United States Department of State

Performance and Accountability Report
Fiscal Year 2005

SECURITY

DEMOCRACY

PROSPERITY

The U.S. Department of State's *Performance and Accountability Report for Fiscal Year 2005* is now available in four easily accessible products:

- *The Performance and Accountability Report:* the full report of the Department's annual performance relative to its mission and stewardship of financial resources, accessible via the internet and CD-ROM;
- *The PAR Highlights*: a summary version of the full report, available via the internet and printed for worldwide distribution;
- *The PAR Brochure*: an eight-page, high-level overview of the Department's FY 2005 performance results and financial information, printed for worldwide distribution;
- *The PAR CD-ROM:* an interactive CD featuring a PDF version of the full PAR, links to Department publications and relevant reports, maps, a photo gallery, and more.

For copies of these materials, please contact the U.S. Department of State's Bureau of Resource Management at PAR@state.gov or visit us at http://www.state.gov/m/rm/rls/perfrpt

UNITED STATES DEPARTMENT OF STATE

OUR MISSION

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

OUR 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

Message from the Secretary IV
Message from the Acting Assistant Secretary for Resource Management and Chief Financial Officer VI
About This Report 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 7

- Mission and Organization 9
- Directory of Key Officials and Senior Management 12
- Map of Department of State Locations 14
- Performance Summary and Highlights 16
  - FY 2005 Key Foreign Policy Achievements 16
  - Performance Management – A Leadership Priority 18
  - Strategic Planning Framework 20
  - Strategic Planning Framework Quick Reference Guide 21
  - How We Assess Performance 22
  - Significant Achievements and Management Challenges 23
  - Summary of FY 2005 Performance 47
  - Department of State Budget Allocation by Strategic Goal 48
  - Summary Performance Goal Results 49
  - Summary of Results Rated "Significantly Below Target" 53
- Program Assessment Rating Tool (PART) Status 55
- The President's Management Agenda 57
- Management Controls, Financial Management Systems and Compliance with Laws and Regulations 63
  - Federal Managers' Financial Integrity Act 63
  - Federal Financial Management Improvement Act 64
  - Federal Information Security Management Act 65
  - Government Management Reform Act – Audited Financial Statements 66
  - Improper Payments Information Act 69
- Financial Highlights 72

INSPECTOR GENERAL'S DISCUSSION AND ANALYSIS 79

- Message from the Inspector General 80
- Summary of FY 2005 Performance 81
- Management and Performance Challenges 85

PERFORMANCE SECTION 91

- Strategic Objective #1: Achieve Peace and Security 92
  - Strategic Goal 1: Regional Stability 92
  - Strategic Goal 2: Counterterrorism 115
  - Strategic Goal 3: Homeland Security 137
  - Strategic Goal 4: Weapons of Mass Destruction 151
  - Strategic Goal 5: International Crime and Drugs 176
  - Strategic Goal 6: American Citizens 192

Strategic Objective #2: Advance Sustainable Development and Global Interests 200
Strategic Goal 7: Democracy and Human Rights 200
Strategic Goal 8: Economic Prosperity and Security 225
Strategic Goal 9: Social and Environmental Issues 245
Strategic Goal 10: Humanitarian Response 270
Strategic Objective #3: Promote International Understanding 283
Strategic Goal 11: Public Diplomacy and Public Affairs 283
Strategic Objective #4: Strengthen Diplomatic and Program Capabilities 309
Strategic Goal 12: Management and Organizational Excellence 309
Resource Summary by Strategic Goal 347

FINANCIAL SECTION 351

Introduction to Principal Financial Statements 352
Independent Auditor's Report 353
Financial Statements 367
Principal Financial Statements 368
Consolidated Balance Sheet 368
Consolidated Statement of Net Cost 370
Consolidated Statement of Changes in Net Position 371
Combined Statement of Budgetary Resources 372
Consolidated Statement of Financing 374
Notes to Principal Financial Statements 376
Required Supplementary Stewardship Information – Heritage Assets 412
Required Supplementary Information 417
Combining Schedule of Budgetary Resources 417
Intragovernmental Amounts 419
Deferred Maintenance 422
Working Capital Fund 422
Supplemental Information and Other Reporting Requirements 423
Financial Management Plans and Reports 424
Management of Obligations to the Department 431
Management of Payments 434
Management of Audit Follow-up 444

APPENDICES 445

Justifications for Changed Indicators and Targets 446
PART Summaries for FY 2005 - FY 2006 457
Major Department of State Publications 471
Department of State Locations 474
Glossary of Acronyms 477

MESSAGE FROM THE SECRETARY

I am pleased to present the Department of State's Performance and Accountability Report for fiscal year 2005. This report describes the Department's achievements and challenges in this extraordinary moment for America and for the world. It also highlights our efforts to manage taxpayer dollars responsibly in support of our nation's endeavor to support the aspirations for liberty and democracy of people all around the world.

In his Second Inaugural Address, President Bush laid out a bold vision for American diplomacy: "It is the policy of the United States to seek and support the growth of democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in our world." The President understands that one of history's clearest lessons is that America is safer, and the world more secure, whenever and wherever democratic principles prevail.

In these momentous times, America's diplomats are working to create a balance of power in the world that favors freedom. They are dedicated to building a more secure, democratic, and prosperous world for the benefit of the American people and the international community. The success of this mission rests on three great tasks, and in the past year, the men and women of the State Department have helped our nation advance each of these important objectives.

First, we are uniting the community of democracies in building an international system that is based on our shared principles and the rule of law. The United States is joining together in common cause to solve common problems with our partners in NATO and the European Union, and with our democratic allies in East Asia and around the world. We are supporting and upholding the system of international rules and treaties that allow us to take advantage of our freedom, to build our economies, and to keep us safe and secure.

Second, we are strengthening the community of democracies to fight the threats to our common security and alleviate the hopelessness that feeds terror. From the Philippines to Colombia to the nations of Africa, we are strengthening counterterrorism cooperation with countries that have the will to fight terror but need help with the means. We are spending billions to fight AIDS, tuberculosis, malaria, and other diseases. We are joining with developing nations to fight corruption, instill the rule of law, and create a culture of transparency. In much of Africa and Latin America, we are working with democratic reformers and insisting that leaders who are elected democratically have an obligation to govern democratically.

Finally, we are supporting people throughout the globe who desire freedom and democracy. This past year has been marked by truly unprecedented democratic transformations in places like Ukraine, Afghanistan, Iraq, Kyrgyzstan, Lebanon, and the Palestinian territories. More are still to come. But as exhilarating as these events are, we are mindful that the path to sustainable, institutionalized democracy remains long, hard, and different for all of these nations. At the same time, we are making it clear that the United States stands with all people who demand their democratic rights in places like Belarus, Burma, Cuba, Iran, and Zimbabwe.

As this report describes, the State Department has taken specific new steps in the past year to further these three great objectives of American diplomacy. For one, we are devising new ways to stop terrorists before they can do harm to our citizens and our allies. In Iraq, we established a terrorist watch list that helped Iraqi officials to capture some of the leaders of the insurgency. We also increased our counterterrorism cooperation with free nations and frontline defenders around the world, and we identified suspected terrorists attempting to transit air, land, or seaports of entry. Searching database entry records in Pakistan, we were able to locate three individuals associated with the July 2005 London bombings.

In fiscal year 2005, we also began developing an active response corps of civilians with technical expertise to respond quickly and effectively to help nations that are emerging from conflict. In time, these teams will help the citizens of war-torn, strife-ridden nations to stabilize and rebuild their societies and set a sustainable course to a future of peace, democracy, and economic development. This is an extension of our Department's efforts to lead the U.S. Government's response to the challenge posed by weak and failing states.

In the past fiscal year, we have also initiated several efforts to engage foreign audiences in a dialogue about the universal principles of democracy and human rights. We are enlisting the support of private American citizens, whether they are traveling abroad or welcoming an exchange student into their home. We are encouraging more young Americans to study other languages and cultures, much as we did in the early days of the Cold War. By reaching out to foreign citizens and media to discredit rumors and conspiracy theories, we have improved our capabilities to confront hateful propaganda that the enemies of freedom use against us.

Finally, we have continued to take steps to eliminate shortages of critical skills among our diplomatic corps. In fiscal year 2005, our specialized training facility, the Foreign Service Institute, conducted over 462,000 hours of training in critical needs languages, including Arabic, Chinese, Russian, Turkish, Urdu, Hindi, and Persian (Farsi). After all, public diplomacy is not a monologue. It is a conversation that America's diplomats must be prepared to conduct in the local languages of the countries in which they serve.

In all that we do, the men and women of the State Department are mindful to manage the resources entrusted to us in a responsible, efficient, and effective manner. I am personally involved in the planning and resource allocation process. I have chaired senior-level bureau performance meetings, overseen resource plans, and made performance management a leadership priority. I am pleased to provide an unqualified statement of assurance that the Department's management controls and financial systems meet the objectives of the Federal Managers' Financial Integrity Act (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.

The report that follows details how American diplomacy is helping to transform the world for the better in a time of unprecedented historical change and opportunity. It is an impressive record of achievement—one of which I am very proud, and one of which America can be proud as well.

Condoleezza Rice

Secretary of State

MESSAGE FROM THE ACTING CHIEF FINANCIAL OFFICER

The past year has proven to be an exciting period in which to serve the American people as a member of Secretary Rice's management team, implementing transformational diplomacy and advancing the President's foreign policy and management agenda. Very few agencies or corporations have the depth and variety of challenges that the men and women of the Department of State 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.

The Department operates in over 260 locations in 172 countries, while conducting business in 150 currencies and an even larger number of languages. One hundred and eighty-four missions abroad submit business plans each year that demonstrate their achievements and describe their initiatives, while thousands of financial professionals around the globe plan, budget, obligate, disburse, and account for billions of dollars in annual appropriations. Despite these complexities, the Department pursues a commitment to integrity, transparency, and accountability that is the equal of any multi-national corporation.

For the past five years, the President has challenged us to meet new rigorous standards through the President's Management Agenda (PMA). The Department has made great strides in meeting the goals of the PMA, as evidenced by "double green" scores on the scorecard for three of the five USG-wide Presidential initiatives at the end of FY 2005.

The Department has a proud tradition of being effective and accountable stewards of the taxpayer's money. We have obtained unqualified opinions on our annual financial statements from our independent auditors for the better part of the last decade. However, late in FY 2005, the Department became aware of potentially material amounts of Department-owned personal property held by host countries and contractors, including aircraft and spare parts inventories, which had not been reflected in our financial statements. Due to the need for a complete and thorough analysis, the complexity of the matters involved, and the accelerated financial reporting requirements, the Department was unable to satisfy our independent auditors with regard to the presentation of personal property by November 15, 2005.

As a result, and as more fully explained in the *Independent Auditor's Report,* the independent auditors issued a qualified opinion on our FY 2005 and FY 2004 financial statements released on November 15, 2005, and reported the personal property area as a material weakness in internal controls. Since then, the independent auditors have satisfied themselves about the amounts presented as personal property in our FY 2005 and FY 2004 financial statements and issued an unqualified opinion thereon, dated December 14, 2005, which has cleared the way for updating this Report today.

The independent auditor also identified Information System Security as a material weakness in internal controls due to the vulnerability of our information system networks to unauthorized access. The Department recognizes the importance of effective internal controls and is committed to resolving the material weaknesses identified by the independent auditor as quickly as possible. The Department will implement remedies to these areas and track our progress through the Management Control Steering Committee – the body charged with overseeing the Department's management control program under the Federal Managers' Financial Integrity Act.

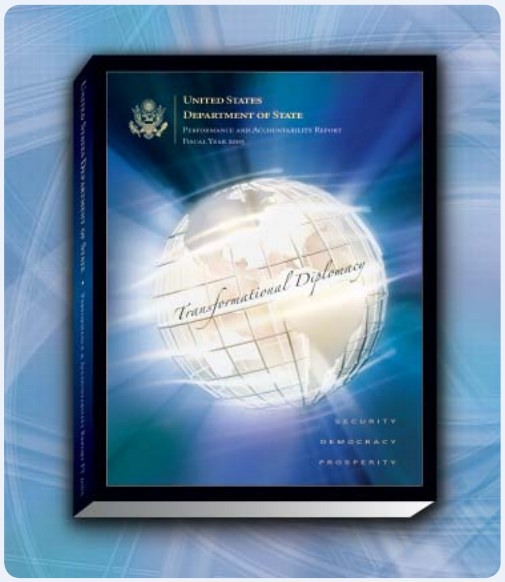
The Report that follows details how American diplomacy is helping to transform the world for the better during a time of unprecedented historical change and opportunity. This Report and the achievements that it describes could not have been accomplished without the extraordinary efforts of the Department's dedicated staff.

Sidney L. Kaplan
Acting Assistant Secretary for Resource Management and Chief Financial Officer
December 15, 2005

ABOUT THIS REPORT

PURPOSE OF REPORT

The Department of State's Performance and Accountability Report for fiscal year 2005 (the PAR) provides program results and financial information to help Congress, the President, and the public assess the Department's performance relative to our mission and stewardship of resources entrusted to us. The PAR also provides readers a sense of the Department's highest priorities in the conduct of U.S. foreign policy, and our strengths and challenges in implementing programs that pursue the President's foreign policy agenda.



As part of the Department's annual planning cycle, the Department sets specific, outcome-oriented, measurable criteria for self-evaluating its performance under a strategic framework established in the Department's Strategic Plan. The FY 2005 PAR reports on the Department's successes, performance shortfalls and management challenges as measured against the Department's FY 2005 Performance Plan, as well as details reports and findings on the Department's FY 2005 financial operations.

The PAR satisfies reporting requirements under the following legislation:

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

HOW WE MANAGE AND REPORT ON PERFORMANCE

The Department continues to improve the relevance and efficacy of our performance measures and targets. The Department's Office of Strategic and Performance Planning employs experienced performance management analysts who provide training, guidance and support to more than forty planning coordinators based in regional and functional bureaus throughout the Department of State. The bureau planning coordinators work directly with senior leadership, program managers and technical experts to review and evaluate performance measures to ensure they best capture the President's highest foreign policy priorities and focus on high-level outcomes.

During FY 2005, the Department intensified efforts to streamline the total number of indicators used to track performance and improve the utility of our planning measures and targets. Throughout the year, we reviewed our performance management plan and continued to replace weak indicators and imprecise targets with measures that better serve Department leadership in tracking progress toward achieving our highest-level objectives and strategic goals. Explanations for specific changes made to individual performance measures can be found in the PAR's Appendix.

The Performance Section

The performance section is organized to provide easily accessible, results-oriented performance information on measures pursued under the Department's FY 2005 Performance Plan. Each strategic goal chapter is divided into the following subsections, with a description of each section explained below:

STRATEGIC GOAL CHAPTER SUB-SECTIONS	
SUB-SECTION	**PURPOSE**
Public Benefit	A concise narrative on how Department policies and programs under each strategic goal benefit the American people and the international community.
Selected Performance Trends	Graphs that show multi-year performance trends for key indicators under each strategic goal.
Strategic Context	A table depicting the major initiatives/programs, resources, bureaus, and partners that contribute to activities under a given strategic goal.
Performance Summary	A chart showing the distribution of performance results achieved under a strategic goal.
Performance Analysis	A brief analysis of results and outcomes, performance trends, key performance challenges and resources invested under each strategic goal. Budget figures in this section are derived from the FY 2006 Congressional Budget Justification.
Resources Invested	A summary of resources (both dollars and people) devoted to programs under each performance goal to help readers assess the relative effectiveness and efficiency of Department programs.
Performance Results	A report of the Department's performance on measures in the FY 2005 Department Performance Plan, including program results, rating, and impact. This section also provides an analysis of target shortfalls and steps to improve, as well as information on data quality, verification and validation, and performance history.

