133 major applications and 25 non-major applications. This met the FY 2004 project objective of authorizing 90% of the Department's systems by August 31 and was achieved one and one half months early.
- Department and USAID completed a joint "As-Is" Enterprise Architecture with State also completing its "To-Be" Enterprise Architecture.
- Joint State/USAID Management Council agreed on an implementation plan for the joint "To Be" Enterprise Architecture with milestones for lines of business.
- Signed a Memorandum of Understanding (MOU) on 15 of the 25 Government wide initiatives in the President's Management Agenda: E-Records management, GoLearn (e-Training); E-Travel; SBA Business Gateway, USA Services Working Agreement, GovBenefits.gov, Grants.gov, E-Rulemaking, Federal Asset Sales, E-Clearance, E-Payroll, Integrated Acquisition Environment (IAE), Recruitment One-Stop, E-Authentication and Human Resource Management.

◆ Upcoming Actions

- Complete the Joint State/USAID Enterprise Architecture to drive decisions on Information Technology investments.
- Reach agreement on selected payroll provider as prescribed by e-Payroll.
- The Department continues to participate in 20 of OMB's 25 "Quicksilver" initiatives that will consolidate and improve various functions government wide.
- Renew MOUs on the 15 Government wide initiatives and sign new MOUs on Financial Management (FM), Grants Management (GM), Case Management (CM) and Federal Health Architecture (FHA).



The President has emphasized the importance of security, efficiency, and accountability in U.S. Government staffing overseas by identifying Rightsizing as part of the President's Management Agenda (PMA). Rightsizing is ensuring that the mix of USG agencies and personnel overseas is appropriately aligned with foreign policy priorities, security concerns, and overall resource constraints. OMB is leading this PMA initiative. It is included in this report due to its importance to both the Department and OMB.



Progress

RIGHT-SIZED OVERSEAS PRESENCE (OMB LEAD)



Status

◆ Goals

- Reconfigure USG overseas staff allocation to the minimum necessary to meet U.S. foreign policy goals.
- Have a government-wide comprehensive accounting of total overseas personnel costs and accurate mission, budget, and staffing information.
- Ensure that accurate projected staffing patterns determine embassy construction needs.

◆ Progress During FY 2004

- OMB and Department's Bureau of Overseas Buildings Operations worked together to develop a Capital Security Cost-Sharing (CSCS) Program to distribute the capital cost of new facilities in accordance with agencies' total overseas presence. All affected agencies' budget requests include funding for their share of the FY 2005 cost.
- The Department completed an assessment of all staff currently in and planning to move to the U.S. Consulate Frankfurt facility. The Frankfurt facility has 960 committed permanent tenants and 198 training desks. It is anticipated that additional commitments will bring the total permanent tenancy to over 1100.
- The Department formed a Task Force to develop a new Model for Overseas Management Support (MOMS). MOMS is providing direct support to Mission Iraq from remote locations, thus reducing staffing requirements. MOMS is expanding support to other posts and developing new policies and procedures to facilitate greatly expanded and reorganized regional support for non-location-specific functions.

◆ Upcoming Actions

- Ensure that implementation of the CSCS Program is inclusive, cooperative, and transparent, in accordance with Congressional direction.
- Finalize plans with all agencies to move regional support operations to the new U.S. Consulate Frankfurt facility to ensure full utilization.
- Institutionalize the MOMS experience, expanding out-of-country support to a range of overseas posts, particularly to those in dangerous/difficult locations.
- Develop capacity of Frankfurt Regional Support Center and Florida Regional Center to conduct "back office" functions for overseas posts and transfer work to these centers.
- Work with OMB to continue interagency efforts to ensure uniform computations of the cost of staff overseas and focus attention on the staffing guidelines.
- Issue detailed guidance to govern staffing projections for New Embassy Compound (NEC) construction. Conduct rightsizing analyses for each NEC project to identify and implement rightsizing opportunities inherent in moves to new facilities.
- Develop new ICASS funding methodology for regional support activities to equitably allocate costs to all serviced agencies in accordance with ICASS precepts.
- Create web-based NSDD-38 application and decision process.
- Review and revise as appropriate the Special Embassy Program, emphasizing work that can be reduced or performed externally.
- Foster standardized global support systems, e.g., Computer Aided Job Evaluation for FSN personnel classification and the Post Administrative Software Suite.



MANAGEMENT CHALLENGES

The Government Accountability Office and the Department's Office of Inspector General have identified several management challenges that represent areas where the Department must improve operations. The table below lists, by Strategic Goal, the major challenges and corresponding actions that the Department is taking in response to them.

STRATEGIC GOAL 3		HOMELAND SECURITY	
Challenge		Visa Processing and Border Security	
Findings (GAO-04-795)	<ul style="list-style-type: none"> Delays existed in matching names of suspected terrorists with names of visa holders. In at least three of the thirty-five cases, it took State six months or more to revoke visas after receiving a recommendation. In three cases, State took a week or longer after deciding to revoke visas to post a lookout or notify Department of Homeland Security (DHS). Without these notifications, DHS may not know to investigate those individuals who may be in the country. 		
Major Recommendations	<ul style="list-style-type: none"> Develop a written government-wide policy that clearly defines roles and responsibilities and sets performance standards. Address outstanding legal and policy issues in this area or provide Congress with specific actions to resolve the legal and policy issues. 		
Major Actions Taken or That Will be Taken	<ul style="list-style-type: none"> In April and May, State revised its procedures and formalized its tracking system for visa revocation cases. State and DHS also took some steps to address legal and policy issues related to visa revocations. 		
Expected Result	<ul style="list-style-type: none"> No delay in taking action to revoke the visas of known or suspected terrorists. No delay in notification of revocation actions to DHS. 		
Challenge		Visa Processing and Border Security – Biometric Visa Program	
Findings (GAO-04-1001)	<ul style="list-style-type: none"> The State Department is installing the equipment and the software for the Biometric Visa Program on schedule. Installation was completed at all posts in October 2004, three weeks ahead of schedule. The Department of Homeland Security (DHS) and DoS have not fully developed guidance for the program's use. Posts are now collecting fingerprints of each visa applicant and processing the prints through the DHS IDENT database. A lack of guidance provided to consular officers has resulted in some initial confusion concerning the use of the program and the information available from IDENT on visa applicants. 		
Major Recommendations	<ul style="list-style-type: none"> Development and distribution of guidance on how the program should be used to help adjudicate visas. State should direct each consular post to develop an implementation plan based on this guidance. 		
Major Actions Taken or That Will be Taken	<ul style="list-style-type: none"> The 13 telegrams sent to all posts about the Biometric Visa Program, some of which specifically covered the BioVisa Program's relationship to the US-VISIT Program, demonstrate that State and DHS are already closely coordinating policy on the Biometric Visa Program. The Department will continue to do so, and to work with our posts to ensure that officers are fully trained and aware of this policy. Although some lags in guidance are perhaps inevitable at times of rapid, groundbreaking change, the Department will continue to make every effort to communicate with the field to keep guidance current and clear. In order for IDENT results to be obtained prior to visa interviews, an American employee with a security clearance would have to collect all fingerprints in advance of the interviews. This would require the hiring of additional cleared Americans and provision of space for collection of the fingerprints in advance, as well as for waiting rooms large enough for the applicants to wait for the IDENT returns. Many posts would have difficulty hiring the Americans and providing the necessary space. It would be costly to make posts obtain IDENT results prior to visa interviews; costs that are hard to justify when fewer than one in a thousand visa applicants has a hit against the IDENT watchlist. Moreover, not having the IDENT results available during the interview is not a security concern because the nonimmigrant visa system is locked and visas cannot be issued until the IDENT results are returned to posts and the applicants are cleared. 		
Expected Result	<ul style="list-style-type: none"> The Biometric Visa Program will continue to prevent criminals and immigration violators who are ineligible for visas from changing identities to obtain visas in a false identity. It will also continue to ensure the integrity of the U.S. visa through biometric identity verification at ports of entry. 		

STRATEGIC GOAL 6	AMERICAN CITIZENS
Challenge	Secure Passport Issuance
<p>Findings (ISP-CA-04-01)</p>	<ul style="list-style-type: none"> ◆ Decisions on claims to American citizenship for first-time passport applicants overseas are inconsistent. Over 80% of the adjudications reviewed had moderate to serious problems, including applications where the embassy or consulate was not identified, and some not signed by the applicant. ◆ Audit results call into question Consular Affairs' (CA) current policy that adjudication decisions made by officers overseas are not reviewed in Washington. ◆ Consular officers at overseas missions, particularly those less experienced, said they would welcome a review of their work by the more experienced passport officers. Such disconnects between the Department and American citizens services officers overseas represent a lack of clear communication and guidance within the overseas passport program.
<p>Major Recommendations</p>	<ul style="list-style-type: none"> ◆ Design and implement a quality assurance program to identify trends and issues that require more training and information sharing. ◆ The Department transfers oversight of the overseas passport issuance program to the Directorate of Passport Services to make overseas passport procedures consistent with the restrictions currently being placed on domestic passport processing or submit an acceptable alternate plan. ◆ Create a mentoring program designed specifically to address the unique passport decision challenges facing junior officers assigned to a mission where little or no other consular expertise is readily available.
<p>Major Actions Taken or That Will be Taken</p>	<ul style="list-style-type: none"> ◆ CA disagrees with the assessment that citizenship decisions are inconsistent for first time passport applicants overseas. While the Department is working to reduce the differences between how some overseas posts annotate passport applications, adjudication of citizenship and the criteria for passport issuance are consistent worldwide. ◆ CA has established a standing committee to ensure ongoing collaboration on all passport matters. The post-adjudication review of passport applications adjudicated at posts is taking place both at posts and in Washington. The Department has reminded consular officers to annotate passport applications carefully and completely to continue to conduct post-adjudication reviews of passport applications as part of their management of passport operations at post. These reviews at post mirror those done in passport agencies. ◆ In early FY 2004, country officers again reminded posts via e-mail of the importance of thorough annotation and review of U.S. passport applications. In addition to reviews at posts, additional post-adjudication review of a representative sampling of overseas passport applications began in early 2004. The Department has discovered 5 major (1%) and 72 (15%) minor problems. These percentages are comparable to those found in similar reviews done in domestic Passport Agencies. The Department is providing direct feedback to those posts with major problems and will be incorporating the most common minor problems in future guidance to posts.
<p>Expected Result</p>	<ul style="list-style-type: none"> ◆ To continue to improve the secure issuance of United States Passports.

STRATEGIC GOAL 11	
PUBLIC DIPLOMACY AND PUBLIC AFFAIRS	
Challenge	Communication with the Muslim Public
Findings (GAO-04-4435T)	<ul style="list-style-type: none"> ◆ Since September 11, 2001, the Department has expanded its public diplomacy efforts in Muslim-majority countries considered to be of strategic importance in the war on terrorism. It significantly increased resources in South Asia and the Near East and launched new initiatives targeting broader, younger audiences – particularly in predominantly Muslim countries. ◆ However, the Department does not have a strategy that integrates all of its diverse public diplomacy activities and directs them toward common objectives. ◆ There is no interagency strategy to guide federal agencies' communication efforts and thus ensure consistent messages to overseas audiences. ◆ The Department was not systematically and comprehensively measuring progress toward the goals of reaching broader audiences and increasing publics' understanding about the United States. ◆ Challenges at State include insufficient public diplomacy resources and a lack of officers with foreign language proficiency.
Major Recommendations	<ul style="list-style-type: none"> ◆ The Department should develop a strategy to integrate its public diplomacy efforts and direct them toward common, measurable objectives.
Major Actions Taken or That Will be Taken	<ul style="list-style-type: none"> ◆ The Muslim World Outreach (MWO) Policy Coordinating Committee was created and began meeting on August 2, 2004, as a priority Administration initiative to coordinate new and intensified USG approaches to Muslim communities worldwide. ◆ A Task Force took effect at the same time to coordinate implementation. ◆ Several working groups were formed to develop new uses of electronic media technology and approaches using selected countries in different geographic regions as pilot models, refine USG counter-disinformation activities and take better advantage of available survey research and intelligence.
Expected Result	<ul style="list-style-type: none"> ◆ Improved two-way communication between the U.S. and the Muslim world, leading to a greater base of genuine understanding, which can serve as a damper on the appeal of extremists, al Qaeda fellow travelers, and others with hostile intent toward the U.S.