OUR PERFORMANCE RATING SYSTEM

The Department applies a rigorous results rating methodology to assess FY 2005 performance on initiatives and programs under each strategic goal. Program managers assign one of five performance ratings to results achieved under each performance measure and performance analysts in the Office of Strategic and Performance Planning review and validate each rating. Ratings reflect the Department's assessment of performance based on a composite evaluation of several factors, including results on targets set in the FY 2005 Department Performance Plan, budget status, timeliness in meeting deadlines, and overall progress toward the intended impact of the initiative/program. The following table shows the criteria and parameters of the Department's Performance Results Rating System.

PERFORMANCE RESULTS RATING SYSTEM					
Performance Rating	Significantly Below Target	Below Target	On Target	Above Target	Significantly Above Target
Criteria	Parameters				
Results Against Targets	Results missed FY 2005 target by a significant margin	Results missed FY 2005 target by a slight margin	Results met FY 2005 target	Results slightly exceeded FY 2005 target	Results significantly exceeded FY 2005 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 Targeted Outcomes Linked to Performance Goals	Results significantly compromise progress toward targeted outcomes	Results slightly compromise progress toward targeted outcomes	Results are on track with the expected pace of progress toward targeted outcomes	Results are slightly ahead of the expected pace of progress toward targeted outcomes	Results are significantly ahead of the expected pace of progress toward targeted outcomes

Performance Summaries–How We Aggregate Results

Some initiatives or programs in the PAR's Performance Section contain multiple ratings since they have multiple program components. When summarizing FY 2005 results in the PAR, the Department limited each indicator to a single rating that best reflects the Department's overall performance. Ratings were then aggregated to the performance goal or strategic goal level and shown as a distribution in graphs and charts.

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,* the Office of Management and Budget (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 indicators for which actual data are not available at the time the report is submitted. The Department's data meet 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 meet this test for reliability.

Verification and Validation

The Department's program managers are accountable for performance results reported in the PAR. Our credibility depends on the due diligence of our managers to validate and verify our performance by choosing appropriate performance measures and ensuring the highest accuracy of reported results. The Department has developed a six-part Verification and Validation reference guide to assist program managers ascertain the quality, reliability and accuracy of performance data. The National Foreign Affairs Training Center also uses this guide as an instruction manual during the Department's course in strategic and performance planning.

Assessing the reliability and completeness of performance data is critical to managing for results. Tables in the Performance Section's "Performance Results" subsection include the following information to show validation and verification of the Department's performance data:

- **Verification:** Performance tables include a "Performance Data" subsection that provides data source and data quality information relevant to each indicator. Under these fields, program managers list the resources used to measure performance (data source) and provide an assessment of the reliability and completeness of performance data (data quality), including any issues that may compromise confidence in the accuracy, quality or reliability of performance data or data sources used to determine FY 2005 performance results;
- **Validation Statement:** At the top of each performance table under the indicator title, a short statement explains why the Department chose this indicator as a useful and appropriate measure of program performance.

Federal agencies' Inspectors General play a central role in the verification and validation of their agency's performance measures. To assist the Department measure performance and implement the President's Management Agenda, the Department's Office of Inspector General (OIG) reviews relevant performance measures in the course of its audits and evaluations. OIG consults with Department managers to identify key measures to be verified and validated as a complement to the Department's own verification and validation efforts. OIG gives priority to performance measures related to achieving the President's Management Agenda initiatives, programs being assessed by OMB's Program Assessment Rating Tool (PART), and to areas OIG has identified as serious management and performance challenges. In addition, the Department's independent auditor annually reviews the methods and controls used to gather, store, interpret, and report performance data.

FY 2005 PAR PRODUCTS AND OUTREACH

The PAR is designed for use by a wide of variety of audiences and stakeholders within and outside government, from Department senior managers and employees, to managers in other federal agencies, to Congress and the White House, the media, interest groups, students and academics, and the general public. The Department has developed an extensive outreach plan to publicize and disseminate the report. As part of this outreach plan, the PAR will be available to the public in four easily accessible products:

- **The Performance and Accountability Report:** the full report of the Department's annual performance and stewardship of financial resources, accessible via the internet and CD-ROM;
- **The PAR Highlights:** a summary version of the full report, available via the internet and printed for worldwide distribution;
- **The PAR Brochure:** an eight page, high level overview of the Department's FY 2005 performance results and financial information, printed for worldwide distribution; and
- **The PAR CD-ROM:** an interactive CD featuring a PDF version of the PAR, links to Department publications and relevant reports, maps, a photo gallery, and more.

To order these materials or to comment on the PAR, please contact:

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HISTORICAL NOTES ON U.S. DIPLOMACY

Diplomacy's Best Deal

In 1803, two U.S. diplomats, American Minister to France Robert Livingston and Special Negotiator James Monroe, concluded the largest real estate transaction ever when they secured the entire territory of Louisiana for the United States. Although Livingston and Monroe exceeded the orders of President Thomas Jefferson—and their spending limit—the deal was too good to pass up. As Livingston reported, the French Treasury Secretary urged him to "Consider…the importance of having no neighbors to dispute you, no war to dread." The Americans did, and two weeks later on April 30, 1803, the French agreed to sell the entire territory for the bargain price of $15 million.

Diplomacy and the Telegraph

At the end of the Civil War in 1865, diplomatic reports to and from our missions abroad moved at the pace of ships crossing the ocean. But everything changed the following year with the completion of the transatlantic cable linking the United States and Europe. Just a few months later, the Department of State established a telegraphic office to handle the important new messages. Although diplomats learned to write more concisely, the Department warned that it was expensive and not to be used "except when justified by the importance and urgency of the case…" Diplomats took the message to heart and trimmed their prose accordingly. In 1881, the U.S. Minister to Russia, John W. Foster, earned the distinction of sending the shortest diplomatic dispatch. "Emperor Dead," he wrote. No one since has crafted a more concise cable.

Management's Discussion and Analysis

This section provides an overview of the entire Report. It includes: a summary of the most important performance results and challenges for FY 2005; 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.

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.

MISSION AND ORGANIZATION

MISSION

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

OUR ORGANIZATION

American diplomacy is based on the fundamental beliefs that our freedom is best protected when others are free; our prosperity depends on the prosperity of others; and our security relies on a global effort to defend the rights of all. In this extraordinary moment in history, when the rise of freedom is transforming societies around the world, we recognize that the United States has an immense responsibility to use its diplomatic influence constructively to advance security, democracy, and prosperity around the globe.

State Department/Ann Thomas

The Department of State is the lead institution for the conduct of American diplomacy, and the Secretary of State is the President's principal foreign policy advisor. All foreign affairs activities – U.S. representation abroad, foreign assistance programs, countering international crime, foreign military training programs, and services the Department provides to American citizens abroad – are paid for by the foreign affairs budget, which represents little more than 1% of the total federal budget, or about 12 cents a day for each American citizen. This small investment is essential to maintaining U.S. leadership abroad, which promotes and protects the interests of American citizens by:

- Promoting peace and stability in regions of vital interest;
- Creating jobs at home by opening markets abroad;
- Helping developing nations establish investment and export opportunities;
- Bringing nations together to address global problems such as cross-border pollution, the spread of communicable diseases, terrorism, nuclear smuggling, and humanitarian crises.

At our headquarters in Washington, D.C., 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.

The Department operates approximately 260 embassies, consulates, and other posts worldwide. 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 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.

OUR PEOPLE

In the business of diplomacy, people are critical. The Department's success in achieving its mission is directly tied to the creativity, knowledge, skills and integrity of our dedicated team of employees. The Department's Foreign Service, Civil Service and Foreign Service National employees serve at Headquarters, embassies, consulates, and other posts in over 260 locations around the world. Our employees are committed to carrying out the President's foreign policy agenda and to sharing American values with the world.

Secretary Rice congratulates honorees at the State Department's Employee Awards Ceremony. State Department/Michael Gross

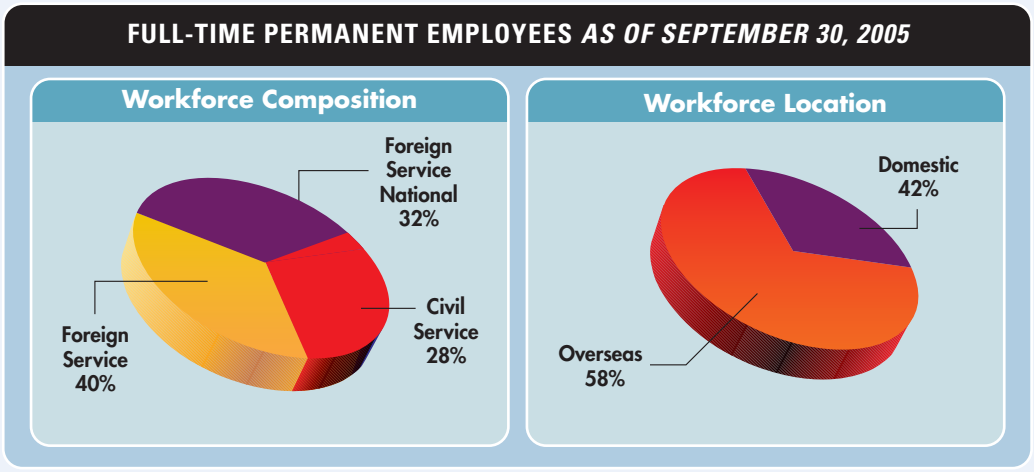
The Foreign Service and the Civil Service in the Department of State and U.S. missions abroad represent the American people. They work together to achieve the goals and implement the initiatives of American foreign policy. The Foreign Service is a corps of over 11,000 employees. Foreign Service Officers are dedicated to representing America and responding to the needs of American citizens living and traveling around the world. They also are America's first line of defense in a complex and often dangerous world. A Foreign Service career is a way of life that requires uncommon commitment. It offers unique rewards, opportunities, and sometimes hardships. Members of the Foreign Service can be sent to any embassy, consulate, or other diplomatic mission anywhere in the world, at any time, to serve the diplomatic needs of the United States.

The Department's Civil Service corps, totaling over 8,000 employees, provides continuity and expertise in accomplishing all aspects of the Department's mission. Civil Service officers, most of whom are headquartered in Washington, DC., are involved in virtually every policy area of the Department – from democracy and human rights to narcotics control, trade, and environmental issues. They also are the domestic counterpart to consular officers abroad, issuing passports and assisting U.S. citizens overseas.

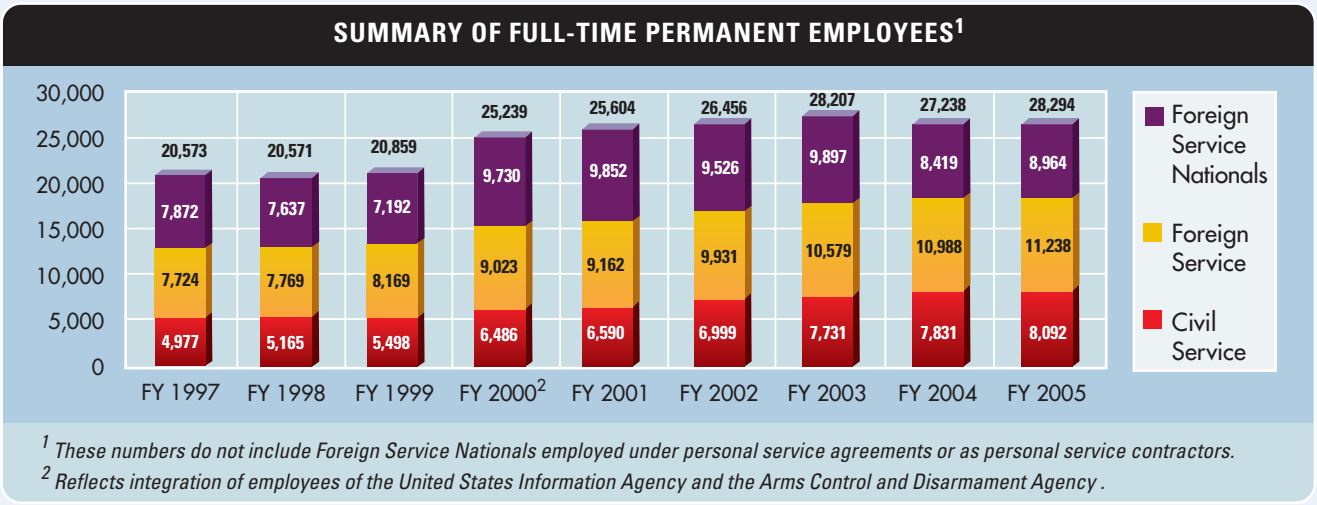
Nearly 9,000 Foreign Service National (host country) employees contribute to advancing the work of the Department overseas. These essential employees contribute local expertise and provide continuity as they work with their American colleagues to perform vital services for U.S. citizens and ensure the effective operation of our diplomatic posts.

EMPLOYEE COMPOSITION AND NUMBERS

The 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 38% with the greatest increase manifested in the Department's Civil Service staff, which has increased by 63%. During that time, the Foreign Service increased by 45% and the Foreign Service National staff increased by 14%. The overall increases in staffing reflect the Department's increased emphasis on security, public diplomacy, counterterrorism, and management reforms.



[1] *These numbers do not include Foreign Service Nationals employed under personal service agreements or as personal service contractors.*
[2] *Reflects integration of employees of the United States Information Agency and the Arms Control and Disarmament Agency .*

DIRECTORY OF KEY OFFICIALS AND SENIOR MANAGEMENT

Condoleezza Rice – Secretary of State

Robert B. Zoellick – Deputy Secretary of State

John R. Bolton – United States Permanent Representative to the United Nations

Arms Control and International Security Affairs

Robert Joseph – *Under Secretary*

- Bureau of International Security and Nonproliferation – *Stephen G. Rademaker, Acting*
- Bureau of Political-Military Affairs – *John Hillen*
- Bureau of Verification, Compliance and Implementation – *Paula A. DeSutter*

Economic, Business and Agricultural Affairs

Josette Sheeran Shiner – *Under Secretary*

- Bureau of Economic and Business Affairs – *E. Anthony Wayne*

Democracy and Global Affairs

Paula J. Dobriansky – *Under Secretary*

- Bureau of Democracy, Human Rights and Labor – *Barry F. Lowenkron*
- Bureau of Oceans and International Environmental and Scientific Affairs – *Anthony Rock, Acting*
- Bureau of Population, Refugees and Migration – *Richard L. Greene, Acting*

Management

Henrietta H. Fore – *Under Secretary*

- Director General of Foreign Service and Director of Personnel – *W. Robert Pearson*
- Bureau of Administration – *Frank Coulter, Acting*
- Bureau of Consular Affairs – *Maura Harty*
- Bureau of Diplomatic Security – *Richard J. Griffin*
- Overseas Buildings Operations – *Charles E. Williams*
- Bureau of Information Resource Management, Chief Information Officer – *Jay N. Anania, Acting*
- Foreign Service Institute – *Barry L. Wells, Acting*

Political Affairs

R. Nicholas Burns – *Under Secretary*

- Bureau of African Affairs – *Jendayi Frazer*
- Bureau of East Asian and Pacific Affairs – *Christopher R. Hill*
- Bureau of European and Eurasian Affairs – *Daniel Fried*
- Bureau of Near Eastern Affairs – *C. David Welch*
- Bureau of South Asian Affairs – *Christina B. Rocca*
- Bureau of Western Hemisphere Affairs – *Thomas A. Shannon*
- Bureau of International Organizational Affairs – *Kristen Silverberg*
- Bureau of International Narcotics and Law Enforcement – *Anne W. Patterson*

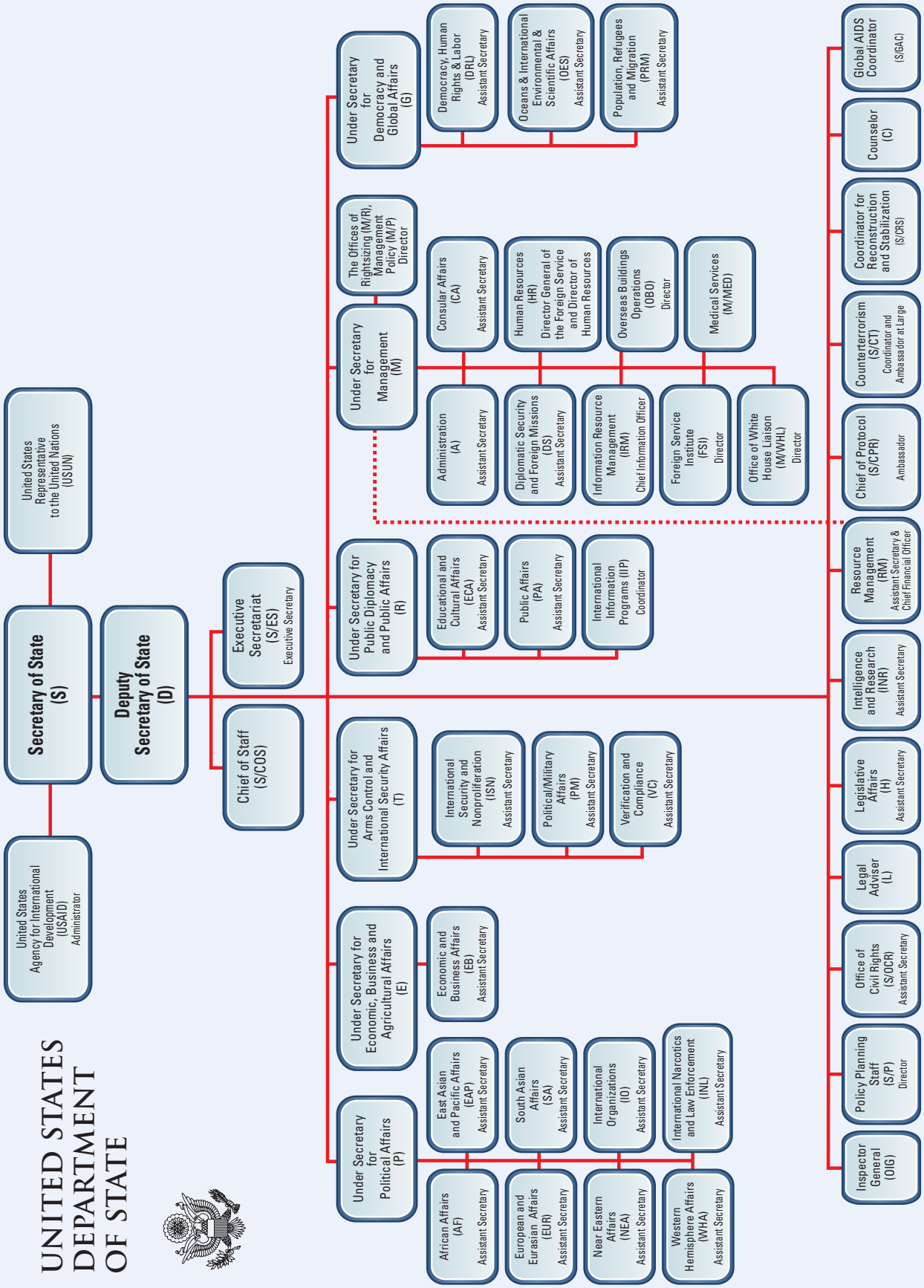
Public Diplomacy and Public Affairs

Karen P. Hughes – *Under Secretary*

- Bureau of Public Affairs – *Sean McCormack*
- Bureau of Educational and Cultural Affairs – *Dina Powell*
- Bureau of International Information Programs – *Alexander C. Feldman*

Other Senior Officials

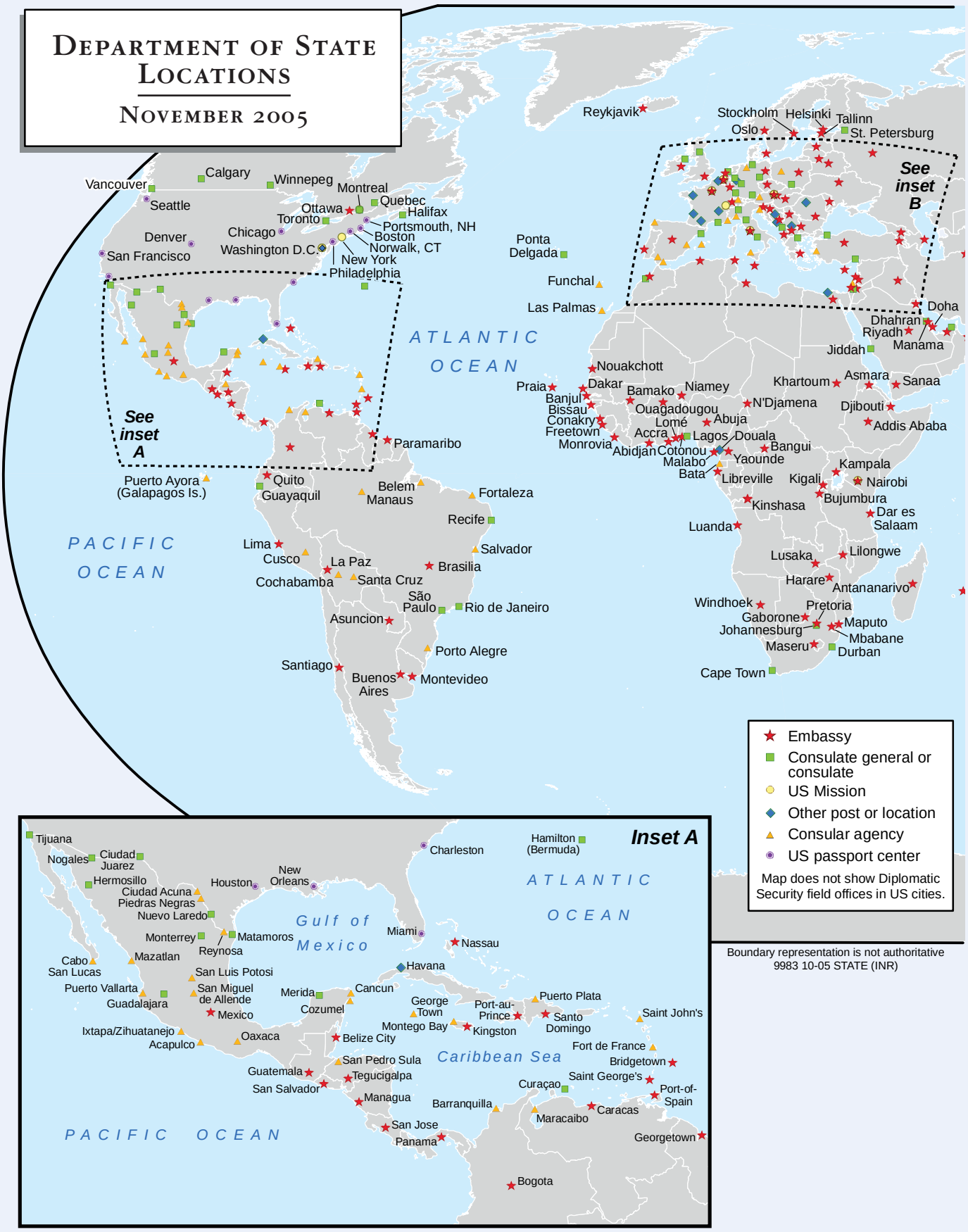
- Chief of Staff to the Secretary of State– *Brian Gunderson*
- Executive Secretary – *Harry K. Thomas, Jr.*
- Counselor of the Department – *Philip Zelikow*
- Director, Office of Policy Planning – *Stephen Krasner*
- Assistant Secretary for Resource Management and Chief Financial Officer – *Sid Kaplan, Acting*
- Legal Adviser – *John B. Bellinger III*
- Inspector General – *Howard J. Krongard*
- Assistant Secretary for Civil Rights – *Gregory B. Smith, Acting*
- Assistant Secretary, Bureau of Legislative Affairs – *Jeffrey T. Bergner*
- Assistant Secretary, Bureau of Intelligence and Research – *Carol A. Rodley, Acting*
- Chief of Protocol – *Donald B. Ensenat*
- Coordinator for Counterterrorism – *Henry Crumpton*



as approved by M 10/07/2005 – see http://www.state.gov/r/pa/ei/rls/dos/54734.htm for pdf and text versions.

Department of State Locations

November 2005



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Cities with more than one Department of State post or mission

Brussels:
Embassy Brussels
US Mission to European Union
US Mission to NATO

Kinshasa:
Embassy Kinshasa
Embassy Brazzaville

Montreal:
Consulate General Montreal
US Mission to ICAO

Nairobi:
Embassy Nairobi
US Mission to UNEP and Habitat

New York:
US Mission to UN
New York Passport Center

Paris:
Embassy Paris
US Mission to OECD
US Mission to UNESCO

Rome:
Embassy Rome
Embassy Holy See
US Mission to FAO

Vienna:
Embassy Vienna
US Mission to OSCE
US Mission to UNVIE

Washington, DC:
Department of State
US Mission to OAS
Washington Passport Agency

PERFORMANCE SUMMARY AND HIGHLIGHTS

FY 2005 KEY FOREIGN POLICY ACHIEVEMENTS

In FY 2005, the Department of State contributed significantly to creating a more secure, democratic, and prosperous world for the benefit of the American people and the international community. These efforts were designed to fulfill the President's National Security Strategy objectives by furthering democracy, advancing economic prosperity, and promoting religious and human rights throughout the world – especially in states transitioning toward democracy.

The United States continued to lead vital and successful efforts to counter threats of terrorism and weapons of mass destruction (WMD) proliferation. Through the Six Party Talks, the United States, China, Russia, Japan, the Republic of Korea, and the Democratic People's Republic of Korea, signed a joint statement of principles unanimously reaffirming the goal of verifiable, peaceful, and irreversible denuclearization of the Korean Peninsula.

AP/Wide World Photo

The Department continued to expand participation in the President's Proliferation Security Initiative, with more than seventy nations now supporting the initiative. The United States has worked to support efforts of the European Union, the International Atomic Energy Agency and the international community to end Iran's pursuit of nuclear weapons capability by pressing Iran diplomatically to cease its pursuit of sensitive nuclear fuel cycle capabilities. Through the Trilateral Steering and Cooperation Committee, we worked with the Government of Libya in implementing its commitment to abandon WMD programs, promoting a "Libya Model" for rogue states to follow. With the Government of Russia, the U.S. continued implementing the Strategic Arms Reduction Treaty and the Moscow Treaty, further reducing the numbers of deployed strategic nuclear weapons.

In the Middle East, the Department's efforts promoted peace and stability in the region. The U.S. Government's strong support for Iraq's transition to a permanent constitutional democracy, its increasing responsibility for security operations, and the reconstruction of its economy and essential services has set a path toward democracy, stability, and prosperity. In January, millions of Iraqis voted in the country's first free and democratic elections in over half a century, and October's constitutional referendum solidified Iraq's commitment to democracy. American efforts to resolve the Arab-Israeli conflict, working towards our goal of two democratic states – Israel and Palestine – living side by side in peace, leaped forward when Israel peacefully withdrew from the Gaza Strip. For the first time, Egypt also held its first competitive presidential elections, with opposition parties allowed to register, organize and mobilize voters.

In South Asia, the United States continued military and diplomatic efforts to combat extremism and to eliminate remaining al Qaeda elements. With U.S. and international assistance, Afghanistan successfully conducted Provincial Council and National Assembly elections. More than 1.5 million new voters registered, and the new National Assembly should be seated before the end of the year. The United States continues to devote considerable resources to Afghanistan's reconstruction and transition towards a democracy that is open to all of its citizens, regardless of religion, ethnicity, or gender. U.S. relations with India reached an historic high with Prime Minister Singh's July visit to Washington and our bilateral agreements to pursue greater cooperation along a number of fronts, including the "Next Steps in Strategic Partnership," promising broader cooperation owing to India's efforts to strengthen export controls and to prevent the

onward proliferation of sensitive materials and technologies. In addition, we announced our intention to further bring India into the global nonproliferation mainstream by way of a bilateral civil nuclear cooperation initiative. Relations with Pakistan are excellent, as demonstrated by our close cooperation in the aftermath of the devastating October earthquake. We committed $156 million to Pakistan earthquake relief efforts for reconstruction, airlift and other logistical support. The funds have been used for medical supplies, winterized tents, food, blankets, heavy road-building equipment, and other relief supplies. Our strong partnerships lend support to the Indo-Pakistani process of rapprochement and offer additional opportunities to build stability and development in other countries of concern, including Nepal, Sri Lanka, and Bangladesh.

In East Asia, the United States continues to enjoy strong relations with allies Japan, South Korea, Australia, Thailand, and the Philippines – as well as its security partnership with Singapore. The threat of terrorism in the region, as evidenced by this year's bombings in Bali, continues to produce close cooperation and information sharing between the United States and Southeast Asian nations, and we continue to work together on an array of shared transnational challenges. The expanded relationship between the United States and China is being demonstrated by coordination on negotiations with North Korea to denuclearize the Korean peninsula.

In Europe, NATO took on a greater role in Iraq through a training mission, and expanded the NATO-led International Security Assistance Force in Afghanistan, which is key to stability and development there. The United States continued to promote transformation of the Alliance to enhance further its ability to deal with 21st century challenges such as terrorism, WMD proliferation, and security crises outside Europe, while promoting better coordination with the European Union.

The United States continued to work closely with the European Union on the full range of issues worldwide, including promoting democracy, good governance, and shrewd economic policies. The United States supported the European Union's decision to open negotiations with Turkey on EU accession and, using diplomatic tools and assistance under the Support for East European Democracies Act, helped move former communist countries, such as Croatia, Serbia-Montenegro, Bosnia, Macedonia, Romania and Bulgaria further along the road of Euro-Atlantic integration. After ten years of U.S.-led effort, the Baku-Tbilisi-Ceyhan oil pipeline was inaugurated, opening a new era of energy security and regional stability. Assistance from the FREEDOM Support Act in support of democratic and economic reforms and strong U.S. support for the OSCE and its objective election observation role helped to promote democratic developments in Georgia, Ukraine, and Kyrgyzstan.

The United States maintains a strong commitment to peace and stability in Africa. The President's Emergency Plan for AIDS Relief delivered HIV/AIDS assistance to bilateral programs in over 120 countries. The Department continues to work towards ending the 20-year civil war in Sudan and obtain NATO agreement to support the African Union's peacekeeping expansion in Darfur. The U.S. provided peace support operations training and capacity building for several African states under the African Contingency Operations Training and Assistance program and adopted the Action Plan on Expanding Global Capability for Peace Support, which will allow us to work in conjunction with the Group of Eight to train 75,000 peace support troops by 2010.

The United States has worked successfully with its western hemisphere partners to create a community of nations characterized by democratic institutions, respect for individual freedoms and human rights, market-oriented economic institutions, and cooperation against terrorism and crime. Together with its regional partners, the United States is committed to defending and promoting democracy through the Organization of American States Inter-American Democratic Charter and the Inter-American Convention Against Corruption. We promoted economic opportunity through the Central American-Dominican Republic Free Trade Agreement, the negotiation of additional free trade agreements, and the U.S.-Mexico Partnership for Prosperity. Through hemispheric cooperation in programs such as the Andean Counterdrug Initiative, the newly developed Western Hemisphere Travel Initiative, and the Security and Prosperity Partnership with Canada and Mexico, our regional diplomacy has advanced a number of priority U.S. interests.

PERFORMANCE MANAGEMENT - A LEADERSHIP PRIORITY

For the Secretary of State and her management team, strategic and performance planning is more than a series of activities to fulfill congressionally mandated requirements under the 1993 Government Accountability and Results Act (GPRA). Although complying with GPRA is a responsibility the Department takes seriously, the Secretary and Deputy Secretary set strategic and performance management as a leadership priority to ensure the Department achieves its desired objectives and goals for the benefit of the American people and the international community. The Department's strategic objectives and goals lead toward a future of greater peace, security, sustainable development, international understanding, and increased diplomatic strength.