STRATEGIC GOAL 12	
MANAGEMENT AND ORGANIZATIONAL EXCELLENCE	
Challenge	Leadership and Staffing at Hardship Posts
Findings (ISP-04-54)	<ul style="list-style-type: none"> ◆ There is a strong relationship among leadership, morale, staffing, and diplomatic readiness at hardship posts. ◆ As the morale at hardship posts improves and the posts develop a positive reputation, staffing problems decrease and diplomatic readiness is heightened. ◆ To a great extent, hardship posts in Africa lack qualified and interested American officers at all levels, and many do not have strong leadership, limiting diplomatic readiness. ◆ Stretch assignments of one to three grades are frequently used to fill vacancies, as are Civil Service (GS) excursion tours. These employees often lack depth of experience and functional skills. ◆ There are large amounts of staff overtime, employee fatigue, and complaints regarding poor service. Inexperienced officers are having difficulty ordering priorities; the backlogs and accumulations of work overwhelm incoming officers and reduce their ability to perform; and more time is being spent by senior staff on operational matters and less time on overall planning, policy, coordination, management, and supervision. ◆ There are significant deficiencies in Foreign Service National capability, training, and experience. ◆ Facilities, which may be substandard already, are deteriorating, and posts are unable to provide a reasonable quality of life. ◆ Not every post encounters these difficulties. OIG inspection teams found that, with good leadership from the ambassador and Deputy Chief of Mission (DCM), hardship posts can be successful, congenial workplaces with high morale, and can attract qualified staff, even in the most difficult of environments.
Major Recommendations	<ul style="list-style-type: none"> ◆ The Director-General should prepare precepts for the selection of ambassadors and DCMs for hardship posts that place a strong emphasis on leadership qualities, including the ability to motivate and encourage staff, and to teach subordinates to set priorities and be self-reliant. ◆ The Director-General and the Foreign Service Institute should require individuals taking assignments as DCMs to take a new leadership and management class before going to post. ◆ Develop and implement a formal program for temporary duty personnel that involves up-to-date training and the development and maintenance of a work plan for each post to which more than one temporary duty employee is sent in succession for the same position. ◆ Develop procedures to retain Civil Service personnel who perform well at African hardship posts.

STRATEGIC GOAL 12	MANAGEMENT AND ORGANIZATIONAL EXCELLENCE <i>(continued)</i>
Challenge	Leadership and Staffing at Hardship Posts <i>(continued)</i>
<p>Major Actions Taken or That Will be Taken</p>	<ul style="list-style-type: none"> ◆ Last year's DCM/Management Officer Conference (Capetown, March 2004) included joint and individual sessions on leadership, conducted by FSI's School of Leadership and Management professionals. The Department is working closely with FSI to design expanded sessions for the upcoming DCM/Management Conference (Johannesburg, January, 2005), with focus on mentoring and crisis leadership. ◆ October 2004 Bureau of African Affairs Chief of Mission Conference included a leadership session focusing on identification and implementation of best practices. Breakout groups discussed strategies for promoting community welfare and post morale; on-the-job training for entry-level officers and Foreign Service Nationals; and maximizing use of retirees and regional support staff. ◆ As outgoing Ambassadors and DCMs have come through the bureau for consultations, the Department has emphasized that evaluation of their performance will be based on their ability to demonstrate sound leadership and morale-building skills. The Department will continue at conferences and during individual consultations to emphasize the importance of these skills and to provide training. AF will work with FSI to determine what additional training/briefings may be the most useful. ◆ The Department is in the process of developing a memorandum of understanding template for use at each post that receives retiree or temporary duty (TDY) assistance. The purpose will be to design a specific, prioritized work plan for the temporary employee. The Department is also developing templates for reporting accomplishments during the period of temporary duty and priorities for a follow-on work plan. In addition, the Department is considering how best to evaluate the skills and effectiveness of our various retiree and TDY staff, so that the Department can make the best use of their talents. Training is a bit more problematic, in terms of scheduling and funding. However, the Department has been as flexible as possible in this regard. ◆ The Department is in the process of updating and consolidating policy and procedures and MOU templates for service agreements and evaluation of regional support personnel.
<p>Expected Result</p>	<ul style="list-style-type: none"> ◆ Chiefs of Mission and DCMs make leadership a management priority, focusing on mentoring, promoting community welfare and morale, and handling crisis situations at post. ◆ More focused and effective use of retirees and TDY staff. ◆ Ability to staff more difficult posts for longer periods of time than would have been otherwise possible. ◆ Clear guidelines and agreement on expectations and functions will increase the effectiveness and efficiency of regional support personnel.
Challenge	Overseas Building Security
<p>Findings (AUD/PPS-04-07)</p>	<ul style="list-style-type: none"> ◆ Concurrent construction of USAID annexes could help decrease overall costs to the government and help achieve security goals. ◆ New Embassy Compounds (NECs) have been built in separate stages – scheduling construction of the USAID annex after work has begun (or is completed) on the rest of the compound. State and USAID attributed this practice to a lack of full simultaneous funding for construction at nine locations through FY 2004. ◆ Concurrent construction would eliminate the additional expensive mobilization of contractor staff and equipment and added supervision, security, and procurement support expenses that result from non-concurrent construction. ◆ GAO estimated a total cost savings of around \$68 million to \$78 million if all 18 future USAID projects are built concurrently.
<p>Major Recommendations</p>	<ul style="list-style-type: none"> ◆ Concurrent construction of State and USAID facilities to the maximum extent possible. ◆ Incorporate USAID space into single office buildings in future compounds, where appropriate. ◆ Designing additional space for USAID within the main office building, or chancery, may cost less than erecting a separate annex, depending on a number of factors, including the size and configuration of the planned buildings. ◆ Concurrent construction would help State and USAID comply with the collocation requirement and decrease the security risks associated with staff remaining outside of the embassy compound.
<p>Major Actions Taken or That Will be Taken</p>	<ul style="list-style-type: none"> ◆ State agrees there are substantial advantages to concurrent construction project execution if a new cost-sharing proposal to fund new embassies by allocating construction costs among all agencies having an overseas presence is implemented in FY 2005.
<p>Expected Result</p>	<ul style="list-style-type: none"> ◆ A continued move towards concurrent construction by all concerned, increased efficiency, and cost savings.

STRATEGIC GOAL 12	MANAGEMENT AND ORGANIZATIONAL EXCELLENCE <i>(continued)</i>
Challenge	DS—Protection of Classified Information Abroad
Findings (ISP-A-04-08)	<ul style="list-style-type: none"> ◆ OIG concluded that existing Department policies provide adequate guidance for protecting classified documents at U.S. diplomatic posts abroad and noted that the revised security incident policy appears to be having a positive influence on classified-document protection. ◆ Classified document protection could be further improved at U.S. diplomatic posts abroad by ensuring the Department's policies are fully implemented and enforced.
Major Recommendations	<ul style="list-style-type: none"> ◆ Regional Security Officers (RSO) need to ensure all U.S. government personnel who handle classified information at posts abroad are regularly reminded of the requirements and of their personal responsibilities for protecting that information. ◆ Headquarters need to take additional actions to support posts' implementation of the Department's classified document protection program.
Major Actions Taken or That Will be Taken	<ul style="list-style-type: none"> ◆ The Bureau of Diplomatic Security (DS) provides a basic Information Security PowerPoint presentation on its website that the RSO can tailor for either Foreign Service Officers or Foreign Service Nationals. ◆ DS provides annual refresher training to all posts. Computer Based Training (CBT) has been issued: "Who Wants to Maintain Good Security." The course provided all of the Department's posts abroad with the ability to participate at their own rate based on local conditions. ◆ DS is providing the Smart card technology through the Global ID (GLID) Card program which tracks and controls user access to Department facilities. The use of Smart cards abroad will provide increased protection of classified information by providing physical access verification. ◆ DS has initiated action and discussions with other Federal agencies at posts abroad and provided a model template. DS provides semi-annual reports to tenant agencies reflecting incident statistics involving their personnel and an analysis and recommendations that each agency may initiate to lower the number of reported incidents. ◆ DS is in the process of disseminating various telegrams to Regional Security Officers, Post Security Officers (PSO), and Principal Officers on policy requirements and responsibilities of implementing, enforcing and administering security procedures and policies for the protection of classified information. ◆ DS plans to consolidate existing requirements on storage, accountability, control, and recordkeeping for "No Distribution" messages in the Department's Foreign Affairs Manual.
Expected Result	<ul style="list-style-type: none"> ◆ Security personnel abroad are informed of their responsibilities for protecting classified information and to ensure personnel with access to classified information are trained. ◆ Headquarters more actively provides RSOs and PSOs with assistance, guidance, and instructions to better protect classified information. ◆ Security incidents by personnel with access to classified information will decrease. ◆ Access to classified information is better tracked and controlled with the use of new technologies, such as smart cards, CBT, and websites. ◆ Department policies (such as the 12 FAM) are updated so requirements for protecting classified information are codified and readily accessible. ◆ Interagency participation in a Security Incident Program Working Group provides for a more uniform enforcement of security policies abroad.

STRATEGIC GOAL 12		MANAGEMENT AND ORGANIZATIONAL EXCELLENCE (continued)	
Challenge		Administrative Support Services	
Findings (GAO-04-511)		<ul style="list-style-type: none"> ◆ ICASS has not resulted in more efficient delivery of administrative support services because it has neither eliminated duplication nor led to efforts to contain costs by systematically streamlining operations. ◆ GAO found that agencies often decide not to use ICASS services and self-provide support services – citing reasons of cost, programmatic needs, and greater control. ◆ Agencies rarely gave business cases for why they chose not to use ICASS services. ◆ Service providers and customer agencies have undertaken few systematic efforts to consolidate services or contain costs by streamlining administrative support structures. ◆ Based on the system's primary goals, ICASS is generally effective in providing quality administrative support services in an equitable manner, although not to the extent that it could be if certain impediments were addressed. ◆ GAO found that ICASS is simple and transparent enough for customers to understand its basic principles. ◆ ICASS strategic goals lack indicators to gauge progress toward achieving them and progress toward achieving post's performance standards is not annually reviewed or updated. ◆ Overseas staff decision-making authority is limited, diminishing ICASS goal of "local empowerment." 	
Major Recommendations		<ul style="list-style-type: none"> ◆ Eliminate duplicative administrative support structures where possible. ◆ Reengineer processes by seeking innovative managerial approaches. ◆ Develop strategies to improve ICASS accountability. ◆ Ensure that all personnel participating in ICASS receive detailed training. 	
Major Actions Taken or That Will be Taken		<ul style="list-style-type: none"> ◆ The State/USAID Joint Management Council study, in conjunction with the ICASS service center, demonstrated the clear opportunity State and USAID have to improve service and reduce costs through consolidation of services at many overseas posts. ◆ State/USAID Shared Services Pilot project to designate one service provider for selected services at selected posts. ◆ MOMS regionalization of support services to Baghdad, Kabul, and other posts. ◆ ICASS Executive Board focus on cost and service alignment. ◆ First Annual ICASS Customer Satisfaction Survey. ◆ ICASS Post Based Training and Joint Management Officer/Council Chair Conferences. 	
Expected Result		<ul style="list-style-type: none"> ◆ For posts and services selected, one service provider will take over sole delivery of these services at these posts, eliminating dual service provider operations. ◆ Selected support personnel and infrastructure will not be established at MOMS supported posts. ◆ Worldwide average participation rate of 25 percent for first survey. ◆ Average participant rating for training sessions of 4 on 1-5 point scale. 	
Challenge		Human Capital	
Findings (GAO-04-139)		<ul style="list-style-type: none"> ◆ The Department continues to face challenges filling the gaps in staff with proficiency in certain hard-to-learn languages, such as Arabic and Chinese. ◆ Other challenges include new officers' public diplomacy skills and training, increased supervisory and on-the-job requirements when State assigns junior officers to positions above their experience level, and the impact of rotational assignments on junior officers' performance and managers' time. 	
Major Recommendations		<ul style="list-style-type: none"> ◆ Collect and maintain data on the effectiveness of the Department's efforts to address continuing gaps in officers with proficiency in certain hard-to-learn languages. 	
Major Actions Taken or That Will be Taken		<ul style="list-style-type: none"> ◆ State used critical elements of workforce planning to identify the number of junior officers it needs to hire within the next 5 to 10 years. ◆ State has implemented a plan to target applicants who speak difficult languages. Since March 2004, 125 people with proficiency in languages critical to national security have been hired as Foreign Service Generalists. Their languages include Russian, Chinese, Japanese, Arabic, Korean, Turkish, and Hindi. Proficiency in approximately a dozen Critical Needs Languages gives candidates for employment additional points in the hiring process. These officers are expected to use their language during their first or second assignments. ◆ The Diplomatic Readiness Initiative alleviated many staffing shortfalls, which in turn allowed more officers to attend training, such as Public Diplomacy training. State launched a new public diplomacy training program, expanding PD training from 3 weeks to as much as 19 weeks. The shortage of mid-level officers, which results in more stress on the role of the supervisor, will be alleviated as the Diplomatic Readiness Initiative hires move to mid-level positions. 	
Expected Result		<ul style="list-style-type: none"> ◆ Fewer overseas staffing gaps. ◆ Achievement of very ambitious language goals. ◆ Employees who are better prepared to perform their duties. 	

STRATEGIC GOAL 12	MANAGEMENT AND ORGANIZATIONAL EXCELLENCE <i>(continued)</i>
Challenge	Financial Services
Findings (ISP-I-04-18)	<ul style="list-style-type: none"> ◆ The Department does not have adequate controls in place to prevent and detect financial errors and irregularities. ◆ The consolidation plans developed by the Department to implement the move of the Department's domestic financial services to the Charleston Financial Service Center were not complete enough to enable management to ensure that critical services would continue throughout the transfer and to manage and limit the effect of potential lapses in services. ◆ The Department continued to refine its consolidation plans throughout this review, and no errors or irregularities caused by the control weaknesses or significant reductions in services came to OIG's attention.
Major Recommendations	<ul style="list-style-type: none"> ◆ Since the Department has already taken many positive actions, OIG made no recommendations to improve controls or management of the transfer. ◆ The Department should also document the lessons learned throughout its consolidation efforts so that they can be applied to future Department efforts.
Major Actions Taken or That Will be Taken	<ul style="list-style-type: none"> ◆ The Department has already taken action to address many of the issues presented in this report.
Expected Result	<ul style="list-style-type: none"> ◆ A successful and efficient transfer of the Department's domestic financial services to the Charleston Financial Service Center.

MANAGEMENT CONTROLS, FINANCIAL MANAGEMENT SYSTEMS

AND COMPLIANCE WITH LAWS AND REGULATIONS

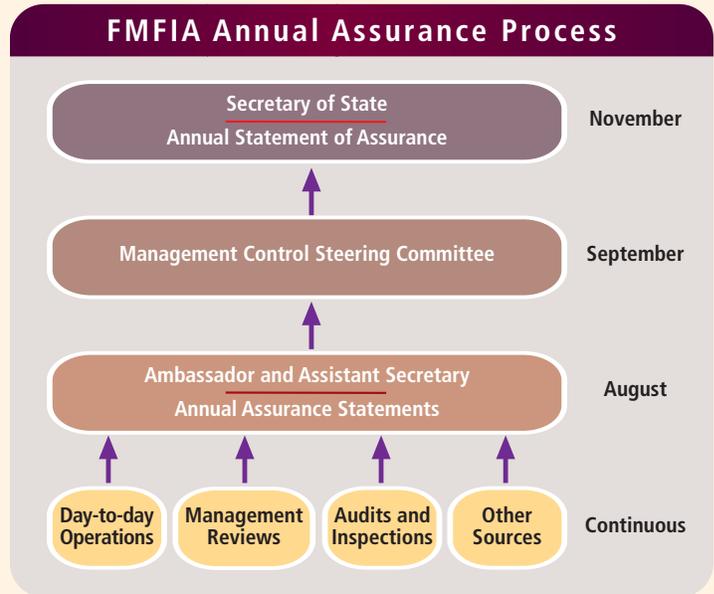
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management control and financial systems that provide reasonable assurance that the integrity of federal programs and operations are protected. It also requires that the head of the agency, based on an evaluation, provide an annual Statement of Assurance on whether the agency has met this requirement.

The Secretary of State's unqualified Statement of Assurance for FY 2004 is included in the Message from the Secretary located at the beginning of this Report. The Department evaluated its management control systems and financial management systems for the fiscal year ended September 30, 2004. This evaluation provided reasonable assurance that the objectives of the FMFIA were achieved in FY 2004, and formed the basis for the Secretary's Statement of Assurance.

Management Control Program

The Management Control Steering Committee (MCSC) oversees the Department's management control program. The MCSC is chaired by the Chief Financial Officer, and is composed of nine other Assistant Secretaries [including the Chief Information Officer and the Inspector General (non-voting)], the Deputy Chief Financial Officer, and the Deputy Legal Advisor. Individual assurance statements from Ambassadors assigned overseas and Assistant Secretaries in Washington, D.C. serve as the primary basis for the Department's assurance that management controls are adequate. The assurance statements are based on information gathered from various sources including the managers' personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the Office of Inspector General and the Government Accountability Office conduct reviews, audits, inspections, and investigations.



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

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

Status of Management Controls

During the last five years, the Department made significant progress by correcting all outstanding material weaknesses. In addition, there are no items specific to the Department on the Government Accountability Office's High Risk List, and there have not been any since 1995. The following table show the Department's progress during the past five years with correcting and closing material weaknesses.

NUMBER OF MATERIAL WEAKNESSES BY FISCAL YEAR				
Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of Fiscal Year
2000	3	2	2*	3
2001	3	0	0	3
2002	3	3	0	0
2003	0	0	0	0
2004	0	0	0	0

* Reported by the Department of State as a result of the merger with the United States Information Agency.

Status of Financial Management Systems

For financial systems, the MCSC voted to close in FY 2003 the Department's one remaining material nonconformance - Financial and Accounting Systems. This was the first time since the inception of the FMFIA that the Department had no open material nonconformances – a significant accomplishment. No new material nonconformances were identified by the MCSC during FY 2004. As a result, the Secretary has provided an unqualified Statement of Assurance for the second year in a row regarding the Department's financial management systems. A summary of actions taken to correct and close the one previously reported material nonconformance is provided in the table below.

SUMMARY OF FMFIA MATERIAL NONCONFORMANCE CLOSED IN FY 2003		
Material Nonconformance	Corrective Actions	Strategic Goal
<p>Financial and Accounting Systems</p> <p>In 1983, the Department identified substantial weaknesses in its financial management systems. When first reported, the Department was burdened with managing six financial management systems worldwide, which support its domestic bureaus, overseas posts, and other overseas agencies. This nonconformance included deficiencies in data quality, noncompliance with JFMIP core requirements, ineffective interfaces, inadequate documentation and audit trails.</p>	<p>Significant progress has been made over the past few years to improve financial management systems worldwide. The Department has reduced the number of financial management systems from six to two; reduced the number of post-level financial systems from nine to two; and, re-centralized disbursing offices from 22 to two. Implementation of the new Regional Financial Management System (RFMS) was completed September 2003 and is operational in all overseas posts. The reengineered overseas interface is operational, providing detailed (transaction level) information. Continuity of Operations Plans have been developed for Financial Service Centers in Charleston, SC and Bangkok and for Washington headquarters operations.</p>	<p>Management and Organizational Excellence</p>

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies' financial management systems provide reliable financial data in accordance with generally accepted accounting principles and standards. Under FFMIA, financial management systems must substantially comply with three requirements — Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL). In addition, agencies must determine annually whether their systems meet these requirements. This determination is to be made no later than 120 days after the earlier of (a) the date of receipt of the agencywide audited financial statement, or (b) the last day of the fiscal year following the year covered by such statement.

To assess conformance with FFMIA, the Department uses OMB Circular A-127 survey results, FFMIA implementation guidance issued by OMB, results of OIG and GAO audit reports, annual financial statement audits, the Department's annual Federal Information Security Management Act (FISMA) Report, and other relevant information. The Department's assessment also relies a great deal upon evaluations and assurances under the FFMIA, with particular importance attached to any reported material weaknesses and material nonconformances.

The Department has made it a priority to meet the objectives of the FFMIA. In December 2003, the Department determined that its financial systems comply substantially with the requirements of the FFMIA. This determination was made after considering (1) the audited financial statement results as of September 30, 2003, whereby the material weakness on Information Systems Security was reduced to a reportable condition, (2) the approval of the Management Control Steering Committee to close the longstanding FFMIA material nonconformance for our Financial and Accounting Systems, and (3) systems efforts completed in FY 2003 along with additional improvements to our financial systems in the first quarter of FY 2004.

The Department will make its FY 2004 FFMIA determination no later than March 2005 based upon receipt of the FY 2004 Independent Auditor's Report in November 2004.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The Federal Information Security Management Act of 2002 (FISMA) directs federal agencies to conduct annual evaluations of information security programs and practices. It provides a comprehensive framework for establishing and ensuring the effectiveness of security controls for information and information systems that support federal assets and operations. OMB provides annual guidance for agencies to report on the status of their respective programs. In accordance with FISMA, the CIO is responsible for the vision, implementation and status reporting of the information security program for the Department, while the Inspector General provides an independent evaluation. The Department of State also has substantial information security responsibilities under the Omnibus Diplomatic Security and Counterterrorism Act of 1986.

Under the direction of the Under Secretary for Management, the bureaus of Information Resource Management (IRM) and Diplomatic Security (DS) implement information security responsibilities jointly. In compliance with FISMA, the senior agency information security official, reporting to the CIO, manages the enterprise-wide information security program while operational program elements are dispersed between the two bureaus and across the Department.

The Department's FISMA Report for FY 2004, dated October 6, 2004, highlights significant accomplishments and also identifies areas of focus for program maturity. The Department's senior management remains committed to performance measures that illustrate continued and consistent improvement in all cyber security program elements.

Significant accomplishments for FY 2004 include increased risk management by fully authorizing over 90% of major operational systems, enhanced performance measures, effective information security management procedures, improved security awareness, online security training, increased participation in security role-based training, acknowledgement of security professionals in incentive programs and upgrades in technology deployment, public key infrastructure and biometrics.