For fiscal years 2004-2009, the Department of State issued a joint Strategic Plan in conjunction with USAID that governs the activities of both agencies. The Strategic Plan utilizes a strategic goal framework that captures and articulates high priority goals and objectives shared by both agencies. Guided by the Strategic Plan, the planning and resource allocation process receives the personal attention of the Secretary on an ongoing basis as she leads senior level Policy, Performance, and Resource Reviews of bureau performance and resource plans. The Department and USAID are in the process of revising the Strategic Plan, which will be completed in FY 2006.

To help achieve U.S. diplomatic, development, and management priorities and eliminate duplication, the Department and USAID have established joint 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.

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 2005, the Department installed new application and database servers supporting the MPP and BPP applications, providing missions, bureaus, and senior officials the benefit of more reliable service and faster response times. The Department also launched the Global Affairs Dashboard, an executive reporting tool that allows the sharing of performance and budget data among the Department's bureaus and missions. The Dashboard allows managers to efficiently review, extract and organize data found in the Department's thirty-eight bureau performance plans and one hundred eighty-four mission performance plans to assess trends and performance outcomes.

The Department has now fully integrated and institutionalized PART into the budget and planning processes. This enables State to systematically track PART findings and recommendations and has resulted in a number of management actions that address program performance deficiencies. PART efficiency measures enable program managers to monitor the administrative cost of achieving a given outcome or output. The Department delivers a comprehensive review of efficiency measures, including both those

developed for the PART in consultation with OMB and those developed internally by non-PART program managers, to OMB via quarterly management reports.

Since the President's Management Agenda (PMA) was initiated in 2001, the Department has measurably improved performance on the PMA's five government-wide initiatives: human capital; e-government; competitive sourcing; financial performance; and budget and performance integration. The Department now ranks in the top tier of the 26 PMA agencies. The Department is able to match personnel and financial requirements against policy objectives better than ever and continues to deliver services electronically to employees and the public in ways that are faster, cheaper, and more effective. These efforts support the Department's IT vision — empower diplomacy with tools and information available anytime, anywhere. We have accelerated our competitive sourcing program, as evidenced by the improvement in status on the PMA scorecard from red to yellow in December 2004, and we will continue our sustained focus on competitive sourcing goals to move from yellow to green. The Department's improved financial performance has enhanced our ability to track where every dollar comes from and where every dollar goes in a timely and accurate manner. Accurate and timely information is critical to managing our programs on a day-to-day basis, obtaining the best performance, and ensuring accountability to the American public.

The Department of State has been a leader in using financial and performance information to support decision-making at all managerial levels. The Department's FY 2007 budget submission includes chapters that further integrate performance measures and targets into the Department's resource request. The resulting budget is a more analytical and robust document, framing priorities and accomplishments in terms of performance goals. The Department and USAID's fiscal year 2006 and 2007 Joint Performance Plans (JPP) describe Department and USAID plans to advance their common mission, long-term strategic goals, and performance goals. Performance targets relate to the most critical efforts on which the agencies will focus. The Joint Performance Plan is built upon the long-term State and USAID strategic planning framework, and supports the Administration's efforts to better integrate foreign policy and development assistance. The annual Joint Performance Plan process will lead to: increased strategic collaboration and communication between agencies; standardization of evaluation tools, indicators, and benchmarks; and effectiveness and efficiency gains from more integrated program execution.

Underlying the Department's performance management processes is senior leadership's commitment to use funds efficiently and judiciously to produce outstanding results. The American public has a right to know how much time, talent and treasure it costs to achieve key U.S. foreign policy goals. In fiscal year 2005, the Department continued to enhance our capacity to evaluate the cost of achieving goals and results, including:

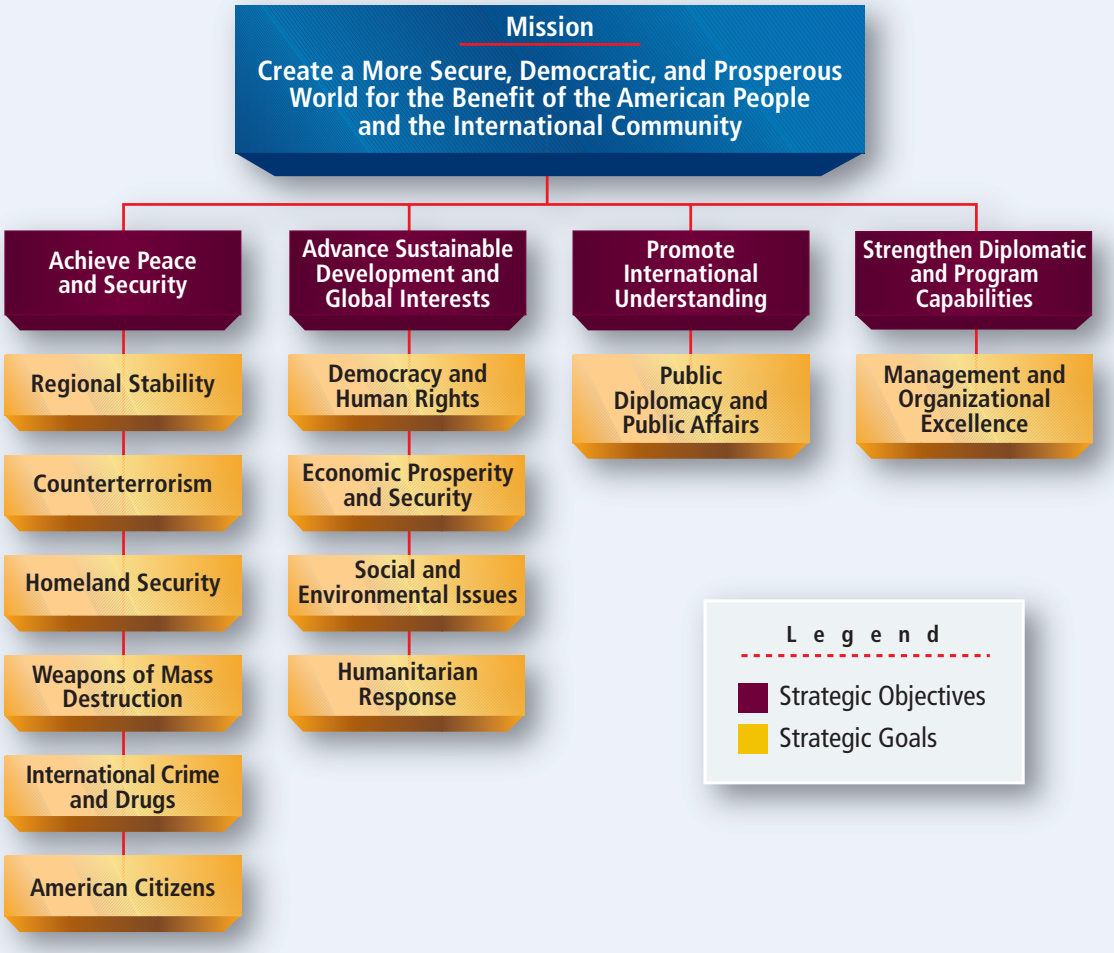
The Department's Consolidated Statement of Net Cost – included in this report – breaks down revenue and expenditures by strategic objective and strategic goal, so it is possible to see at a glance, for example, how much the Department spent to promote Democracy and Human Rights in FY 2004 and FY 2005. The Consolidating Schedule of Net Cost further allocates revenue and cost by program area, so the American public can see how much the Department of State spent on Arms Control activities to promote the strategic goal of Regional Stability, for example.

Resource allocation. At all levels of annual performance planning – mission, bureau and agency – Department managers are mindful of the link between requested resources and strategic goals. This promotes coordination and cooperation, since multiple Department bureaus and federal agencies collaborate on crosscutting issues under each strategic goal. Linking resources to performance also encourages government program managers to justify their budget requests based on expected return. The FY 2005 PAR estimates the number of staff and dollars applied toward each of the Department's 12 strategic goals and 38 performance goals using percentage allocations derived from the most recent information available.

STRATEGIC PLANNING FRAMEWORK

Strategic Objectives and Strategic Goals

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.



STRATEGIC PLANNING FRAMEWORK QUICK REFERENCE GUIDE

Strategic Objectives	Strategic Goals	Performance Goals	
Achieve Peace and Security	Regional Stability	RS.01	Close ties with allies and friends
		RS.02	Resolution of regional conflicts
	Counterterrorism	CT.01	Active anti-terrorist coalitions
		CT.02	Frozen terrorist financing
		CT.03	Prevention and response to terrorism
		CT.04	Stable conditions in fragile/failing states
	Homeland Security	HS.01	Proper visa adjudication
		HS.02	Border agreements
		HS.03	Infrastructure network protection
	Weapons of Mass Destruction	WD.01	Bilateral measures
		WD.02	Multilateral agreements and nuclear safety
		WD.03	Verification and compliance
	International Crime and Drugs	IC.01	Disruption of criminal organizations
		IC.02	Law enforcement and judicial systems
	American Citizens	AC.01	Assistance for U.S. citizens abroad
		AC.02	Passport issuance and integrity
Advance Sustainable Development and Global Interests	Democracy and Human Rights	DE.01	Democratic systems and practices
		DE.02	Universal human rights standards
	Economic Prosperity and Security	EP.01	Economic growth and development
		EP.02	Trade and investment
		EP.03	Secure and stable markets
		EP.04	Food security and agricultural development
	Social and Environmental Issues	SE.01	Global health
		SE.02	Environmental protection
		SE.03	Access to quality education
		SE.04	Migration policies and systems
	Humanitarian Response	HT.01	Assistance for refugees and other victims
		HT.02	Disaster prevention/response via capacity building
Promote International Understanding	Public Diplomacy and Public Affairs	PD.01	International public opinion
		PD.02	Mutual understanding
		PD.03	American values respected abroad
		PD.04	Domestic understanding of foreign policy
Strengthen Diplomatic and Program Capabilities	Management and Organizational Excellence	MG.01	Human resources and training
		MG.02	Information technology
		MG.03	Diplomatic security
		MG.04	Overseas and domestic facilities
		MG.05	Resource management
		MG.06	Administrative services

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 component of the pyramid is defined as follows:

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 2005 Performance and Accountability Report reports on how well the Department achieved its FY 2005 targets.

SIGNIFICANT ACHIEVEMENTS AND MANAGEMENT CHALLENGES

FY 2005 SIGNIFICANT ACHIEVEMENTS

STRATEGIC GOAL #1: REGIONAL STABILITY

Security in Haiti

In response to the urgent need for security and stability in Haiti, a total of eleven countries in the Western Hemisphere have contributed troops, police, or both. The Hemispheric community has embraced this mission as an opportunity to provide security and stability in the region. Brazil, for example, is providing the military commander to the U.N. Stabilization Mission to Haiti, while Canada leads the mission's police contingent. U.S. leadership has been essential to the international response to the Haiti Crisis. Our political engagement through multilateral organizations, our role as the leading international donor, and our strong support for the electoral process and democratic transition is a key element to returning Haiti to stability after the departure of ex-president Aristide. The on-going commitment to Haiti of the U.S. and our partners in the Hemisphere will provide the Haitian people with the opportunity to hold free and fair elections and pursue economic development.

People wait in line to register to vote while a U.N. peacekeeper stands guard in Port-au-Prince, Haiti, July, 2005. AP/Wide World Photo

STRATEGIC GOAL #2: COUNTERTERRORISM

Terrorist Interdiction

In some countries, the Terrorist Interdiction Program serves as the cornerstone of the U.S. mission's counterterrorism relationship with the host government, fostering increased counterterrorism cooperation and action around the world. The program provides host country immigration authorities – front line defenders against terrorism – with a computer database system that enables identification of suspected terrorists attempting to transit air, land or sea ports of entry. For example, in FY 2005, three suspects in the July 7 U.K. bombings, all from the northern England area of Leeds, were located by the terrorist interdiction database in Pakistan when they entered into that country.

President Bush greets Pakistani President General Pervez Musharraf, left, during their meeting in the Oval Office of the White House, December, 2004 in Washington. AP/Wide World Photo

STRATEGIC GOAL #3: HOMELAND SECURITY

Container Security Initiative

The Department spearheaded global efforts to protect transportation networks through stronger shipping and aviation security rules. Twenty of the world's largest 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 38 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 security ship passes next to a container boat on Panama Canal waters in Panama City, Panama, February 2005.
AP/Wide World Photo

STRATEGIC GOAL #4: WEAPONS OF MASS DESTRUCTION

Libya Eliminates Weapons of Mass Destruction

Since December 2003, Libya has taken several steps to eliminate its nuclear, chemical, and biological weapons, and its long-range missiles. Libya has cooperated with the U.S. and U.K. to remove equipment from its nuclear weapons program, acceded to the Chemical Weapons Convention, destroyed chemical weapon munitions, eliminated its SCUD-C missile force, and agreed to ultimately eliminate its SCUD-B missiles. The Department launched the Scientist Engagement Initiative to integrate former weapons experts into the global science community and deter them from transferring their expertise to terrorists or states of concern. Libya's strategic decision to forego and dismantle weapons of mass destruction has resulted in positive benefits accruing to Libya. This "Libyan model" of dismantlement offers the promise of a better future for other states that make a similar strategic decision.

Destroyed Libyan Missles *AP/Wide World photo*

STRATEGIC GOAL #5: INTERNATIONAL CRIME AND DRUGS

Andean Counterdrug Initiative

The U.S. investment in the Andean Counterdrug Initiative to combat narco-terrorism in South America is paying important political, security and economic dividends. This is particularly apparent in Colombia, which faced a frontal assault by major narco-terrorist organizations in the 1990s. Today, the World Bank lists Colombia as one of the world's ten most attractive investment climates. For the first time ever, the Colombian Government has established a security presence in all of the country's municipalities (equivalent to county seats), including many previously dominated by narco-terrorist groups. Civil violence—terrorist attacks, kidnapping, and homicides—has dropped dramatically over the past two years. Our most steadfast ally in the fight against illicit drugs, the Colombian Government extradited more than 250 drug traffickers to the U.S. over the past two years, including the leader of the infamous Cali Cartel.

Undersecretary of State Nicholas Burns, left, talks with Colombia's President Alvaro Uribe during a meeting at the presidential palace in Bogota, Colombia, July 2005.

AP/Wide World Photo

STRATEGIC GOAL #6: AMERICAN CITIZENS

Serving Citizens, Managing Crises

The Department's Bureau of Consular Affairs (CA) provides support and assistance to citizens and families when tragedy strikes Americans overseas. In FY 2005, CA provided support to families in conjunction with the deaths of 5,687 Americans overseas and followed 2,776 new overseas arrest cases. CA played a major role in the interagency response to the December 2004 tsunami that struck South Asia. CA organized a massive task force that followed up on over 15,000 specific welfare and whereabouts inquiries resulting from the crisis. The task force worked with the Departments of Homeland Security, Health and Human Services, Defense, and other U.S. Government agencies to confirm the safety of Americans, identify deceased American victims, and provide assistance to survivors and the families of those killed.

Officers on the Consular Affairs Task Force track missing Americans during the tsunami crisis.

State Department Photo

STRATEGIC GOAL #7: DEMOCRACY AND HUMAN RIGHTS

Middle East Partnership Initiative

The Middle East Partnership Initiative (MEPI) made strong strides to bolster democracy in FY 2005. Nearly 100 Arab women legal professionals from sixteen countries participated in the launch of the Arab Women's Legal Network in Amman, Jordan in July 2005. MEPI quickly responded to the spring 2005 elections in Lebanon by mounting a program to increase electoral transparency through effective monitoring, public opinion polls and a nationwide voter education campaign. In Egypt, MEPI supported civil society organizations in domestic election monitoring, youth training to develop advocacy skills, and voter education ahead of fall 2005 elections. Additionally, MEPI launched multiple projects to strengthen the role of indigenous civil society organizations in North Africa and the Middle East, particularly in the Persian Gulf.