The area of focus for FY 2005 is the comprehensive coordination of cyber security program management plan. The Department's strategic goals require managing operational and technical cyber security program elements across its worldwide infrastructure. These elements include, enhancing the inventory of technology assets and developing meaningful policies and training for their usage, budgeting for security, balancing dynamic technology risk with business requirements, planning and providing for secure continuity of operations and designing security architecture based on complexities of the future.

GOVERNMENT MANAGEMENT REFORM ACT - AUDITED FINANCIAL STATEMENTS

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

The Department's 2004 financial statements received an unqualified opinion – the best possible result of the audit process. This year marks the eighth consecutive year that the Department's financial statements have achieved such an opinion. The Department significantly accelerated the preparation and audit of its 2004 financial statements and met OMB's November 15 due date – 45 days after the close of the fiscal year. This marks significant progress towards our goal of providing more timely, accurate, and useful financial information.

In relation to internal control, the Independent Auditor's Report cites four reportable conditions: (1) information systems security for networks in domestic operations; (2) inadequacy of the Department's financial management systems, (3) management of unliquidated obligations, and (4) implementation of Managerial Cost Accounting Standards. Reportable conditions are significant deficiencies, though not material, in the design or operation of internal control that could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. For each year since 1997, the Independent Auditor's Report cited the first matter above relating to information systems security as a material weakness in internal control. The FY 2003 Independent Auditor's Report acknowledged that the Department's work towards correcting this deficiency was sufficiently advanced to reduce this weakness to a reportable condition. However, the Independent Auditor's Report states that the Department's financial management systems are not in substantial compliance with FFMIA.

The table below summarizes the weaknesses in internal control and compliance with laws and regulations cited in the FY 2004 Independent Auditor's Report, as well as the actions taken to resolve the problems.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS
(Refer to Independent Auditor's Report Section)

Reportable Condition	Corrective Actions	Target Correction Date	Strategic Goal
<p>Information System Security</p> <p>Information system networks for domestic operations are vulnerable to unauthorized access. Consequently, other systems, including the Department's financial management systems, which process data using these networks, may also be vulnerable. This weakness was first reported based on penetration tests performed by the General Accounting Office (GAO) and was also cited in the audit opinion of the 1997 financial statements. The auditor reported this matter as a material weakness in internal control each year since 1997. For 2003, the auditor considered the Department's corrective actions sufficiently advanced to reduce this deficiency to a reportable condition.</p>	<p>The Department has implemented a comprehensive framework and process for lifecycle management of IT security. The framework and process allows for continual evaluation and improvement. Some of the major accomplishments include:</p> <ul style="list-style-type: none"> ● Established and maintains a baseline inventory of applications. ● Developed and maintains a Department-wide plan of action and milestones (POA&M) to track corrective actions in mitigating security weaknesses. ● Deployed a layered Intrusion Detection System that enables Department security analysts to monitor and audit network and host information systems and detect inappropriate, incorrect or anomalous activity and issue warnings and alerts for possible unauthorized access to networks and systems worldwide. ● Implemented an effective risk management process of systems authorization, also known as Certification and Accreditation (C&A), and authorized 92% (163) of 178 major applications, minor applications, and general support systems. ● In FY 2004, delivered Web-based cyber security awareness training to nearly 49,000 users, approximately 99% of the Department's full-time employees, Foreign Service Nationals and contractors. 	<p>2005</p>	<p>Management and Organizational Excellence</p>
<p>Management of Unliquidated Obligations</p> <p>The Department's internal control process related to managing undelivered orders is inadequate. It lacks a structured process for reconciling and deobligating funds in a timely manner, which may result in the loss of those funds.</p>	<p>As mentioned in the Independent Auditor's Report, the Department has made significant improvements in this area. The Unliquidated Obligation System was implemented in 2000. This system is updated periodically with detailed unliquidated obligations data and facilitates the monitoring, reporting and oversight of unliquidated obligations worldwide. In FY 2004, new capabilities to enhance the management of unliquidated obligations were installed in the Department's Central Financial Management System. The new capabilities can automatically deobligate unliquidated obligations based on a wide range of criteria (e.g., age, object class, dollar amount). In 2004, instructions and reports were issued to offices to review the billions of dollars in unliquidated obligations reported by the Department. The Department will continue to develop reports and procedures to improve the management of unliquidated obligations.</p>	<p>2005</p>	<p>Management and Organizational Excellence</p>
<p>Compliance with Managerial Cost Accounting Standards</p> <p>While the Department complies with certain aspects of the Statement of Federal Financial Accounting Standards #4, it does not have an effective process to routinely collect managerial cost accounting information, establish outputs for each responsibility segment, or allocate all support costs.</p>	<p>The Department is making reasonable progress in implementing MCAS, but acknowledges that additional work is needed to fully comply with these standards. To address MCAS requirements, the Department developed an automated Statement of Net Cost that enables timely and accurate reporting of cost information by strategic goal and responsibility center including the allocation of support costs. In FY 2005, the Department will define significant outputs for each responsibility center, and support the reporting on significant efficiency measures established for programs in coordination with the Program Assessment Rating Tool (PART) process.</p>	<p>2005</p>	<p>Management and Organizational Excellence</p>
<p>Financial and Accounting Systems</p> <p>See discussion on next page.</p>	<p>See discussion on next page.</p>	<p>2005</p>	<p>Management and Organizational Excellence</p>

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS
(Refer to Independent Auditor's Report Section)

Noncompliance with Laws and Regulations	Corrective Actions	Target Correction Date	Diplomacy Activity
<p>Financial and Accounting Systems</p> <p>The Department has identified and acknowledged serious weaknesses in its financial management systems. When first reported, the Department was charged with overseeing six financial management systems that support its domestic bureaus, overseas posts and other overseas agencies. The financial management systems nonconformance includes the following five weaknesses: deficiencies in data quality; noncompliance with JFMIP core requirements; ineffective interfaces; inadequate documentation and audit trails; and inadequate support of mission performance.</p>	<p>Significant progress has been made over the past few years to improve financial management systems worldwide. The Department has reduced the number of financial systems from six to two; decreased the number of post-level financial systems from nine to two; and re-centralized disbursing offices from 22 to two. In FY 2003, the Department's Management Control Steering Committee voted to close the material nonconformance for financial and accounting systems. In 2004, the two existing overseas accounting databases were merged into one database residing at the Charleston Financial Service Center — all overseas accounting transactions for both the Department of State and our serviced agencies are now recorded in a single database, and many operational/system activities (e.g., software upgrades, annual close outs) are performed only in one place.</p>	<p>2005</p>	<p>Management and Organizational Excellence</p>

IMPROPER PAYMENTS INFORMATION ACT

Narrative Summary of Implementation Efforts for FY 2004 and Agency Plans for FY 2005 – FY 2007

The Improper Payments Information Act of 2002 (IPIA), Public Law No.107-300, requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments. Significant improper payments are defined as annual improper payments in a program that exceed both 2.5% of program annual payments and \$10 million. Once those highly susceptible programs and activities are identified, agencies are required to estimate and report the annual amount of improper payments. Generally, an improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, and administrative or other legally applicable requirement.

OMB Memorandum M-03-13, *Improper Payments Information Act*, requires agencies to report annually the estimated amount of improper payments and progress toward reducing them in their Performance and Accountability Reports beginning in FY 2004. This marks the first year for which the Department is reporting on our IPIA implementation efforts. In fulfilling this reporting responsibility, the Department followed OMB Memorandum M-04-20, *FY 2004 Performance and Accountability Reports and Reporting Requirements for the Financial Report of the United States Government*, which requires a brief summary of actual and planned accomplishments in the Management's Discussion and Analysis section of this Report. It also requires more detailed information relating to the Department's IPIA implementation efforts to be presented, which is located in the Financial Section of this Report.

The Department is fully committed to achieving the objectives of the IPIA. Our program is a continuous process focused on strengthening internal controls aimed at preventing improper payments as well as identifying and determining the amount of significant improper payments.

Our identification and determination of significant improper payments focused on the \$15.3 billion expended by the Department during FY 2004, which is less than 1 percent of the projected \$2.2 trillion expenditures for the entire federal government for the same time period. The Department's \$15 billion is paid to thousands of employees, vendors and recipients of federal financial assistance to support the programs and activities of the Department. As a result of our risk assessments, the following programs were considered high-risk for FY 2004.

Federal Financial Assistance Area

- International Information Program (IIP)-U.S. Speaker and Specialist Program
- International Narcotic and Law Enforcement Affairs (INL)-Narcotics Program

Vendor Pay Area

- Other Contractual Services

We performed statistical sampling of payments made from each of these programs. The actual error rate was low for these programs with the exception of the IIP - U.S. Speaker and Specialist Program. This program sends out nearly a thousand speakers annually to discuss with foreign audiences issues identified by U.S. embassies. Participants in this program have not been required to complete and submit vouchers at the completion of their travel, making most travel reimbursement payments "improper" under IPIA. The total amount of annual expenditures under this program are relatively low (i.e., approximately \$30 million for the nine-months ended June 30, 2004) and the estimated improper payments of \$1.4 million is significantly less than the \$10 million statutory and regulatory definition of significant improper payments. The Department plans to strengthen controls over travel reimbursements in this program.

Another aspect of the Department's IPIA program is recovering amounts paid in error. The Department has established a contingency-based fee contract for recovery audit services. The contractor is paid based on a percentage of the amount of payments identified and successfully collected. A work plan detailing the scope of this effort is currently being developed with audit recovery work to be performed in FY 2005.

In future years, the Department will expand the IPIA program to include programs assessed as having a moderate and low susceptibility to significant improper payments. We do not expect to find significant improper payments in these programs; however, we will seek to identify opportunities to strengthen internal control. In addition, the Department is implementing routine processes aimed at improving the efficiency and timeliness of improper payment reporting. Updated guidance has been issued for performing program reviews and risk assessments. Payment and debt management programs policies and practices will be strengthened to improve detection, referral and recovery efforts.

FINANCIAL HIGHLIGHTS

The Department's financial statements, which appear in the Financial Section of this Report, received for the eighth straight year an unqualified opinion issued by the independent accounting firm of Leonard G. Birnbaum and Company, LLP. Preparing these statements is part of the Department's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources. Department management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements and financial data presented in this Report have been prepared from the accounting records of the Department of State in conformity with accounting principles generally accepted in the United States of America (GAAP). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

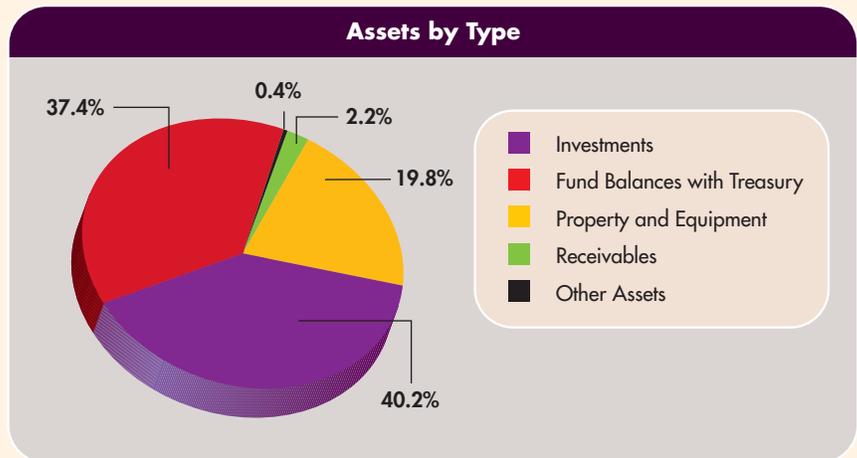
OVERVIEW OF FINANCIAL POSITION

Assets. The Consolidated Balance Sheet shows the Department had total assets of \$31.9 billion at the end of 2004. This represents an increase of \$3.0 billion (10.4%) over the previous year's total assets of \$28.9 billion. The increase is primarily the result of increases of \$2.0 billion in Fund Balances with Treasury, \$327.4 million in property and equipment, and \$544.9 million in investments in the Foreign Service Retirement and Disability Fund (FSRDF). The increase in Fund Balances with Treasury primarily resulted from a \$1.7 billion increase in unexpended appropriations.

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

	2004	2003	2002
Investment, Net	\$12,846,060	\$12,301,173	\$11,750,737
Fund Balances with Treasury	11,926,434	9,953,197	8,937,139
Property and Equipment, Net	6,323,916	5,996,493	5,499,850
Accounts, Loans & Interest Receivable, Net	711,414	584,230	552,508
Other Assets	122,051	59,553	99,923
Total Assets	\$31,929,875	\$28,894,646	\$26,840,157

Investments, Fund Balances with Treasury and Property and Equipment comprise approximately 97% of total assets for 2004, 2003, and 2002. Investments consist almost entirely of U.S. Government Securities held in the FSRDF.

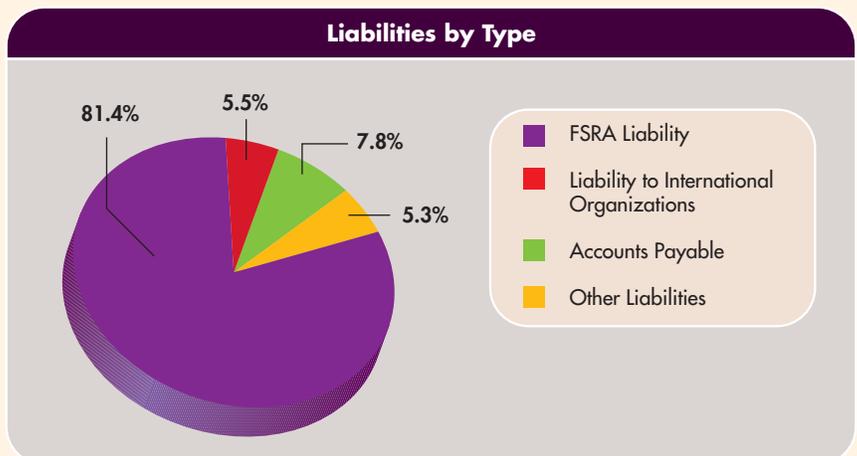


Liabilities. The Department had total liabilities of \$16.4 billion at the end of 2004, which is reported on the Consolidated Balance Sheet and summarized in the following table (*dollars in thousands*):

	2004	2003	2002
Foreign Service Retirement Actuarial Liability	\$13,317,900	\$13,093,800	\$12,211,800
Liability to International Organizations	897,381	919,428	1,065,172
Accounts Payable	1,276,007	1,058,514	784,799
Other Liabilities	866,772	709,394	762,632
Total Liabilities	\$16,358,060	\$15,781,136	\$14,824,403

The Foreign Service Retirement Actuarial (FSRA) Liability of \$13.3 billion and the Liability to International Organizations of \$897.4 million comprise 87% of the Department's total liabilities at the end of 2004.

Of the total liabilities, \$1.80 billion were unfunded, i.e., budgetary resources were not available to cover these liabilities. The \$1.80 billion is primarily comprised of the \$897.4 million Liability to International Organizations, and the unfunded portion of the FSRA Liability of \$345.8 million, which represents the amount by which the \$13.3 billion FSRA Liability exceeds the FSRDF's net assets available to pay the liability. The \$345.8 million unfunded portion of the FSRA Liability is \$308.0 million less than the \$653.8 million unfunded FSRA Liability at the end of 2003.



The \$897.4 million Liability to International Organizations consists of \$837.4 million in calendar year 2004 annual assessments, and \$60.0 million in accumulated arrears assessed by the UN, its affiliated agencies and other international organizations. These financial commitments mature into obligations only when funds are authorized and appropriated by Congress.

As of September 30, 2004, a total of \$926 million had been appropriated by Congress for payment of U.S. arrearages. These amounts, however, were made available subject to certifications by the Secretary of State that certain legislative requirements were met. A payment of \$100 million in arrearages was made in FY 2000; a payment of \$475 million and a credit of \$107 million were made in FY 2002; and payments totaling \$242 million were made in FY 2003.

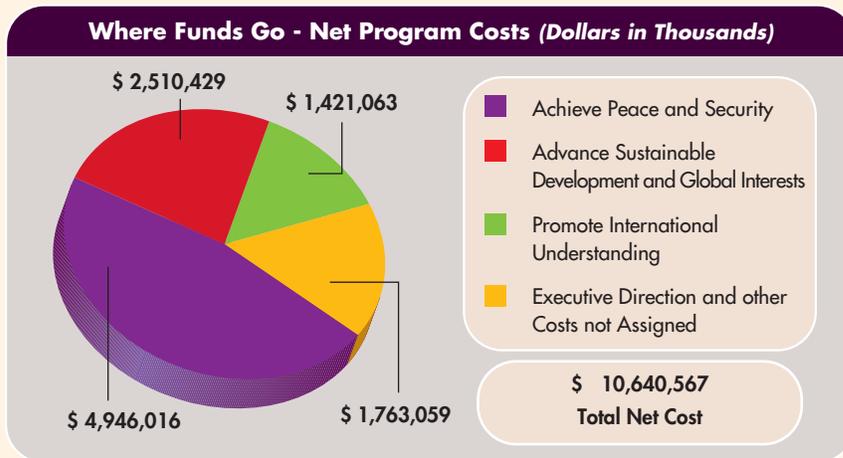
Ending Net Position. The Department's Net Position at the end of 2004 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position is \$15.6 billion, a \$2.5 billion (18.7%) increase from the previous fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

The growth in Unexpended Appropriations is due principally to the continued increase in budget authority received to provide funding for Iraq and the Global HIV/AIDS initiative. The increase in Cumulative Results of Operations resulted mainly from the \$327 million increase in property and equipment. The Cumulative Results of Operations also increased as a result of the reduction in the FSRDF unfunded pension liability of \$308 million.

RESULTS OF OPERATIONS

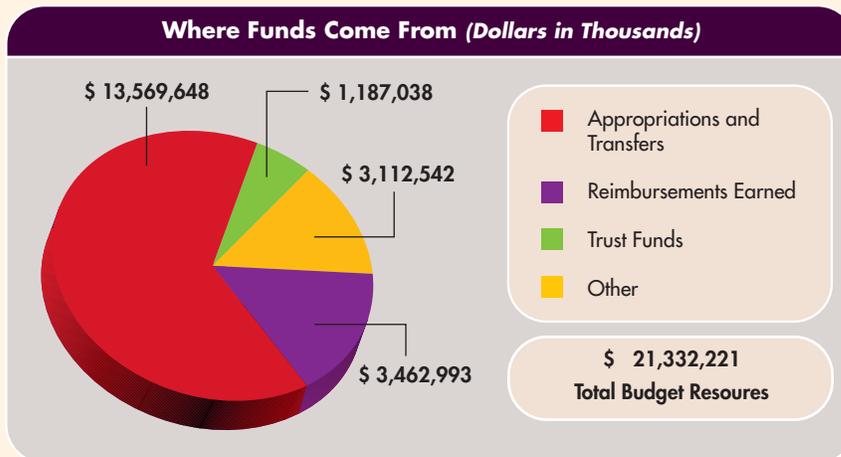
The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position.

The Consolidated Statement of Net Cost presents the Department's gross and net cost for its strategic objectives and strategic goals. The net cost of operations is the gross (i.e., total) cost incurred by the Department, less any exchange (i.e., earned) revenue. The Consolidating Schedule of Net Cost categorizes costs and revenues by strategic goal and responsibility segment. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. For the Department, a Bureau (e.g., Bureau of African Affairs) is considered a responsibility segment. For presentation purposes, Bureaus have been summarized and reported at the Under Secretary level (e.g., Under Secretary for Political Affairs). Information on the Bureaus (or equivalent) that report to each Under Secretary can be found on the Organization Chart for the Department provided earlier in this Section of this Report. The presentation of program results by strategic objectives and strategic goals is based on the Department's current Strategic Plan established pursuant to the Government Performance and Results Act of 1993.



The Department's total net cost of operations for 2004, after intra-departmental eliminations, was \$10.6 billion. The strategic objective to "Achieve Peace and Security" represents the largest investment for the Department at 46.5% of the Department's net cost of operations. The net cost of operations for the remaining strategic objectives varies from 13.2% to 23.3%.

The Consolidated Statement of Changes in Net Position presents the accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year. Appropriations Used totaled \$11.9 billion, comprising 90.2% of the Department's total revenues and financing sources after considering intra-departmental eliminations of \$1.9 billion. The charts on this page reflect the funds that the Department received during 2004 and how these funds were used.



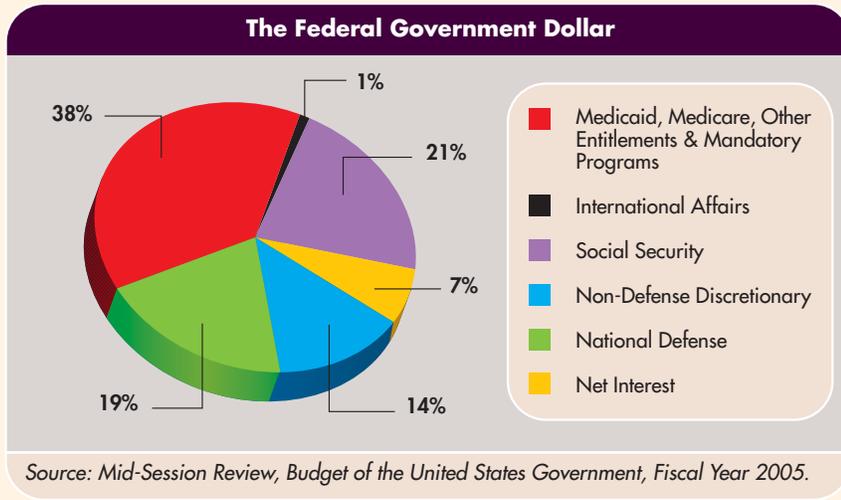
The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Department for the year and their status at fiscal year-end. For the fiscal year, the Department had total budgetary resources of \$21.3 billion, an increase of 21% from 2003 levels. Budget Authority of \$14.8 billion – which consists of \$13.6 billion for appropriations (direct, related, and supplemental) and transfers, and \$1.2 billion financed from trust funds – comprise 70% of the total budgetary resources.

The Department incurred obligations of \$17.9 billion for the year, a 20% increase over the \$14.9 billion of obligations incurred during 2003. Outlays reflect the actual cash disbursed against the Department's obligations.

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

BUDGETARY POSITION

The FY 2004 budget for the Department of State totaled \$9.164 billion, including appropriations for the administration of foreign affairs (\$7.334 billion), contributions to international organizations and peace-keeping activities (\$1.695 billion), international commissions (\$57 million), and related programs (\$78 million). Appropriations for the administration of foreign affairs support the people and programs required to conduct American diplomacy at more than 260 posts worldwide. They also build, maintain, and secure the infrastructure of the diplomatic platform from which most U.S. Government agencies overseas operate.