An election official empties a ballot box in front of election observers in Tripoli, northern Lebanon, June 2005. AP/Wide World Photo

STRATEGIC GOAL #8: ECONOMIC PROSPERITY

Iraq Reconstruction and Development

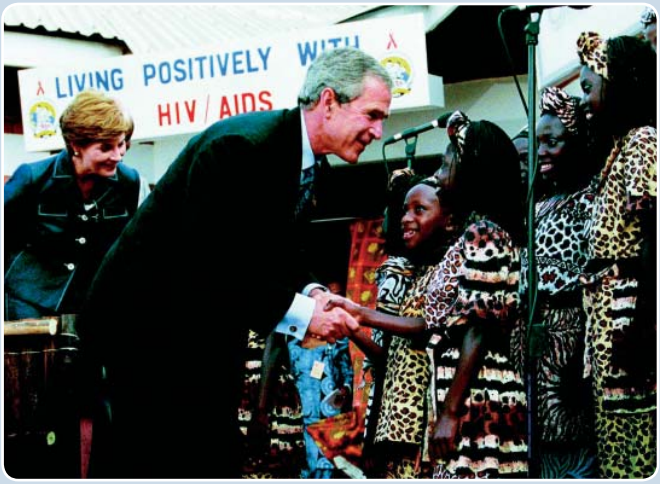
The Department led an international group of major donors for Iraq's reconstruction, which organized donors meetings in Tokyo in October 2004 and the Dead Sea in July 2005. At these meetings, over 60 countries and international organizations coordinated their reconstruction assistance and agreed to align and accelerate their assistance along Iraqi priorities. By the end of FY 2005, donors other than the United States had disbursed about $3 billion in reconstruction assistance to Iraq. The meetings also set in place a central role for Iraq in coordinating donor assistance. The Department led meetings of U.S. Government and Iraqi Government officials in Washington and Amman that deepened the bilateral dialogue on a broad range of issues that are critical to Iraq's economic restructuring and reintegration into the world economy. The Department's joint effort with the Department of Treasury to secure an historic Paris Club debt-reduction agreement in November 2004 was a vital step in relieving Iraq of its overwhelming debt burden.

Secretary Rice looks toward Iraq's Planning and Development Cooperation Minister Barham Salih at a press conference in Washington, May, 2005. AP/Wide World Photo

STRATEGIC GOAL #9: SOCIAL AND ENVIRONMENTAL ISSUES

HIV/AIDS

As President Bush has said, "Confronting HIV/AIDS is the responsibility of every nation and a moral imperative for the United States." HIV/AIDS is not only a human tragedy of enormous magnitude, it is also a threat to the stability of entire countries and to entire regions of the world. To turn the tide against this devastating pandemic, President Bush launched his historic $15 billion Emergency Plan for AIDS Relief—the largest commitment any nation has ever made to an international health initiative. The Emergency Plan is combating HIV/AIDS in 123 countries around the world through prevention, treatment, and care, placing special emphasis on 15 countries where the need is most urgent. Assistance is also provided for HIV/AIDS research and to multilateral organizations such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria. In FY 2005, the Emergency Plan supported over 235,000 people on treatment, well exceeding its June 2005 target.



President Bush and First Lady Laura Bush greet children at the AIDS Support Organization in Entebbe, Uganda. AP/Wide World Photo

STRATEGIC GOAL #10: HUMANITARIAN RESPONSE

Protecting Women from Violence in Sudan

The United States remains gravely concerned about sexual violence against women in the Darfur region of Sudan and the Government of Sudan's refusal to address the problem and protect the lives of its people. Secretary Rice and Deputy Secretary Zoellick have both urged the government to bolster its efforts to stop the violence, to hold perpetrators accountable, and to provide help for victims. In FY 2005, the United States initiated a two-year project to fund eight centers for displaced women living in camps in the Darfur region. The centers provide a safe haven for women and a range of services, including literacy classes, health education, income-generating activities, and treatment for sexual violence. Victims of rape and other forms of sexual violence also receive medical, psychosocial and case management services that protect their privacy.

Sudanese women distribute American vegetable oil in Zalengie, West Darfur. State Department Photo

STRATEGIC GOAL #11: PUBLIC DIPLOMACY AND PUBLIC AFFAIRS

Former Exchange Participants Form New Government in Kyrgyz Republic

When protests following March 2005 parliamentary elections led to the end of President Akayev's rule, the new Kyrgyz Government included eight people who had been on International Visitor Leadership Programs between 1994 and 2004, including current President Bakiyev. Democracy Commission and other Embassy grants supported the initiatives of Kyrgyz civil society groups to promote free and fair elections, the highlight of which was a series of "Rock the Vote" concerts held across Kyrgyzstan in the run up to the July presidential election. Widely attended and nationally televised, these concerts helped raise awareness of election fraud and voter rights, and encouraged young voters to participate in the July 2005 presidential election.

Kyrgyz President Bakiyev, left, greets supporters during a meeting in Balykchi, east of the capital, Bishkek, July 2005. AP/Wide World Photo

STRATEGIC GOAL #12: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Foreign Language and Leadership Training

Through FY 2005, the Department provided leadership training to over 6,700 Foreign Service and Civil Service mid-level employees. Since its inception in 2004, the Senior Policy Seminars division has continued to expand opportunities for advanced professional development, policy discussions, and networking opportunities to senior leaders in the Civil and Foreign Services. Crisis Management remains a key component of the Department's leadership training program.

The Department's School of Language Studies delivers 450,000 hours of training to Department personnel in Critical Needs Languages, including Arabic, Chinese, Korean, Russian, Ukrainian, as well as Turkic, Indic and Iranian languages. The Foreign Service Institute developed innovative options for more advanced language skill development through targeted overseas immersions and focused offerings to meet specific needs, such as language media skills. "Continuing education" and non-traditional training are being strengthened through pilot iterations of short-term in-country "transition" immersions, and growing delivery of distance language learning offerings, currently numbering 18 courses in 11 languages.

Instructors from the U.S. Embassy in Dar es Salaam teach members of the American community Swahili language and culture during a three-day immersion visit to Zanzibar, an island off the coast of Tanzania.
State Department Photo

ADDRESSING FY 2005 MANAGEMENT CHALLENGES

The Government Accountability Office (GAO) and the Department's Office of Inspector General (OIG) have identified specific areas where the Department must improve operations. The table below lists, by strategic goal, the major challenges the GAO and OIG identified in FY 2005, corresponding actions that the Department is taking and expected results.

STRATEGIC GOAL 1	REGIONAL STABILITY
CHALLENGE	**AFGHANISTAN SECURITY**
Findings (GAO-05-575)	◆ As of September 2005, the Department of State and Germany have trained more than 45,000 police and expect to complete basic training for all 62,000 national, border and highway police by mid-2006. ◆ State and the Department of Defense (DOD) will also work together to provide critically need equipment and infrastructure support as many police stations need extensive reconstruction or renovation; and police often lack weapons, vehicles, communications, and other basic equipment, all of which create a difficult working environment for trainees. ◆ The basic police training has been enhanced to include a Field Training Officer initiative as well as a major local police mentoring initiative that will be implemented by 34 mobile police advisory teams deploying in September 2005. These teams will provide invaluable on-the-job training and guidance to local police officers. ◆ Though our basic training goals will be accomplished by mid 2006, the Afghan police will require support from the U.S. Government for many years as we continue to help with reform initiatives as well as follow-on mentoring and equipment and infrastructure support. The State Department and Defense Department have closely coordinated all plans for existing funding including equipment, infrastructure, training, mentoring and reform plans and contracting vehicles are in place. ◆ Overall progress toward providing nationwide security and ensuring stability of the Afghan Government will be hindered if more progress is not made in resolving other Afghan security problems, including the following: lack of an effective judiciary system; the substantial illicit narcotics industry; and the continued presence of armed militias.
Major Recommendations	◆ State, along with Department of Defense, should develop more detailed plans for completing and sustaining the Afghan army and police forces, including clearly defined objectives and performance measures, milestones, funding requirements, and a strategy for sustaining the results achieved. ◆ Work with other lead nations to ensure that progress in other security pillars, including justice, combating drugs, disarmament, demilitarization, and reintegration, is congruous with the army and police programs. ◆ State and Defense should report to Congress on their progress.
Major Actions Taken or That Will be Taken	◆ FY 2005 supplemental funds have allowed us to increase assistance in these vital efforts. State will continue to coordinate closely on future funding request to support this critical program. ◆ State disagrees with the recommendation to report to Congress, noting that currently mandated reports to Congress on Afghanistan are comprehensive and believe they can address these issues in that report.
Expected Result	◆ Track quarterly progress of the Afghan National Army (ANA) via OMB's Program Assessment Rating Tool (PART) ◆ 100% of authorized Afghan police will be trained by mid-2006. ◆ The Afghan National Army has 25,782 troops assigned for duty (14,684 are combat troops), assisted by U.S. embedded trainers, with increasing presence, influence and capability. There are 1,700 troops in training and recruitment is on target. ◆ The Government of Afghanistan is in the final phase of its plan to restructure the Ministry of Defense, ensuring proportional ethnic representation all levels, improved accountability capable planning, command and control. ◆ The influence of warlords has been reduced as the national government secures greater control over customs, deploys the national army and police and the legitimacy proffered by parliamentary and presidential elections. ◆ More than 63,000 former militia members have been disarmed, 11,004 heavy weapons have been cantoned and more than 260 military units have been decommissioned. The disarmament and demobilization phase of the Disarmament, Demobilization and Reintegration program was completed in June 2005 and the Afghanistan New Beginnings Program continues to process former combatants who submitted their lists before the June deadline. Reintegration of all soldiers is expected to be completed by June 2006. ◆ Implement a five pillar counternarcotics strategy

STRATEGIC GOAL 1	REGIONAL STABILITY *(CONTINUED)*
CHALLENGE	**REBUILDING IRAQ – USE OF PRIVATE SECURITY PROVIDERS**
Findings **(GAO-05-737)**	◆ Contractors replaced their security providers on five of the eight Iraq reconstruction contracts awarded in 2003 that the GAO reviewed. This turnover rate is attributable to the following factors: contractors' need to acquire security services quickly, contractors' lack of knowledge of the security market and potential security providers available to provide the type of security required in Iraq, and the absence of useful agency guidance. ◆ The Department's quarterly report to Congress, which describes the status of projects, initiatives, and funding dedicated to Iraq reconstruction, does not provide information on the costs associated with using private security providers.
Major Recommendations	◆ State, with Department of Defense (DOD) and USAID, should explore options that would enable contractors to obtain security services quickly and efficiently, including the possibility of identifying minimum standards, establishing qualified vendor lists, and/or establishing contracting vehicles that contractors could be authorized to use. ◆ State, with Department of Defense and USAID, should establish a means to track and account for security costs to develop more accurate budget estimates.
Major Actions Taken or That Will be Taken	◆ State met with the Department of Defense and USAID to prepare formal responses to these recommendations. The Department expects to send this letter to GAO in November. ◆ DOD, USAID and the Department determined we can best assist contractors, without assuming substantial additional contract performance risk, by providing access to open-source information related to Industry best practices, methodology and material for coordinating security planning and implementation of security programs. This would be for information purposes only to assist contractors in the acquisition of their own security services. ◆ All three agencies agree to include a line item in all future contracts that will require contractors to report all costs for private security services (as defined by the GAO in Appendix I, page 52 of the GAO report) that the contractors may have to acquire to successfully perform their contracts.
Expected Result	◆ The Department, along with DoD and USAID, will include a line item in all future contracts that will require contractors to report all costs for private security services (as defined by the GAO in Appendix I, page 52 of the GAO report) that the contractors may need to acquire to successfully perform their contracts. ◆ The Department, along with DoD and USAID, will in the future have more information on contractor security costs in Iraq.

STRATEGIC GOAL 2	COUNTERTERRORISM
CHALLENGE	**ASSISTANCE TO FOREIGN SECURITY FORCES**
Findings **(GAO-05-793)**	◆ State issued new guidance in February 2005 intended to improve the efficiency of the human rights vetting process. ◆ State announced that it had established a new human rights database, the Abuse Case Evaluation System, to be a clearinghouse for information on alleged human rights abuse. ◆ The strategy did not identify how programs would be combined at the country level to achieve objectives or be coordinated with other U.S. Government agencies. ◆ Agencies do not have controls in place to help ensure compliance with human rights funding restrictions. ◆ Vetting process lacks clearly defined roles and responsibilities. ◆ Monitoring system not established to assess overseas posts' compliance with State policies.
Major Recommendations	◆ The Secretary of State, in consultation with the Secretaries of Defense and Justice should establish: a) The roles and responsibilities of posts and headquarters units for vetting foreign candidates for human rights consideration; b) Written policies and procedures covering all entities involved in the vetting process at posts, including documentation and record retention policies specifying what documentation is needed and where and how long vetting files should be maintained; c) Monitoring mechanisms and a central focal point to verify that these procedures are being carried out properly. ◆ State should develop a multi-year security assistance plan coordinated with the Departments of Defense and Justice and any other agencies providing assistance to foreign security forces. This plan should: a) Identify all federal agency programs providing assistance to foreign security forces, regardless of their source; b) Describe all related resource allocations used to support program goals; c) Incorporate quantitative and qualitative performance measures designed to determine the extent to which country programs contribute to broader U.S. foreign policy and security objectives.
Major Actions Taken or That Will be Taken	◆ The Department is reviewing procedures to determine how best to improve vetting and address GAO recommendations. ◆ State is committed to executing its security assistance programs in a coherent, efficient manner that complies with the law and helps the U.S. Government achieve its foreign policy goals. ◆ State has articulated Department vetting policies to overseas posts. ◆ State established the Abuse Case Evaluation System (ACES) database as one mechanism to enhance documentation of human rights abusers and which can be used in the vetting processes. ◆ State has trained more than 100 Department and embassy officials on use of ACES. ◆ State developed an ACES training manual and made it available to employees of State, Defense, Justice and Homeland Security. ◆ State is developing Leahy vetting and ACES training for the Foreign Service Institute.
Expected Result	◆ Encourage continued intra-departmental and inter-agency cooperation to develop an integrated strategic plan for all U.S. Government programs that provide training. ◆ Encourage increased use of ACES to enhance the identification of human rights abusers and improve vetting.

STRATEGIC GOAL 2	COUNTERTERRORISM *(CONTINUED)*
CHALLENGE	**ANTI-TERRORISM ASSISTANCE**
Findings **(SIO-A-05-11)**	◆ A cooperative relationship exists between the Office of the Coordinator for Counterterrorism (S/CT) and the Bureau of Diplomatic Security (DS), regarding the Anti-Terrorism Assistance (ATA) program, but the program's effectiveness could be improved through stronger involvement by S/CT. ◆ S/CT's limited input to DS/ATA may affect the program's budget priorities and certain ATA program requirements may fail to be considered as a direct result.
Major Recommendations	◆ S/CT and DS should reassess the delineation of ATA program management responsibilities, originally approved in 1991. ◆ ATA's program evaluation function should be located within S/CT and should have a more formal structure and greater autonomy. ◆ DS/ATA need to improve its control over contact personnel and address the staffing requirements needed, as the scope of the program continues to expand. ◆ DS/ATA should confirm complete accountability for the total number of weapons that have been acquired for use at its in-country training programs.
Major Actions Taken or That Will be Taken	◆ DS/ATA has developed a reorganization proposal that is currently in the approval process, which would move the function of assessments and program reviews/evaluations to a non-training delivery division within DS/ATA. ◆ DS/ATA and S/CT are continuing to develop an update of the 1991 Memorandum of Agreement to improve program management and measurement of program effectiveness.
Expected Result	◆ After expected HR bureau concurrence is received and the evaluation function is relocated to a non-training division of DS/ATA, the assurance of objectivity of the measures, data, and results of the evaluation function will be satisfactorily enhanced, thereby successfully resolving the finding of the OIG recommendation. ◆ Once the update of the 1991 Memorandum of Agreement has been completed, DS/ATA and S/CT will have a more integrated relationship, which will allow for more effective program management and will improve program performance.