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

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In addition to regular funding from the Consolidated Appropriations Act, 2004, the Department's budget included supplemental funding received through the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, and the Department of Defense Appropriations Act, 2005. The Department also continues to rely on Machine Readable Visa (MRV), Expedited Passport, and other user fee collections to enhance the nation's border security and help meet consular workload demands, as well as to invest in modern information technology systems. All of these resources are essential to accomplish two overriding objectives of the President's foreign policy: winning the war on terrorism and protecting Americans at home and abroad.

For FY 2004, the Department's principal operating appropriation – Diplomatic and Consular Programs (D&CP) – was funded at \$5.197 billion. This funding met new requirements for missions in Afghanistan and Iraq. It also supported the third year of the Diplomatic Readiness Initiative (DRI) to recruit, hire, train, and deploy additional professionals around the world. The appropriation and transfers, along with MRV fees, made it possible to hire a total of 556 new employees (above anticipated attrition), including 310 for DRI positions, 68 Foreign Service officers to enhance the security of U.S. borders through visa adjudication at posts overseas, 93 consular hires to address workload increases in the Border Security Program, and 85 security professionals.

Within the D&CP appropriation, the Department received \$640 million for the Worldwide Security Upgrades program. This funding continued security enhancements begun with the FY 1999 Emergency Supplemental, including guard protection, physical security equipment and technical support, information and systems security, and personnel and training.

The Embassy Security, Construction, and Maintenance appropriation was funded at \$1.441 billion to manage the Department's real estate portfolio, which exceeds \$12 billion and includes over 15,000 properties, and to provide U.S. diplomatic and consular missions with secure, safe, and functional facilities. This funding included \$852 million for capital security construction and compound security projects, \$64 million for other high-priority construction projects, and \$524 million for ongoing operations.

The Department's funding for information technology (\$79 million in the Capital Investment Fund and \$40 million in D&CP for Worldwide IT Infrastructure) helped provide modern information technology to every Department employee. This funding supported completion of OpenNet Plus, a modernized unclassified system with Internet access to over 43,000 desktops, and the deployment of a modernized classified computing capability at more than 220 eligible posts worldwide.

For FY 2005, the Department's budget request (at this date still pending before Congress) includes resources to continue to meet the priorities of supporting the war on terrorism and sustaining diplomatic readiness. The request includes \$1.571 billion for enhanced security and the war on terrorism, including \$912 million for design and/or construction of secure facilities, additional site acquisitions, and compound security projects; and \$659 million to strengthen the security of diplomatic personnel and facilities in the face of terrorism, including upgrades of security equipment and technical support, information and systems security, perimeter security, and security training.

The request also includes funds to hire 377 additional Americans, including 183 staff to answer needs beyond those anticipated by DRI (such as staffing for embassies in Kabul and Baghdad), 71 security professionals, 63 Foreign Service officers to replace consular associates, and 60 consular officers funded by fees. The Department's request of \$155 million for the Capital Investment Fund allows for continued investment in state-of-the-art IT systems worldwide, including the State Messaging and Archive Retrieval Toolset (SMART) initiative, which will replace outdated systems for cables and messages with a unified and more secure system to serve inter-agency information needs.

LIMITATION OF FINANCIAL STATEMENTS

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department of State pursuant to the requirements of Chapter 31 of the United States Code section 3515(b). While these statements have been prepared from the books and records of the Department in accordance with the formats prescribed in OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same books and records. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation and ongoing operations are subject to the enactment of appropriations. The Department also issues financial statements for its International Cooperative Administrative Support Services (ICASS) and the International Boundary and Water Commission (IBWC). The complete, separately-issued ICASS and IBWC Annual Financial Reports are available from the Department's Bureau of Resource Management, Office of Financial Policy, Reporting and Analysis, 2401 E Street, Room H1500, Washington, DC, 20037; (202) 261-8620.

DEPARTMENT OF STATE HISTORY

WHY IS IT CALLED THE DEPARTMENT OF STATE?

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

These included:

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

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

WHO WAS THE FIRST U.S. DIPLOMAT?

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

WHEN WAS THE FIRST U.S. TREATY SIGNED?

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

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

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

Coming Soon!

AT THE STATE DEPARTMENT

RENOVATION OF THE WAR DEPARTMENT WING OF THE MAIN STATE BUILDING AND THE RESTORATION OF THE GEORGE C. MARSHALL OFFICE

The New War Building was erected under provisions of an act of Congress from 1939-1941 for the War Department. The Department of State moved into the New War Building, renamed New State Building, in 1947, when General George C. Marshall entered as Secretary of State. In the new building, the Secretary's office was a large two-story room, with a private elevator on the fifth floor overlooking the main entrance on 21st street. The entire New State section of the building was renamed the George C. Marshall Wing in 2001.

The Marshall Wing is currently being completely renovated to reverse the deteriorating condition of the building by replacing the antiquated building systems, upgrading the building to comply with current building standards and integrating state of the art building technology improvements to last well into the 21st century. Office space is being improved to provide a better quality of work life, while the significant original spaces and materials are retained and rehabilitated to preserve the historic qualities of the building. Restoration of the original two-story office occupied by Secretary Marshall and construction of a new Conference Center, Auditorium and Computer Center highlight the renovation and rehabilitation project.

NATIONAL MUSEUM OF AMERICAN DIPLOMACY

The Department has also dedicated space in the renovated wing for a museum of American diplomacy, a place for learning and inspiration, dedicated to exploring the history, practice, and challenges of American diplomacy. It will engage visitors in learning how American diplomacy builds bridges among nations and people, in exploring the vital role it has played in the shaping of our nation, and understanding its importance to every person every day. The Museum will bring to life the dramatic and moving stories of the people who have dedicated their lives to American diplomacy.



Supported by Secretary Powell and all the living former Secretaries, the Department of State Visitor Center and National Museum of American Diplomacy will invite visitors to explore the history, practices, and challenges of American diplomacy. It will convey the message that diplomacy, which seems so abstract and remote to many, affects every person every day.

INSPECTOR GENERAL'S DISCUSSION AND ANALYSIS



FISCAL YEAR 2004 PERFORMANCE AND ACCOUNTABILITY REPORT

MESSAGE FROM THE ACTING INSPECTOR GENERAL

As mandated by law, the Office of Inspector General provides independent and objective oversight of Department of State programs, operations, and activities. We do this through audits, inspections, special reviews, and—where there are allegations or indications of criminal wrongdoing, waste, fraud and mismanagement—investigations. We assess effectiveness, efficiency, and economy and identify problems, vulnerabilities, best practices, and lessons learned. When necessary, we make recommendations for corrective actions; when deserved, we give credit where it is due. We issue reports to the Department and the Congress and, as security and legal concerns allow, we make them available to the general public. To the extent our influence permits, we try to ensure that the Department's compliance with our recommendations is timely and adequate.



Common purposes, increasing responsibilities, and limited resources have caused us to augment these efforts with other less traditional approaches. Where appropriate, we serve on Department-led committees and working groups and provide consultative services at the beginning of an effort. We participate as instructors in Foreign Service Institute training courses. We encourage OIG personnel to apply for temporary tours of duty in hard-to-fill Department positions and fill some of our own positions with Department personnel on a rotational basis.

Regardless of the methods and approaches we employ to fulfill our responsibilities, the keystone of the OIG remains our independence— independence of vision, independence of judgment, independence of voice, and independence of action. Although our relationship with the Department will continue to evolve as we both strive to achieve our respective missions, we will never compromise our integrity, our professionalism, or our objectivity.

The OIG has developed its own strategic and performance plans, goals, indicators, and targets. These are specific to the OIG. They guide and measure our progress in supporting the Department's mission and goals; they help to bring positive change to its programs, operations, and activities; and they ensure accountability. Ultimately, however, the real measure of the OIG's success is the extent to which the Department effectively, efficiently, and economically achieves its mission and goals for the benefit of the President, the Congress, and the American people.

The pages that follow contain the highlights of the OIG's contributions and results for FY 2004. Several of the quantitative performance results underline the need for improvement. However, the descriptions of the qualitative accomplishments offer evidence that the results of our efforts cannot be measured by statistics alone. A more detailed description by strategic and performance goal can be found in OIG's FY 2004 Performance Report, which has been published separately in conjunction with this report.

A handwritten signature in black ink, which appears to read "Cameron R. Hume". The signature is fluid and cursive.

Cameron R. Hume
Acting Inspector General

SUMMARY OF FY 2004 PERFORMANCE

This overview presents the highlights of OIG's FY 2004 Performance Report. Detailed information on OIG's results in meeting performance indicator targets and achieving strategic and performance goals, as required by the Government Performance and Results Act, can be found in the full performance report, which has been published separately in conjunction with the Department's FY 2004 Performance and Accountability Report.

Vision

To effect positive change and promote sound management practices in the Department of State, Broadcasting Board of Governors (BBG), and foreign affairs operations abroad

Mission

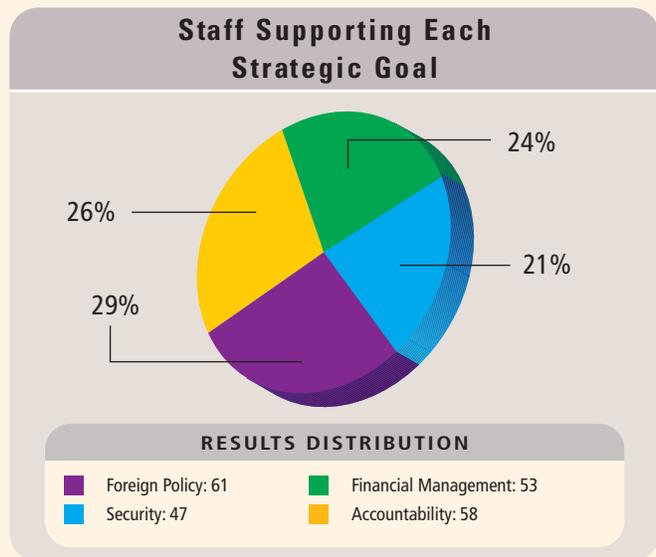
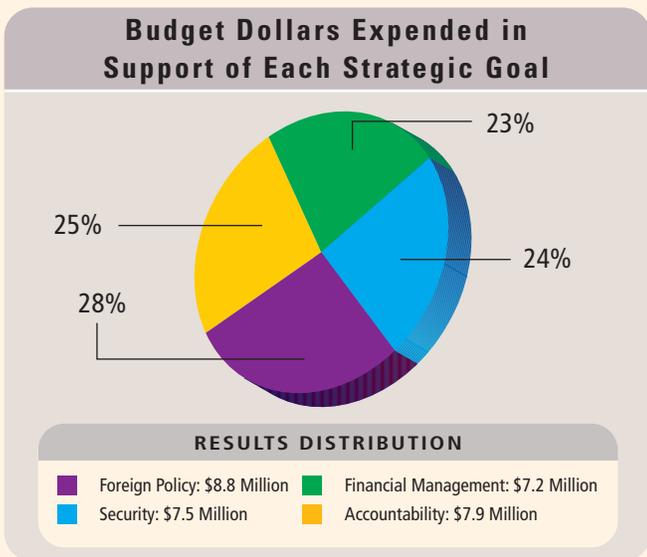
To assess Department of State and Broadcasting Board of Governors operations and recommend ways to strengthen their integrity, effectiveness, and accountability

Strategic Goals

OIG's four strategic goals directly support the programs, operations, and activities of the Department and BBG, and are expressed in terms of their effect upon the agencies' ability to achieve their respective missions and strategic objectives. OIG's strategic goals are to support and assist the Department and BBG to:

1. Effectively, efficiently, and economically advance the foreign policy interests of the United States.
2. Adequately protect the people, information, and facilities under their control in the United States and abroad.
3. Have the necessary financial management and support systems and controls to meet legal and operational requirements.
4. Ensure accountability and prevent or eliminate fraud, waste, abuse, and mismanagement in programs and operations.