STRATEGIC GOAL 3	HOMELAND SECURITY
CHALLENGE	VISA PROCESSING AND BORDER SECURITY
Findings **(ISP-CA-05-58)**	◆ Since September 11th, the Bureau of Consular Affairs (CA) has strengthened the visa process in a number of ways. CA has eliminated waivers of personal interviews for nearly all New Immigrant Visa (NIV) applicants, first initiated by Department instruction, then codified by statute in 2004; increased and lengthened training of new consular officers to include counterterrorism training and interviewing techniques; increased CA oversight and guidance by issuing standard operating procedures (more than 80 to date); dispatched teams to review operations and ensure standard operating procedures are being complied with at select posts; updated the visa foreign affairs manual; improved mission front office oversight by requiring deputy chiefs of mission to review certain visa adjudications; strengthened the referral system; upgraded consular positions to eliminate situations where visa sections are headed by first tour officers; and added 515 additional consular positions since 2002. ◆ Amending section 214(b) to remove H, L and V visas from its scope created an anomaly in the law that has led to confusion among consular officers in the application of that section. In addition, converting the R visa to a petition-based visa would make it less susceptible to persons intending to harm the U.S. by allowing concerned U.S.G. agencies to conduct domestic investigations prior to petition approval. ◆ Foreign Affairs Manual (FAM) and standard operating procedures guidance on 214(b) are too widely scattered among different sources. Consular officers need refresher 214(b) and other visa adjudication training at FSI, including counterterrorism training, especially if they have been in non-consular assignments or in long-term training. They also need training from all agencies at post, in situ. ◆ It is important for the consular officer to have broad discretion, looking at the totality of the applicant's circumstances, in adjudicating visas. Codifying guidance would severely limit that discretion and would limit an officer's freedom to adjudicate the eligibility of an applicant in unforeseen and unintended ways, which would weaken rather than strengthen U.S. border security. ◆ Creating minimum evidentiary standards for visa eligibility would serve to narrow the focus of a consular officer's review of a case, promote worldwide markets in fraudulent documents and make it easier for potentially ineligible applicants to circumvent the law. Current practice and regulations provide the best basis for visa adjudication. ◆ Department of Homeland Security (DHS) and the Department have made great progress in developing and sharing information, but more needs to be done, especially the electronic transfer by DHS of all USVISIT exit data, "turnarounds" and the status of adjustments.
Major Recommendations	◆ The Department should submit to Congress a technical amendment to section 214(b) of the Immigration and Nationality Act, restoring the H, L, and V visa categories to that section's purview but without an immigrant intent requirement. ◆ CA should consolidate its guidance on applying 214(b) into one chapter in the FAM. ◆ CA should issue more expansive guidance in the FAM on denying visas under 214(b) when an applicant does not meet the individual Section 101(a)(15) requirements of one of the NIV categories. ◆ The Bureau of Human Resources, with the Foreign Service Institute (FSI), should require refresher visa adjudication training if consular officers have had extended training or an intervening non-consular assignment since receiving basic consular training. ◆ FSI should develop training materials to make the new 214(b) guidance (04 State 274068) part of its training module on refusals.
Major Actions Taken or That Will be Taken	◆ Congress changed Section 214 (b). CA has drafted proposed language for an amendment to section 214(b) to restore the H, L, and V NIV categories. CA is coordinating with the Bureau of Legislative Affairs to present this proposed amendment to Congress. ◆ CA will add a section to the FAM to consolidate and give additional guidance to consular officers on refusals. CA has already sent two cables on 214 (b) that speak to this guidance. ◆ CA has recently amplified 9 FAM 41.11 on refusals. ◆ CA and FSI will work together to make 04 State 274068 a regular part of NIV training.
Expected Result	◆ More uniform application of section 214(b) and other grounds for refusals worldwide.

STRATEGIC GOAL 3	HOMELAND SECURITY *(CONTINUED)*
CHALLENGE	**VISA PROCESSING – VISA REFERRAL SYSTEM**
Findings **(ISP-CA-05-56)**	◆ Recent changes to the visa referral process have made it more codified, more transparent, and more accountable since the events of September 11th. ◆ A log of all referral cases must be kept in the NIV system with the application and accompanying documents including the referral form scanned into the consolidated consular database.
Major Recommendations	◆ Consular sections overseas should conduct at least one study annually to ensure compliance by referred applicants with the conditions of their visas. ◆ Chiefs of mission and principal officers must assume responsibility for the implementation and supervision of visa referral systems at posts and should reissue the referral policy annually and certify to CA this has been done. ◆ Every mission should be required to submit a copy of its post referral policy to CA. ◆ The Department should continue to exert its principal control over the visa referral system to ensure chiefs of missions understand the importance of following referral procedures, and the consequences of undue influence. ◆ The Department should designate a senior-level officer to serve as an ombudsman for visa officers who feel they may be subject to undue influence at post to issue NIVs. ◆ Consular officers, especially those in the beginning of their careers, need further training on referral systems and dealing with possible undue influence by senior officers.
Major Actions Taken or That Will be Taken	◆ CA has consolidated all guidance on referrals into Appendix K of the FAM and is instructing posts to conducting an annual "validation" study. ◆ CA has instructed Chiefs of Mission to reissue the referral policy memo annually, certify this has been done and submit a copy of its referral policy to CA. ◆ In an annual cable to all posts, CA reminds Chiefs of Mission of their primary responsibility for the implementation and supervision of the mission referral policy, in accordance with Department guidance and Appendix K of the FAM. ◆ The Assistant Secretary for CA is the ombudsman, and has designated the Managing Director of the Visa Office as an alternative contact for visa officers overseas. ◆ In addition to the ethics training required in the Basic Consular Course, FSI has incorporated a role-playing management module to train officers how to differentiate undue influence from appropriate actions by mission officers and to teach them how to deal with a situation of undue influence, should it arise.
Expected Result	◆ Nonimmigrant visa adjudicating officers will be better protected against undue influence in the referral system.

STRATEGIC GOAL 3	HOMELAND SECURITY *(CONTINUED)*
CHALLENGE	**BORDER SECURITY – VISA AND PASSPORT FRAUD PREVENTION**
Findings **(ISP-CA-05-52)**	◆ In the post-September 11, 2001, environment, the Department has cited fraud deterrence and prevention as key elements of its border security policy. ◆ Through responses from questionnaires, OIG found that too many adjudicators remain overworked and lack the time to absorb fraud prevention intelligence, indicative of the need for greater resources in this area. ◆ Post specific training for consular fraud detection and prevention is not well defined and OIG found there was a lack of uniformity in the training programs across posts. ◆ There is insufficient communication between posts, even regionally, to share intelligence or combat fraud rings operating across national borders.
Major Recommendations	◆ The Department's leadership can improve the border security strategy by placing greater emphasis on the importance of the antifraud responsibilities and programs, and securing adequate resources and funding for related programs. ◆ Fraud prevention managers at post should continue to undergo rigorous training to enable them to better prioritize and carry out their responsibilities and the Department should standardized training. ◆ The Bureau of Consular Affairs should require regular and rigorous fraud reporting from posts and passport agencies, using a standard format, and establish a mandatory quarterly reporting schedule. ◆ CA should develop a way to work with Homeland Security and other pertinent Departments that would facilitate two-way sharing of all databases pertaining to visa and passport issuance.
Major Actions Taken or That Will be Taken	◆ Together with CA, the Bureau of Diplomatic Security has developed training programs that include lessons learned from previous years. ◆ CA has emphasized the importance of fraud prevention programs and implemented new initiatives, including an excellent and useful fraud prevention website and a new e-room to serve as a forum to exchange fraud prevention information and document information. ◆ In May, the Office of Fraud Prevention Programs held a regional fraud prevention conference in Abu Dhabi. The next regional conference is planned for Panama in February 2006, with others to follow. ◆ CA, in concert with the Foreign Service Institute, has increased the offerings of the Fraud Prevention Manager's course from two times per year to ten times per year. ◆ The Office of Fraud Prevention Programs has just finished reassigning geographical areas of responsibility to its analysts and is now establishing the new reporting requirements and format. ◆ CA is now negotiating a Memorandum of Understanding with the Department of Homeland Security to allow for mutual access to all databases. ◆ FSI, in conjunction with CA, has posted on its website training for post-arrival, post-specific training. CA's Assistant Secretary and the FSI Director sent a joint cable advising posts of this new training tool.
Expected Result	◆ Improved communication between posts, CA, DS and other agencies. ◆ Advanced fraud prevention training for all Fraud Prevention Managers at overseas posts. ◆ Increased support of Fraud Prevention Managers to identify fraud trends and techniques.

STRATEGIC GOAL 3	HOMELAND SECURITY *(CONTINUED)*
CHALLENGE	**BORDER SECURITY – REVIEW OF WATCH LIST VULNERABILITIES**
Findings **(ISP-CA-05-55)**	◆ Based on analysis of denied passport applications at certain Embassies, OIG found that significant portions of these cases were not entered into the Consular Lookout and Support System (CLASS) between at least 1994 and 2003. The Department has not yet identified the names of those applicants. ◆ The current CLASS system has adequate controls and all names that posts submitted after November 2003 seem to have been entered into the system. ◆ The Department has not yet reviewed the system for entering domestic passport cases into CLASS.
Major Recommendations	◆ The Bureau of Consular Affairs should develop and implement a plan to identify all persons denied U.S. passports overseas since 1995 whose names do not appear in the Consular Lookout and Support System and enter them. ◆ CA should determine whether any persons denied U.S passports overseas since 1995 whose names do not appear in the CLASS have been issued passports in error and take action to revoke them. ◆ CA should evaluate the system for entering names of applicants denied U.S. passports domestically and make any changes necessary to ensure that it is operating properly.
Major Actions Taken or That Will be Taken	◆ As of 2003, the Office of Overseas Citizens Services can enter persons directly into the CLASS system. Plans are underway to provide access and lookout privileges to the Passport Lookout Tracking System (PLOTS) to posts overseas. ◆ CA reviewed a year's worth of lookout requests, and based upon this review, has found the requests for lookout entries and deletions to have been handled appropriately. No cases have been identified requiring passport revocation action. CA informed posts of the results of this review, and has queried posts as to whether there are any cases for which passport issuance was denied, but the cases were not, or have not yet been entered into CLASS. Significant results of this query will be provided to OIG as soon as they are obtained and compiled. ◆ All domestic passport agencies can now enter information into CLASS directly through PLOTS. Furthermore, CA checked a random selection of cases, ranging from several years to several months old, at four passport agencies to verify that cases in which electronic requests had been made from the field agencies were indeed in Passport CLASS. The results were positive. The same type of test was conducted at our Passport Records Division, which does manual entries of Headquarters-generated refusals. Again, the results were positive.
Expected Result	◆ All efforts undertaken to ensure complete and accurate records pertaining to U.S. passport issuance denials help strengthen our country's security by upholding the integrity of the U.S. passport. In response to the OIG recommendations, CA has improved the functioning of the lookout system. In addition, CA has now further streamlined the process so that appropriate offices can enter information directly into the relevant databases.

STRATEGIC GOAL 5	INTERNATIONAL CRIME AND DRUGS
CHALLENGE	**INL WASHINGTON OPERATIONS AND ACTIVITIES**
Findings (ISP-I-05-14)	◆ At present, the Bureau of International Narcotics and Law Enforcement (INL) lacks sufficient permanent staff to adequately manage its major programs. ◆ INL is strained by pressing demands and responsibilities of high priority Iraq and Afghanistan programs. ◆ INL's plans to reorganize and restructure have stalled under delays in funding for new staff positions. ◆ INL needs to strengthen mechanisms for oversight of procurement and contract compliance, particularly regarding Iraq and Afghanistan programs.
Major Recommendations	◆ INL should review and implement its long delayed reorganization plan, including personnel increases, to relieve evident strains within the bureau caused by long term staffing shortages and growing demands of Iraq and Afghanistan programs. ◆ INL should establish working groups to manage Iraq and Afghanistan programs. ◆ INL should provide the Bureau of Resource Management (RM) with information on the type of financial data the Department should include in its core financial systems for INL to meet its financial recording requirements. ◆ INL should update its property records, followed by an annual inventory and reconciliation as required by Department regulations.
Major Actions Taken or That Will be Taken	◆ Implementation of reorganization plan was delayed by funding shortfalls and the desire to have a new Assistant Secretary in place to concur with several aspects of the plan that will have a significant bearing on INL's future organizations. Open positions that are still pending will be filled within sixty days after the new Assistant Secretary assumes duties. ◆ Working groups were established in March 2005 for Iraq and Afghanistan. The Iraq Group meets weekly and the Afghan Group meets twice-weekly. Working Group heads meet with the Acting Assistant Secretary on a weekly basis. ◆ INL/RM is working with RM to address shortcoming in the current core financial management systems with the goal of incorporating key aspects of INL's unique financial management requirements and its local management tools into the Department's forthcoming Joint Financial Management System (JFMS). ◆ INL/RM has updated its property records. The annual reconciliation was completed and submitted to the Bureau of Administration on August 24, 2005.
Expected Result	◆ Implementation of the reorganization plan will allow INL to meet the growing demands of the Iraq and Afghanistan programs and relieve some of the staffing strains on the rest of the bureau. ◆ The establishment of the Iraq and Afghanistan working groups allows INL to effectively manage the growing programs in those countries. ◆ Including INL financial requirements in the forthcoming JFMS will allow the bureau to bring INL's unique financial management practices in line with the Department's official accounting records.

STRATEGIC GOAL 6	AMERICAN CITIZENS
CHALLENGE	PROTECTION OF U.S. OFFICIALS FROM TERRORIST ATTACKS OUTSIDE OF EMBASSIES
Findings **(GAO-05-642)**	◆ State has not developed a comprehensive strategy that clearly identifies safety and security requirements and resources needed to protect U.S. officials and their families abroad from terrorist threats outside of the embassy. ◆ State has not fully implemented counterterrorism training; officials lack hands-on training course to help counter attacks. ◆ Fully implement State's personal security accountability system for embassy officials. ◆ The Residential Security Program in place provides effective deterrence against crime, though only limited deterrence against terrorist attack.
Major Recommendations	◆ State, in conjunction with Overseas Security Policy Board, should develop a comprehensive "soft targets" strategy that determines the extent of State's responsibilities to protect U.S. officials and their families outside the embassy. ◆ Mandate counterterrorism training, track attendance to determine compliance with training requirements, and add "soft target protection" training module to ambassadorial, deputy chief of mission, and Regional Security Officer (RSO) training. ◆ Fully implement personal security accountability system for all embassy officials, including developing related personal security standards for the *Foreign Affairs Manual.*
Major Actions Taken or That Will be Taken	◆ A comprehensive Soft Target Strategy was submitted to Congress July 1, 2005. ◆ State mandated personal security training for all employees transferring overseas under the Chief of Mission June 1, 2004. The Department's Student Training Management System tracks enrollment and attendance for all Foreign Service Institute and DS Training Center courses. A "soft target protection" training module is included in both the Ambassadorial and Deputy Chief of Mission/Principal Officer seminars. This module has been part of the basic RSO training since July 2004 and was added to In-Service RSO training October 2005. ◆ A Department cable (STATE 120220) reiterated Chief of Mission responsibility for the security of personnel at post. Information summarized in the cable was released in various forms over the last two years. Based on existing Department authority, as mandated by the Omnibus Diplomatic Security and Antiterrorism Act of 1986, additional guidance and Foreign Affairs Manuals modifications to monitor compliance with personnel and security regulations are being examined by a Department-wide working group.
Expected Result	Inherent in the Department's overall strategy for the protection of soft targets is the understanding and acceptance of the principle of personal responsibility, both for individuals and institutions overseas. The Department will lead by example, serve as coordinator and facilitator for threat and security information exchanges, and develop specific programs and regulations where our responsibility lies. The Department is moving forward with initiatives to enhance our overall strategy in protecting U.S. Officials and their families by: ◆ Expanding post-specific briefings programs tailored to potential soft target areas, which are mandatory for all staff and family members. ◆ Enhancing liaison with host government security, intelligence and police services on soft target awareness and potential countermeasures. ◆ Creating an interagency Soft Targets Coordinating Committee through the Overseas Security Policy Board to review soft target issues and vulnerabilities with regards to employees and family members of all U.S. Government agencies abroad. Through this interagency process security standards will be revised as required to address potential threats across a host of security programs. ◆ Continuing our close working relationship with overseas schools on physical security projects and emergency plans, procedures, and security.