Resources



Highlights of Results from OIG Reports and Investigations

During FY 2004, the Department and BBG made significant improvements in their security, programs, and operations as a result of OIG reviews and investigations. The table below shows some of the improvements that occurred in response to OIG recommendations and the challenges that still remain for OIG under each of our strategic goals.

HIGHLIGHTS OF RESULTS FROM OIG REPORTS AND INVESTIGATIONS	
Results From OIG Reports And Investigations	Challenges for OIG
FOREIGN POLICY	
<ul style="list-style-type: none"> ◆ The Department will be able to verify a passport applicant's social security number automatically through an agreement with the Social Security Administration. ◆ The Department is establishing a permanent quality assurance program for passport applications that originate overseas. ◆ The Department established an advisory board, of which OIG is a member, to review Multinational Force and Observers' management practices and controls. ◆ The Kuwait Transmitting Station, working with Embassy Kuwait City, obtained a formal amendment to the bilateral agreement for broadcasting activities in Kuwait. 	<ul style="list-style-type: none"> ◆ To maintain a five-year post and bureau inspection schedule under existing and expected resource constraints. ◆ To provide adequate oversight of Department and BBG operations in Iraq under unstable and insecure conditions.
SECURITY	
<ul style="list-style-type: none"> ◆ The Department began a worldwide review of security countermeasures at all U.S. mission lock-and-leave facilities. ◆ The Department implemented improved procedures to protect Sensitive Compartmented Information (SCI) material and is including guidance for the protection of SCI material in current Foreign Affairs Manual updates. ◆ The Department will use more rigorous methods to compile the data that appears in the Department's Patterns of Global Terrorism report. 	<ul style="list-style-type: none"> ◆ To provide adequate oversight of security, law enforcement and intelligence operations at overseas posts, and audits and special reviews of Department security operations, despite constraints in OIG resources. ◆ To put in place an oversight strategy for security of personnel, facilities, and operations of the Department and the BBG in Iraq.
FINANCIAL MANAGEMENT AND ADMINISTRATIVE SUPPORT	
<ul style="list-style-type: none"> ◆ The Department, with OIG's assistance, met the accelerated deadline for the FY 2003 financial statements and received an unqualified opinion for the seventh straight year. ◆ The Department implemented an Unliquidated Obligations System and procedures to facilitate the reconciliation, monitoring, reporting, and oversight of unliquidated obligations worldwide. ◆ The Department de-obligated and requested as recoveries \$1.8 million in multiple- and no-year obligations. ◆ The Department has improved the accuracy of financial information and has addressed significant internal control and compliance issues, including system security. ◆ The Department strengthened its internal controls over payment processing and identifying erroneous payments. 	<ul style="list-style-type: none"> ◆ To maintain the ability to conduct audits of Department and BBG operations beyond those that are legislatively mandated despite existing and expected resource constraints.
ACCOUNTABILITY	
<ul style="list-style-type: none"> ◆ The Department removed several senior officers from posts as a result of leadership or management deficiencies. ◆ The Department recovered more than \$3 million in questioned costs. ◆ The United Kingdom and the Department reached a negotiated final settlement of Lockerbie trial costs that saved the United States \$13 million from the original request. ◆ Two individuals were convicted for alien smuggling and agreed to forfeit \$750,000 in assets as a result of a joint investigation with the Bureau of Diplomatic Security and the Federal Bureau of Investigation. 	<ul style="list-style-type: none"> ◆ To identify, audit and investigate contracts and grants with the greatest risk of fraud, waste, and abuse using proactive methods despite resource constraints.



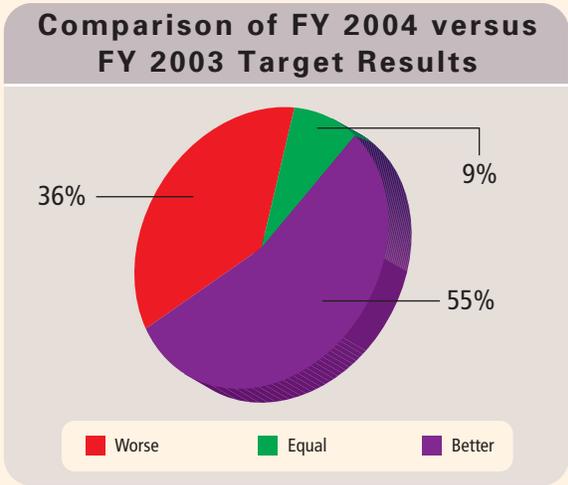
Performance Results

OIG's Performance Plan contains four strategic and one internal enabling goals, nine performance goals, and twenty-two indicators and targets used to evaluate its success in achieving its goals.

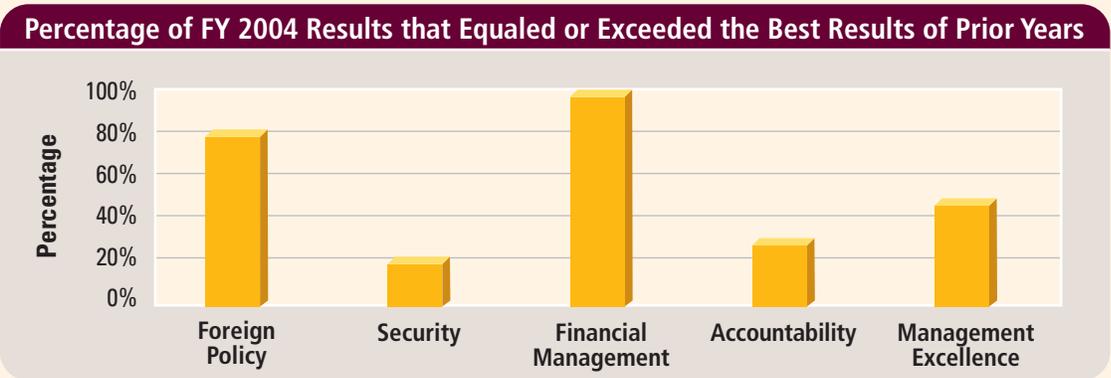


As shown in the chart above, 41 percent of OIG's performance results met or exceeded performance targets. This represents a decline from FY 2003, when 58 percent of results met or exceeded performance targets. However, as shown below, 64 percent of the FY 2004 results equaled or exceeded FY 2003 results.

Overall, 59 percent of the FY 2004 target results equaled or exceeded the best results of any prior year. OIG's most successful performance target results were under its strategic goals for Financial Management and Administrative Support and Foreign Policy. FY 2004 results met or exceeded 100 percent and 80 percent, respectively of their targets and, by the same percentages, equaled or exceeded the best results of any prior year.



The results for the strategic goals related to security and accountability, and the internal enabling goal in support of management excellence, were less successful, falling short of targeted levels. As shown below, however, 33 percent of the results under these goals (20 percent, 33 percent, and 50 percent, respectively) equaled or exceeded the best results of prior years.



Reasons for Performance Shortfalls, Continuing Challenges and How OIG Will Meet Them

There were three significant factors in performance targets not being met. These were:

- The suspension, deferment, or cancellation of planned work due to a shortage of staff resulting from a higher than expected attrition rate and the temporary loss of several staff to service related to Iraq, either with the military reserves or the Office of Inspector General of the Coalition Provisional Authority;
- Department and BBG failure to ensure timely completion of promised corrective actions; and
- Targets based solely on meeting or exceeding the highest prior targeted or actual results when it was unlikely that they could be achieved.

OIG continues to face three major challenges to its ability to achieve its strategic and performance goals:

- Obtaining the funding necessary to overcome a decade of static appropriations that has eroded OIG's oversight capabilities as its funding relative to that of the Department declined by over 30 percent;
- Meeting oversight responsibilities that are current (such as the legislatively mandated five-year inspection schedule) and new (such as those activities related to Iraq) in an environment of increasing costs and declining resources; and
- Identifying, attracting and retaining personnel with the requisite skills, abilities, and experience.

OIG will meet these challenges by actively making its case for the resources it needs to meet its oversight responsibilities while continuing efforts to use the resources it has more efficiently and effectively. The integrated post management, information security, and security and intelligence oversight inspection process introduced in FY 2004 will be further refined to build on the benefits achieved to date. Resource-and-time-intensive paper-driven processes such as those related to inspection surveys, audit workpapers, and OIG reports will be replaced or supplemented by electronic ones that are more cost-effective and easier and faster to use, store, and share. Accessing available Department and BBG data electronically from Washington rather than traveling to posts to collect it will become the rule rather than the exception. The scope, frequency and priority of audits and inspections will be determined by a risk-based analysis rather than traditional methodologies. Where appropriate, OIG will coordinate or participate in reviews with other OIGs in order to leverage resources and results. OIG staff will be encouraged to obtain professional certifications, to receive training that will allow them to become more expert in their own specialties and cross-trained in others as well, and to develop their leadership skills and abilities. OIG will meet its challenges by becoming more efficient, more effective and, for those who work here, more rewarding.

OIG is currently reevaluating its performance indicators and targets for FY 2005 and beyond.

MANAGEMENT AND PERFORMANCE CHALLENGES

The Reports Consolidation Act of 2000 requires that the Office of Inspector General identify the most serious management and performance challenges facing the Department. The OIG concludes that the most serious management and performance challenges to the Department are in the following areas:

- Protection of People and Facilities
- Information Security
- Financial Management
- Human Resources
- Counterterrorism and Border Security
- Strategic and Performance Planning

Protection of People and Facilities

In keeping with the Department's mission to create a more secure, democratic, and prosperous world for the benefit of the American people and the international community, the protection of people and facilities continues to be one of the Department's highest priorities. OIG contributed to this effort through various inspections and special reviews, including 28¹ reviews of the security programs of overseas missions. These ranged from security management reviews, which examine the chief of mission's oversight and management of the security program, to full-scope inspections, which review the full range of a mission's security program, i.e. its physical, technical, procedural, information management, and personnel security and its emergency preparedness. OIG also conducted six compliance follow-up reviews, which examine a mission's compliance with the recommendations of a previous inspection.

The majority of the findings and recommendations from these reviews were in the areas of physical security and emergency preparedness. The most common physical security findings were the lack of adequate setback and the existence of inadequate perimeter and anti-vehicle security. Although these have been recurring issues, there have been improvements. Increasingly, new construction is planned or underway to correct or mitigate the lack of setback, using such measures as the installation of temporary anti-vehicle barriers. The deficiencies most common in the area of emergency preparedness were inadequate emergency notification systems, failure to conduct all Department-required emergency drills, and out-of-date or incomplete emergency action plans.

Three special reviews also contributed to the protection of people and facilities: a review of the Department's implementation of lock-and-leave policies and procedures, a review of the security of the architectural and engineering contractors that are designing the Embassy Beijing New Embassy Compound, and a special inquiry concerning the *Patterns of Global Terrorism - 2003* report. OIG concluded that improvements are needed in lock-and-leave policies and procedures at some lock-and-leave posts. The review of the Beijing New Embassy Compound construction focused on the adequacy of the Department's security oversight of the project's architectural and engineering firms. OIG found that the Department has provided vigorous security oversight at these firms' dedicated facilities and has implemented innovative approaches to information and communications

¹ These 28 inspections were published in 26 reports. The inspections of Embassy Brussels, the U.S. Mission to the North Atlantic Treaty Organization, and the U.S. Mission to the European Union were published in one report.

security. Six U.S. Senators requested that OIG determine how inaccurate and incomplete data and statements were included in 2003 *Patterns* report. OIG concluded that these irregularities resulted from omissions and inconsistencies in the data provided to the Department. OIG recommended better coordination and additional personnel for developing the *Patterns* report. The Department agreed and is implementing the recommendations.