STRATEGIC GOAL 6	AMERICAN CITIZENS *(CONTINUED)*
Expected Result ***(continued)***	Specific Results: ◆ 500 RSOs now serve at nearly 200 missions worldwide. ◆ Approximately 175 agents will be trained for overseas assignment this fiscal year. ◆ Commenced a worldwide surveillance detection program, primarily focused on our official facilities, but which is available to be adjusted to non-official facilities depending on threat information and the local security environment. ◆ Delivered over 1,500 armored vehicles to our posts overseas, to provide the ability to transport our people safely serving in heightened threat conditions. ◆ Instituted a comprehensive chemical/biological/radiological protection program. Provided escape masks, equipment for our personnel overseas, and the necessary training. ◆ Provide local guards, roving patrols, and react teams at our residences based on threat ratings, costing in excess of $100,000,000 in FY 2005. ◆ Provided residential security upgrades to over 13,000 residences overseas, including window grilles, security doors, alarms, safehavens and lighting based upon post specific threat. These traditional countermeasures are not only viewed as a deterrent to crime, but serve a dual purpose in hardening our residences against terrorist threats. ◆ Under the guidance of the Department-wide Soft Target Working Group chaired by the Bureau of Overseas Building Operations (OBO), funded grants of over $34 million to overseas schools for security enhancements. ◆ Expended over $10,000,000 on long-term residential security improvements since 2003 through OBO's residential security facilities program. ◆ Enhanced the Department's Foreign Service Institute's Crisis Management Exercise Program which includes a soft target module. In the past year alone, FSI has provided training in crisis management to 115 posts and nearly 10,200 staff. ◆ Made available on-line a series of training scenarios that Foreign Service posts can use to conduct post specific crisis management exercises. ◆ From fiscal year 1999 to March 31, 2005, more than 15,000 persons have completed FSI's Security Overseas Seminars. ◆ The Department Executive Secretary mandates that all agencies and organizations with personnel under COM Authority must send individuals to FSI's Security Abroad for Employees, or certify similar training for their employees being assigned abroad. ◆ Conducted 28 mobile training visits to 68 posts since 2003. This training, provided to all members of the Embassy community, addresses a wide range of defensive measures that employees can use to counter and respond to incidents of crime and terrorism, and also covers emergency medical response.

STRATEGIC GOAL 7	DEMOCRACY AND HUMAN RIGHTS
CHALLENGE	MONITORING THE EFFECTIVENESS OF THE MIDDLE EAST PARTNERSHIP INITIATIVE (MEPI)
Findings **(GAO-05-711)**	◆ MEPI provides funding for projects aimed at political, economic, and educational reform and women's empowerment in the Middle East. ◆ Through MEPI, the Department of State and USAID have worked together with other U.S. Government agencies to ensure that U.S. bilateral assistance to this region is aligned with the new focus on promoting democratic reform and empowering women in the Middle East. ◆ MEPI allows for targeting of reform goals not otherwise addressed by U.S. bilateral assistance in this region. ◆ Despite its emphasis on monitoring the results of its specific projects and on holding project implementers accountable, GAO concluded that MEPI project monitoring was limited by unclear delineation of roles and responsibilities between MEPI, USAID, Embassies and Missions. ◆ GAO also concluded that MEPI project performance was not always monitored consistently, and that access to project performance information was not readily available to managers.
Major Recommendations	◆ Clearly delineate, document, and communicate monitoring roles and responsibilities. ◆ Systematically obtain, maintain, and communicate complete information on all MEPI projects. ◆ Regularly assess progress in these areas.
Major Actions Taken or That Will be Taken	◆ State and USAID have signed coordination guidelines for MEPI projects, and have begun joint monitoring trips to monitor and evaluate USAID-implemented MEPI programs. ◆ MEPI organized all records of its projects and produced a monitoring and evaluation plan for the next year. ◆ MEPI has solicited proposals for contract monitoring and evaluation support to systematize and prioritize oversight and evaluation tasks. ◆ State and USAID created a joint task force to select and implement an integrated grants and program management database system. ◆ This database will standardize the grant making and post award monitoring processes. The information will be simultaneously available electronically to State and USAID managers and grantees or implementing partners worldwide. ◆ MEPI is in the process of putting together a performance report on all active programs.
Expected Result	◆ Improved coordination and a clear delineation of roles and responsibilities between State, USAID, Embassies and Missions in setting standards and monitoring MEPI project performance. ◆ Systematic, timely, and verifiable performance data on MEPI projects that will allow the Department to evaluate effectiveness and measure results against MEPI strategic goals. ◆ Easier, faster and more complete access to information on MEPI project performance for both State and USAID project managers and grantees or implementing partners.

STRATEGIC GOAL 9	SOCIAL AND ENVIRONMENTAL ISSUES
CHALLENGE	TO ENSURE GRANTS MADE BY THE GLOBAL FUND TO FIGHT AIDS, TB AND MALARIA ARE BASED ON PERFORMANCE OF GRANTEES
Findings **(GAO –05-639)**	◆ The Global Fund's documentation of its grant disbursements and management did not always explain its decisions, for example to disburse funds to some recipients who reported meeting few of their targets. ◆ The Global Fund does not track or publicly document disbursement requests that it has denied. ◆ The Global Fund is taking steps to improve grants management, including strengthening of its staff and recipients' capacity, and clarifying and streamlining guidance, reporting and funding procedures, but there are still gaps in oversight and guidance to potential recipients.
Major Recommendations	◆ GAO recommends that the U.S. Global AIDS coordinator work with the Global Fund's Board Chair and Executive Director to improve the basis for, and documentation of, the Global Fund's funding decisions. ◆ This guidance should be aimed at completing efforts to 1) ensure that local fund agents have expertise to evaluate performance data; 2) strengthen quality and consistency of grant recipients' data; and 3) continue the Fund's efforts to clearly document its reasons for periodically disbursing funds and renewing grants.
Major Actions Taken or That Will be Taken	◆ The U.S. Global AIDS Coordinator agreed to continue to work with the Global Fund's Board and Executive Director to improve performance measurement, documentation, and overall grants management. • Representing the U.S. Government at the 11th Global Fund Board of Directors meeting, the U.S. Global AIDS Coordinator supported several decisions to strengthen and enhance the grants management process of the Global Fund. ◆ The Office of the U.S. Global AIDS Coordinator is also working with the Global Fund to develop harmonized tools for assessing data quality in Global Fund grant programs.
Expected Result	◆ Improved grants management based upon performance indicators. ◆ At the April 2006 Global Fund Board meeting, the Portfolio Committee will make proposals on: • How to "improve NGO access to the Global Fund resources in Round 6." • Revising the Proposal Form and Guidelines for Proposals for future Rounds. • Improving the process for screening out and clarifying proposals prior to submission to the TRP. • Improving guidelines in future Rounds for proposals dealing with Health Systems Strengthening. ◆ The first joint tool being developed is a Monitoring and Evaluation Systems Self Assessment Checklist that is designed to be completed at the beginning of the project cycle before contracts/grants are signed. This self assessment will allow for the evaluation of data used in results reporting and the identification of technical assistance needs.

STRATEGIC GOAL 11	PUBLIC DIPLOMACY AND PUBLIC AFFAIRS
CHALLENGE	**PUBLIC DIPLOMACY AT THE DEPARTMENT OF STATE**
Findings **(ISP-I-05-54)**	◆ Following the merger of the United States Information Agency (USIA) with the Department of State, the Department has not completed a consolidated strategy that integrates direct public diplomacy into its overall mission and objectives. ◆ Lack of funding and attention from senior leadership at the Department has had an adverse affect on the success and effectiveness of public diplomacy programs. ◆ There is no institutionalized form of coordination between public diplomacy regional bureau staff and public diplomacy functional bureau staff and there is no line authority over both. ◆ Although the Department has addressed the issue of interagency coordination, it has yet to institutionalize a government wide strategy to better approach long-term problems of public diplomacy. ◆ An unreasonable constraint on the use of public diplomacy contact management databases has also had a negative impact on the effectiveness of the conduct of public diplomacy programs.
Major Recommendations	◆ The Department should request that Congress review the Smith-Mundt Act's continued relevance, particularly its restrictions on domestic dissemination of public diplomacy information, given the ready availability of this information via the Internet. ◆ The Department should revise the Foreign Affairs Manual to designate authority to the Under Secretary for Public Diplomacy and Public Affairs for coordinating policy guidance to the regional and functional bureaus on the conduct of public diplomacy. ◆ The Department should seek greater representation at the National Security Council in order to ensure better and continuing coordination of interagency public diplomacy activities.
Major Actions Taken or That Will be Taken	◆ At her first meeting with State Department public diplomacy employees in September 2005, the Under Secretary for Public Diplomacy and Public Affairs announced her intention to form an informal group to examine the issues arising out of Smith-Mundt. The group will make recommendations to the Under Secretary about the options for Department and Congressional action and the ramifications of different possible courses of action to eliminate or amend this legislation. ◆ While no steps have been taken as yet to amend the Foreign Affairs Manual to provide the Under Secretary authority for coordinating public diplomacy policy guidance, since her arrival the Under Secretary has taken a number of actions to solidify her authority and improve public diplomacy. Regular "Echo Chamber" messages are sent to the field under her authority to provide ambassadors, public affairs officers and others guidance on important issues (such as UN Reform, America's response to Hurricane Katrina, the Iraq constitution, etc.). Plans are underway to "double hat" one deputy assistant secretary in each regional bureau with responsibility for public diplomacy, reporting both to the regional assistant secretary and the Under Secretary. The Bureau recently established a rapid response unit within the Bureau of Public Affairs to provide agile response, on a 24/7 basis, to misinformation and hateful propaganda appearing in the world press. ◆ The Under Secretary has been charged by the President and Secretary of State to establish and chair an interagency Strategic Communications committee that will be responsible for identifying and coordinating U.S. Government public diplomacy activities across the interagency, and work is ongoing to implement this directive.
Expected Result	◆ While it may not prove to be necessary or advisable to ask Congress to eliminate Smith-Mundt restrictions on domestic dissemination of public diplomacy products, it is possible that recommendations may emerge that would allow us to reduce redundancies and duplication and achieve greater economies, particularly in web-based public diplomacy products and activities. ◆ Over time, efforts to improve our ability to get the U.S. Government point of view before foreign publics will give U.S. policies a fair hearing among key influencers and publics around the world. By designating a Deputy Assistant Secretary in each regional bureau as the lead for public diplomacy, it is expected that public diplomacy will be more effectively integrated into the bureau's policy and management decision-making. At the same time, this gives the Under Secretary a senior-level official with whom to work to make certain that public diplomacy and policy are effectively integrated within and across bureau boundaries. ◆ By establishing and chairing an interagency strategic communication coordinating group, the Under Secretary will ensure that important coordination of public diplomacy programs and messages will more effectively take place, and economies will be realized by reducing duplicative efforts or tailoring agency public diplomacy activities to conform closely with policy objectives.

STRATEGIC GOAL 11	PUBLIC DIPLOMACY AND PUBLIC AFFAIRS *(CONTINUED)*
CHALLENGE	**COORDINATING A NATIONAL STRATEGY FOR PUBLIC DIPLOMACY**
Findings (GAO-320283)	◆ The lack of a national communication strategy hampers coordination of interagency public diplomacy activities. ◆ The White House Office of Global Communications, charged by the President to facilitate strategic public diplomacy planning and coordinate U.S. Government efforts, has not done this effectively and has not developed a national communication strategy. ◆ The State Department has not developed a specific strategy to engage the private sector in public outreach efforts wherever feasible, though State recognizes the importance of the private sector in this area.
Major Recommendations	◆ The Director of the Office of Global Communications should facilitate the development of a U.S. Government national communications strategy. ◆ The Secretary of State should develop a strategy to guide State Department efforts to engage the private sector in pursuit of common public diplomacy objectives.
Major Actions Taken or That Will be Taken	◆ State's Bureau of Public Diplomacy and Public Affairs responded that an area of early focus for its newly appointed leadership would be to build on its current ties with the private sector and to implement the GAO recommendation.
Expected Result	◆ Increased interaction between State and the private sector in developing effective public communication/outreach products to communicate U.S. Government policies to overseas audiences.
CHALLENGE	**TO ASSIST INDEPENDENT MEDIA ABROAD AND MEASURE RESULTS OF THIS ASSISTANCE**
Findings (GAO-05-803)	◆ The State Department, along with USAID and other agencies, provides a wide range of assistance to independent media in foreign countries with the goal of developing sustainable democracies abroad, reducing corruption and advancing civic education. ◆ State faces challenges in developing performance indicators that can accurately measure the success of its many and varied programs assisting and developing independent media abroad. ◆ Country-specific and programmatic challenges can impede implementation of media development, including changes in the political environment, difficulty coordinating donors, and lack of adequate civic or legal institutions in the recipient country. ◆ Performance indicators for media development were not widely or uniformly established by State at all of its overseas missions, but those embassies that established independent media as a priority and set specific performance goals in its mission-planning documents were most likely to have established specific indicators for measuring this goal.
Major Recommendations	◆ [None given]
Major Actions Taken or That Will be Taken	◆ State is currently developing a new set of performance indicators for public diplomacy that will include media development and outreach activities. ◆ State's recently-established Office of Policy, Planning and Resources in the Public Diplomacy bureau plans to begin training in evaluation of media programs in fiscal year 2006, including assessment of performance at the field level.
Expected Result	◆ Establishment of uniform and specific performance indicators by State for use in Washington and overseas in evaluating the success of its programs to assist independent media abroad. ◆ Improved ability to determine which programs are most successful at assisting independent media abroad, and increased ability to target funds for maximum effectiveness.

STRATEGIC GOAL 12	MANAGEMENT AND ORGANIZATIONAL EXCELLENCE
CHALLENGE	COMPLIANCE WITH FEDERAL INFORMATION SECURITY MANAGEMENT ACT OF 2002
Findings **(IT-I-05-09)**	◆ The Department, under the leadership of the Chief Information Officer (CIO), is currently upgrading its information technology application baseline to strengthen connections among enterprise architecture, e-Authentication, privacy, systems authorization, the Plan of Action and Milestones process, and the capital planning process. ◆ The Department has taken a proactive approach to improve patch management operations and customer service. ◆ The Department ensures that all employees receive an annual information security awareness briefing through its web-based training tool and continues to operate a successful and robust cyber incident response program. ◆ However, OIG found that the Department still does not have a complete inventory of systems that includes major applications, minor applications, and general support systems. ◆ IT security weaknesses found within a local area network are not included in the plan of action process because the Department does not consistently define the term " system" throughout documentation and guidelines. ◆ The Department's certification and accreditation process has not been fully implemented. ◆ Additionally, implementation of information security at overseas posts and domestic bureaus continues to require Department attention. OIG observed problems with the duties of the Information Systems Security Officer (ISSO), patch management, contingency planning, and inappropriate use at many of the 36 sites visited.
Major Recommendations	◆ The Chief Information Officer should ensure that the State Automated Federal Information Security Management Act Reporting Environment application is certified and accredited, and that users receive the requisite training on this application. ◆ A risk assessment should be conducted on all subcomponents or a representative sample prior to reaccrediting the Department's unclassified and classified networks. ◆ The CIO should provide information security requirements that must be addressed during the regional computer security officers' site evaluation and verification visits. ◆ The CIO should require that the Chief Information Security Officer (CISO) be included in all operational decisions made in Washington that increase the risk to the Department's information security posture, and should establish mandatory minimum requirements for Information Systems Security Officers (ISSOs). ◆ The CIO should design and implement procedures for ensuring that the privacy impact assessment section in the Department's application inventory system is completed for all applications, and, in coordination with the Assistant Secretary for Administration and the Office of the Legal Adviser, update guidance on employee Privacy Act responsibilities.
Major Actions Taken or That Will be Taken	◆ The Department performed risk assessments on the major components of OpenNet (Unclassified) and ClassNet (Classified) networks, and these components will undergo more rigorous testing in the future. ◆ The CIO will formally task all operational elements to include the Chief Information Security Officer in all operational and policy decisions that may significantly impact the risk to the Department's information security posture. The CISO's staff is also working with the Bureau of Human Resources to professionalize the ISSO program. ◆ The Department's new registration process for Information Technology Asset Baseline will incorporate mandatory privacy reporting into the Department's application registration process. ◆ In addition, numerous efforts are underway that address the need to raise employee awareness of protecting privacy information, including Department-wide training for employees and contractors.
Expected Result	◆ Improved security for both unclassified and classified information systems and networks at the Department of State. Better training and more consistent standardization of programs aimed to ensure system security and periodic testing for system vulnerabilities and risks. Increased awareness of privacy standards and concerns for employees/system users.