Information Security

The Department recognizes that much more must be done to develop fully and ensure the continuity of its information systems security program. As mandated by the Federal Information Security Management Act of 2002 (FISMA), OIG conducted an annual evaluation of the Department's information security program and noted significant improvements over last year's evaluation. For example, the Department has changed its certification and accreditation process, improved its plans of action and milestones (POA&M) process, and developed a Web-based training tool to support of its security awareness training. In response to one key recommendation, the Department is establishing an information governance structure that will include cross-bureau working-level teams, called Information Security Integrated Teams. These teams will deal with the information technology security vulnerabilities identified by the Vulnerability Assessment Reports, which also will be addressed in the Department's POAMs process. In addition, the Department's systems authorization plan has been succeeding. As of August 2004, 92 percent of its major applications and general support systems had been certified and accredited; up from five percent in August 2003. However, the delineation of information systems security roles and responsibilities continues to be a work-in-progress.

Financial Management

For the eighth year, the Department received an unqualified (clean) opinion on its agency-wide statements, indicating that the statements were free of material misstatements. For the past four years, the Department also met the mandated deadline. However, OIG's most recent audit of the Department's financial statement identified concerns consistent with previous years regarding information system security, the adequacy of the Department's financial systems, undelivered orders, and managerial cost accounting. Although the Department made significant improvements in the area of financial management, weaknesses persist in its financial management systems. Recently, the Department replaced two obsolete financial systems with a regional one and plans to continue enhancing all financial systems. The Department also is making progress in implementing the Managerial Cost Accounting Standards. However, additional work is needed to fully comply with these standards.

One of the Department's highest priority financial management goals is achieving a fully integrated worldwide financial management operation. In 1994, the Department decided to consolidate financial operations at its Charleston Financial Service Center (CFSC). Between 1994 and 2003, the Department incrementally transferred many of its overseas financial operations, American payroll, and retirement functions to CFSC. During 2004, the Department began transferring additional domestic financial services from Washington, DC, to CFSC. OIG reviewed the internal controls for minimizing risks associated with this transfer. As a result, the Department incorporated OIG's recommendations for strengthening controls into its transition plans. The transition occurred without major incident or disruption of service.

While the Department has improved its management of undelivered orders, and has established a database to track them, the balance of such orders is high and has grown over the past few years. For instance, undelivered orders increased from over \$5 billion at the end of FY 2002 to \$6.7 billion at the end of FY 2003. In addition, the annual audits of the financial statements have consistently found that a large portion of these obligations is unnecessary. During the FY 2003 audit, an independent accounting firm estimated that at least \$334 million should have been de-obligated. The Department has initiatives underway that it believes will improve the management and oversight of unliquidated obligations.

OIG pursued a hotline complaint regarding a contract's troubled history of financial irregularities and control weaknesses. This contract provided protective services for the President of Afghanistan and key embassy personnel in Kabul. OIG's initial audit of the contract's first six months of operations found that for 31 separately funded line items, 25 were significantly under or over-billed, which included double billing for a rent charge for \$55,000. OIG concluded that this contractor's accounting and billing procedures were unacceptable. A subsequent review found that this contractor erroneously claimed that all financial and control deficiencies were corrected. Moreover, OIG identified additional accounting errors and duplicate or erroneous billings of about \$950,000 that were charged to the contract. Compounding these problems were the lack of adequate oversight by Department officials. The contractor later reviewed more of its contract invoices and found additional errors and omissions resulting in a total refund to the Department of about \$1.4 million. The Department has agreed to hire specially trained financial personnel to monitor the contract.

OIG also conducted several investigations involving financial matters. Most significant among them was a joint investigation that was conducted with the Federal Bureau of Investigation, involving the theft of \$2.7 million in post assignment travel funds by a former Foreign Service National (FSN) employed at Embassy Lusaka, Zambia. This resulted in the arrest and indictment of three Zambian nationals involved in the scheme. On February 24, 2004, the Zambian Police Service charged the former FSN and two Zambian nationals in a 114-count criminal indictment. Since then, the total was reduced to 72 counts against the three defendants. As a follow-up to the investigation, OIG reviewed whether overseas missions were monitoring charges made against Washington-held allotments for post assignment travel expenses, a \$160 million account. OIG recommended that overseas missions be advised in writing on methods to ensure that all such invoices were valid, approved by their shipping section, and paid only once. The Department agrees with the recommendation and action is pending.

Human Resources

OIG systematically reviewed rightsizing issues faced by overseas missions and domestic bureaus. Where appropriate, OIG recommended improvements to mission effectiveness through increases or decreases in staffing. For example, OIG evaluated and summarized leadership and staffing issues facing hardship posts, based on several inspections of U.S. missions in Africa. Recent inspections showed that, to a great extent, these posts lacked qualified American officers at all levels, a situation exacerbated by the overuse of stretch assignments, inadequate supervision, overwhelming backlogs of work, excessive staff overtime, and low morale. To address staffing shortcomings, OIG recommended that the Department reconvene the Hardship Incentives Working Group to review and recommend improvements for staffing hardship posts, including a formal program for temporary-duty personnel and procedures to retain Civil Service personnel performing well at African hardship posts.

OIG found that rightsizing was a major issue at Embassy Bangkok, one of the largest U.S. diplomatic presences. At the embassy, there is pressure for further staff increases, due to a congenial host-country environment, apparent political stability, ease of transportation and communications, and reasonable costs of operation. However, the haphazard accretion in staff did not fit with any overall plan.

U.S. missions in the Middle East, including embassies in Kuwait, Doha, Muscat, and Abu Dhabi, have experienced brisk growth in their numbers of American and locally hired employees. OIG generally found that staffing increases at these posts were warranted by policy imperatives related to counterterrorism and activities in Iraq. However, staffing growth was not tightly linked to the Mission Performance Plan process and the ICASS mechanism was only marginally effective in managing demands for additional staffing resources.

Domestically, OIG found that the Bureau of Near Eastern Affairs is seriously understaffed relative to its ever-growing responsibilities. That bureau traditionally had preferred a staffing structure with fewer, but carefully selected, officers in its embassies and in the Department, an approach that worked well in normal circumstances but left the bureau with little surge capacity for dealing with crises. Officers were coping with the extra work by staying longer hours but were approaching exhaustion to complete their requirements. The bureau had few officers for some of its most important desks.

In response to an OIG recommendation to prepare a revised staffing projection that identified nonessential positions and functions, Embassy Mexico made important progress by establishing a 17-member rightsizing committee that drew from a cross-section of the mission's more than 30 agencies and sections. The committee produced a report with recommendations that tied rightsizing to the seven major Mission Performance Plan goals.

Counterterrorism and Border Security

OIG reviewed the Department's consular operations, both domestic and overseas, focusing on border and homeland security to identify weaknesses that might allow visas, passports, and other types of immigration documentation to be issued to members of terrorist organizations and their supporters. For instance, OIG reviewed the Consular Lookout and Support System (CLASS), a sophisticated, real-time, decision support system used to perform name checks of visa and passport applicants and of foreign visitors entering the United States. CLASS is a critical U.S. government asset that is regarded by many as the best of the security community's enterprise systems. OIG determined that the Department has been an innovative user and effective advocate for open data exchanges with CLASS, representing a major link between the Department and other key agencies. OIG recommended improvements such as better management of systems development, closer cooperation with other bureaus, and tighter management controls.

In the Overseas Passport Issuance Program review, OIG found that decisions on claims to American citizenship for first-time passport applicants overseas were inconsistent, and that over 80 percent of the adjudications reviewed had moderate to serious problems. As well, the overseas passport program lacked clear internal communication and guidance. OIG recommended that the Department develop and implement a plan to address oversight concerns, implement a quality assurance program, and create a mentoring program designed specifically to address the unique passport-decision challenges facing junior officers assigned to missions where there is little or no consular expertise readily available.

Inspections of U.S. missions overseas found the missions were successful in ensuring that even countries having political differences with the United States actively assisted with the war on terrorism. In general, OIG determined that posts were carrying out reporting and representation responsibilities concerning counterterrorism and that host governments were generally cooperative. Posts had given this issue a high priority since the terrorist attacks of September 11, 2001. In particular, missions in the Middle East have made counterterrorism efforts a key goal in their Mission Performance Plans.

OIG also undertook the initial part of a two-phase review focused on the management of the Anti-Terrorism Assistance (ATA) Program. The program has grown substantially in recent years and has been very successful in meeting increased ATA training demands. In the review's initial phase, OIG is assessing the implementation of program management responsibilities, the organizational staffing structure of the Office of ATA in the Bureau of Diplomatic Security (DS), and the management controls for weapons acquired for the Department's in-country ATA training programs abroad. The review's second phase will focus on the program's overseas and domestic training activities and the planned significance for the program of the DS Center for Anti-terrorism and Security Training, which is under development.

Strategic and Performance Planning

With strong support from senior leadership, the Department made considerable progress in addressing its strategic and performance planning challenges. Improved electronic tools for budgeting and planning helped to streamline the development of plans and performance reports as well as to improve linkage of goals and resources. The Deputy Secretary reviews bureau performance plans and resource requests, challenging bureau leaders to account for organizational performance. Information from the Program Assessment Rating Tool (PART) evaluations was integrated into the Department's budget planning tool, allowing it to be linked to goals and resources. Subsequent to the end of the fiscal year, the Department was notified by OMB that it has met all of the criteria for success required to achieve a "green" rating on the President's Management Agenda initiative to integrate budget and performance. As a result, OIG has removed strategic and performance planning from the Department's list of major management challenges.

INTERESTING HISTORICAL NOTES

AN AMERICAN IN THE TOWER OF LONDON

From the very beginning, diplomacy has always been a dangerous business. In 1780, Henry Laurens, former President of the Continental Congress, was sent to negotiate a treaty of friendship with the Netherlands. Unfortunately for Laurens, his ship was captured at sea by the British. Despite a quick-thinking attempt to throw the bag containing his papers and “a considerable weight of iron shot” overboard, an even quicker British sailor recovered the diplomatic papers. As a result, the British declared war on the Netherlands and Laurens was imprisoned in the Tower of London.

A DISTINGUISHED TRADITION

To have served the United States abroad was an important step on the path to the White House during the earliest years of the country. Several of the first presidents—John Adams, Thomas Jefferson, James Monroe, John Quincy Adams, and Martin Van Buren—represented their country in the courts of Europe. The most recent President to have a diplomatic career on his resume was George H.W. Bush who served as U.S. Ambassador to the United Nations (1971-1973) and chief of the U.S. Liaison Office in China (1974-75).

A DIPLOMAT OF INTERNATIONAL RENOWN

Most American diplomats carry out their business behind the scenes, but sometimes they become known around the world. Brand Whitlock is one of those men. As the United States Ambassador to Belgium during World War I, Whitlock was one of just two diplomats left in the country during the German occupation. He was known as Le Ministre Protecteur because of his work to feed the Belgians and save those sentenced to death. Although he was unable to save a British nurse, Edith Cavell, from execution, his attempt won him worldwide renown. His name still lives in Belgium where the Brussels Public Library and the Boulevard Brand Whitlock still bear his name.

WOMEN AND DIPLOMACY

While women were not able to join the diplomatic corps until the 20th century, their service to the Department of State begins during the 18th century. In January 1800, Elizabeth Evans was paid \$5 by the Department for “taste,” a type of narrow ribbon that may have been used to affix the Great Seal to treaties and documents.