ADDRESSING FY 2004 MANAGEMENT CHALLENGES

The *FY 2004 Department of State Performance and Accountability Report* highlighted several management challenges that the Government Accountability Office (GAO), Office of Inspector General (OIG), and the Department's independent auditor identified as areas where the Department needed to improve its operations. Of particular note were problems with visa processing and border security; secure passport issuance; communication with and outreach to the Muslim public; and internal management issues ranging from staffing of hardship posts to protection of classified material to internal controls over financial transactions.

MANAGEMENT CHALLENGES HIGHLIGHTED BY THE OFFICE OF INSPECTOR GENERAL

Three of the five OIG reports included in the Management Challenges section of the FY 2004 PAR have been closed by the inspectors. Inspectors have concluded that the Department has taken appropriate action to satisfy recommendations and improve operations in areas under the following reports:

- **Report AUD/PPA- 04-07,** which called for the State Department to construct concurrently with the U.S. Agency for International Development (USAID) buildings, annexes and additions to the greatest extent possible, and encouraged collocation of facilities whenever feasible;
- **Report ISP-04-54,** which encouraged the Director General of the Foreign Service to improve leadership and staffing at hardship posts in order to improve morale and management at these posts;
- **Report ISP-I-04-18,** which recommended that the Department of State document lessons learned from its move of domestic financial services to offices in Charleston, South Carolina.

Report SIO-A-04-08, which called on the Department to remind overseas employees of their responsibilities regarding handling of classified material, is currently being closed out pending formal changes to the Foreign Affairs Manual on the distribution of certain categories of classified documents.

Report ISP-CA-04-01, regarding the need for additional training on the issuance of passports, especially overseas, was resolved. In following with the recommendations of the Inspector General, the Bureau of Consular Affairs (CA) agreed to develop and issue a standard passport troubleshooting guide for use worldwide and has implemented a quality assurance program. CA also agreed to institute a mentoring program for junior officers to provide feedback and additional training in processing passports.

MANAGEMENT CHALLENGES HIGHLIGHTED BY THE GOVERNMENT ACCOUNTABILITY OFFICE

As detailed below, the Department took additional steps since the release of the *FY 2004 Performance and Accountability Report* to resolve management challenges identified by the GAO under the following reports:

- **Report GAO-04-795** highlighted problems associated with delays in the process for revoking visas. The GAO recommended corrective action to eliminate these delays. To meet these concerns and implement the recommendations, the Department of State revised and formalized its tracking system for visa revocations. State also met with Department of Homeland Security

officials to agree on steps to solve legal and policy problems associated with visa revocations. These actions have met the GAO's concerns and greatly accelerated the processing of visa revocations.

- **Report GAO-04-1001** indicated a need for more guidance to the field in the collection of biometric data necessary for visa issuance, specifically the collection of two index fingerprints from all applicants. This additional guidance was provided to the field, so this need has been met. It should be noted that, since this report was issued, the Department of Homeland Security decided that ten fingerprints must be collected from all visa applicants. The Department of State is now planning for collection of ten fingerprints from all applicants beginning in FY 2007.

- **Report GAO-04-4435T** recommended that State develop a strategy to integrate its pubic diplomacy efforts and direct them toward common, measurable objectives, targeting Muslim audiences in particular. Since becoming Under Secretary for Public Diplomacy and Public Affairs, Karen Hughes has taken a number of steps to meet this requirement. First, the Department has put in place a strategic framework with three key components: (1) offer a positive vision of hope that is rooted in the President's freedom agenda; (2) work to isolate and marginalize extremists and undermine their appropriation of religion; and (3) foster a sense of common interests between Americans and people of different countries and cultures and faiths throughout the world. In addition, the Department is taking the following steps to support this strategic vision and integrate public diplomacy more effectively into the policy process:

  - The Department is reviewing public diplomacy structures and programs with the goal of strengthening public diplomacy to support this strategic vision.

  - The Department now has one deputy assistant secretary or equivalent in each of the regional bureaus with responsibility for public diplomacy activities in the region. These officials report both to the regional assistant secretary and the Under Secretary.

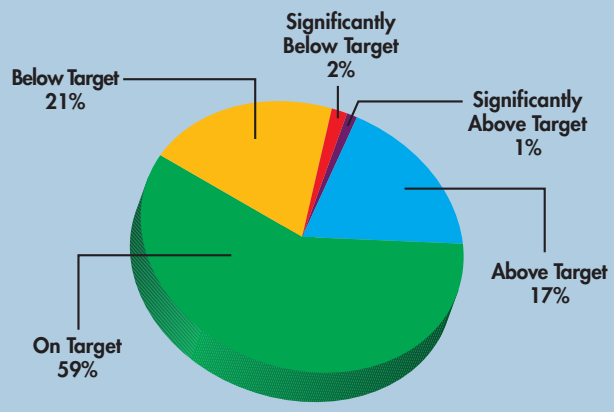
  - The President has asked the Under Secretary to lead the strategic communication effort with the U.S. Government. The Under Secretary has consulted policy and communications experts in various agencies on how best to counter extremist ideology, which will be an immediate focus. The expected result from this outreach is to achieve broader interagency coordination on the full range of strategic communications matters.

  - The Department is also working with the Performance Institute, the leading think tank on public policy performance, to develop a framework of performance metrics to measure the extent of public diplomacy activities against strategic objectives.

SUMMARY OF FY 2005 PERFORMANCE

The following pie chart shows the ratings distribution for all performance indicators reported across all strategic goals in FY 2005. As shown below, 78% of the ratings were "On Target" or above, meaning that these initiatives or programs met or exceeded performance targets.

Summary of FY 2005 Performance Results



RATINGS DISTRIBUTION

Significantly Above Target	2
Above Target	34
On Target	116
Below Target	40
Significantly Below Target	3
Total Number of Ratings	**195**

This table shows the allocated resources and average performance ratings for all strategic goals. The performance rating shown here is the average of all ratings for initiatives/programs under each strategic goal as opposed to the pie chart above which shows results by indicators. Positions are U.S. direct hire only.

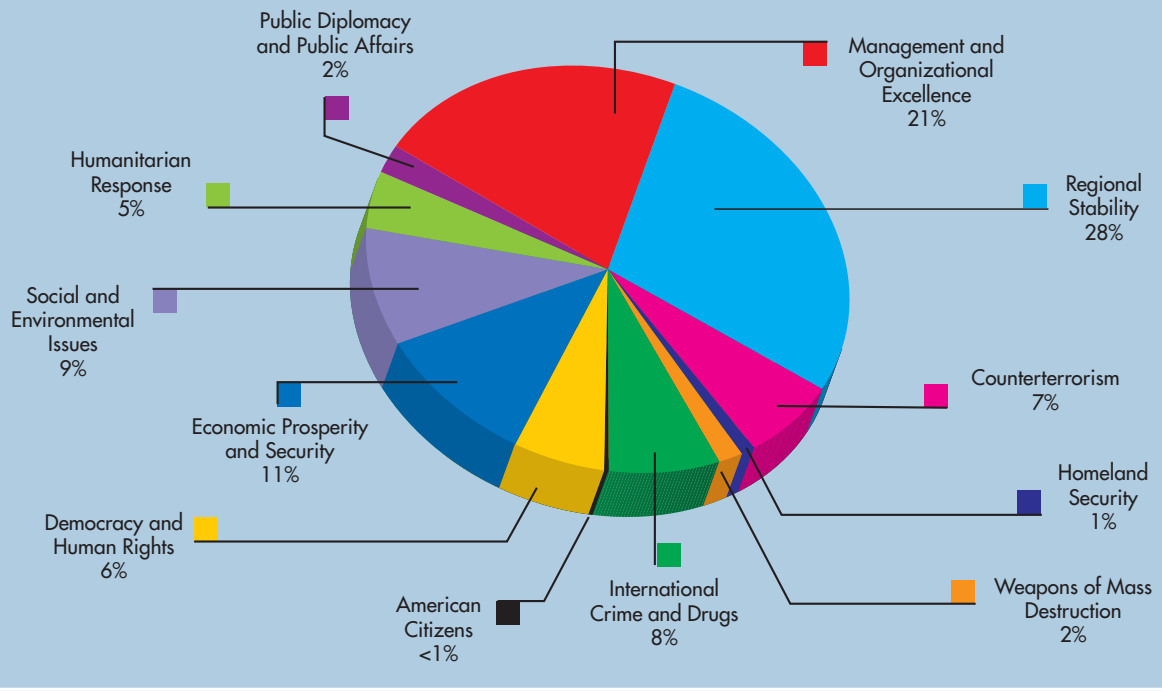
SUMMARY BUDGET AUTHORITY AND HUMAN RESOURCES BY STRATEGIC GOAL

	FY 2004			FY 2005			Change
	Positions	Dollars	Performance Rating	Positions	Dollars	Performance Rating	Performance Rating
1 Regional Stability	1,270	$ 6,641	Below Target	1,282	$ 7,092	On Target	↑
2 Counterterrorism	898	1,160	On Target	906	1,768	On Target	↔
3 Homeland Security	562	237	On Target	567	262	On Target	↔
4 Weapons of Mass Destruction	514	431	Below Target	519	422	On Target	↑
5 International Crime and Drugs	695	1,482	On Target	702	1,918	On Target	↔
6 American Citizens	551	60	On Target	556	66	On Target	↔
7 Democracy and Human Rights	822	1,100	On Target	830	1,500	On Target	↔
8 Economic Prosperity and Security	1,539	3,270	On Target	1,553	2,654	On Target	↔
9 Social and Environmental Issues	281	2,367	On Target	284	2,306	On Target	↔
10 Humanitarian Response	547	1,126	On Target	552	1,179	On Target	↔
11 Public Diplomacy and Public Affairs	2,230	538	On Target	2,251	597	On Target	↔
12 Management and Organizational Excellence	9,585	4,861	On Target	9,675	5,418	On Target	↔
Total	**19,494**	**$ 23,273**		**19,677**	**$ 25,182**		**Net +2**

DEPARTMENT OF STATE BUDGET ALLOCATION BY STRATEGIC GOAL

Includes both Appropriations Act Resources and Foreign Operations and Food Aid Resources

FY 2005 Budget Allocation by Strategic Goal



SUMMARY OF PERFORMANCE GOAL RESULTS

The table below provides performance results for each of the Department's FY 2005 annual performance goals. The inverted black triangle represents the average of all performance ratings assigned to results associated with the performance goal. The numbers in the graphs show how the ratings are distributed among the reported FY 2005 results. Also represented in the table below is the amount of "Budget Authority" and "Human Resources" applied to each strategic goal for FY 2005. The resource data are 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: $7,092 Million Human Resources: 1282 Positions	Close, strong, and effective U.S. ties with allies, friends, partners and regional organizations. *6 Results*	0 / 0 / 5 / 1 / 0
	Existing and emergent regional conflicts are contained or resolved. *11 Results*	1 / 4 / 6 / 0 / 0
Counterterrorism Budget Authority: $1,768 Million Human Resources: 906 Positions	Coalition partners identify, deter, apprehend, and prosecute terrorists. *7 Results*	0 / 3 / 4 / 0 / 0
	U.S. and foreign governments actively combat terrorist financing. *5 Results*	0 / 1 / 4 / 0 / 0
	Coordinated international prevention and response to terrorism, including bioterrorism. *4 Results*	0 / 1 / 3 / 0 / 0
	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: $262 Million Human Resources: 567 Positions	Denial of visas to foreign citizens who would abuse or threaten the U.S. while facilitating entry of legitimate applicants. *4 Results*	0 / 0 / 3 / 1 / 0
	Implemented international agreements to stop the entry of goods that could harm the U.S., while ensuring the transfer of bona fide materials. *3 Results*	0 / 0 / 3 / 0 / 0
	Protection of critical physical and cyber infrastructure networks through agreements and enhanced cooperation. *3 Results*	0 / 0 / 2 / 1 / 0

[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: $422 Million** **Human Resources: 519 Positions**	Bilateral measures, including the promotion of new technologies, combat the proliferation of WMD and reduce stockpiles. *6 Results*	0	3	3	0	0
	Strengthened multilateral WMD agreements and nuclear energy cooperation under appropriate conditions. *5 Results*	0	1	4	0	0
	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. *5 Results*	0	2	3	0	0
International Crime and Drugs **Budget Authority: $1,918 Million** **Human Resources: 702 Positions**	International trafficking in drugs, persons, and other illicit goods disrupted and criminal organizations dismantled. *7 Results*	0	4	1	2	0
	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. *5 Results*	0	0	3	2	0
American Citizens **Budget Authority: $66 Million** **Human Resources: 556 Positions**	U.S. citizens have the consular information, services, and protection they need to reside, conduct business, or travel abroad. *3 Results*	0	0	3	0	0
	Effective and timely passport issuance, with document integrity assured. *3 Results*	0	0	3	0	0
Democracy and Human Rights **Budget Authority: $1,500 Million** **Human Resources: 830 Positions**	Measures adopted to develop transparent and accountable democratic institutions, laws, and economic and political processes and practices. *9 Results*	0	3	3	3	0
	Universal standards protect human rights, including the rights of women and ethnic minorities, religious freedom, worker rights, and the reduction of child labor. *6 Results*	1	1	3	1	0

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: $2,654 Million** **Human Resources: 1,553 Positions**	Institutions, laws, and policies foster private sector growth, macroeconomic stability, and poverty reduction. *4 Results*	0	0	4	0	0
	Increased trade and investment achieved through market-opening international agreements and further integration of developing countries into the trading system. *7 Results*	0	1	4	2	0
	Secure and stable financial and energy markets. *2 Results*	0	0	1	1	0
	Enhanced food security and agricultural development.	USAID addresses this performance goal.[1]				
Social and Environmental Issues **Budget Authority: $2,306 Million** **Human Resources: 284 Positions**	Improved global health, including child, maternal, and reproductive health, and the reduction of abortion and disease, especially HIV/AIDS, malaria, and tuberculosis. *8 Results*	0	0	5	2	1
	Partnerships, initiatives, and implemented international treaties and agreements that protect the environment and promote efficient energy use and resource management. *7 Results*	0	0	4	3	0
	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. *1 Result*	0	0	1	0	0
Humanitarian Response **Budget Authority: $1,179 Million** **Human Resources: 552 Positions**	Effective protection, assistance, and durable solutions for refugees, internally displaced persons, and conflict victims. *10 Results*	0	1	6	3	0
	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.*

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: $597 Million** **Human Resources: 2,251 Positions**	Public diplomacy influences global public opinion and decision-making consistent with U.S national interests. *7 Results*	0	0	6	1	0
	International exchanges increase mutual understanding and build trust between Americans and people and institutions around the world. *6 Results*	0	0	5	1	0
	Basic human values embraced by Americans are respected and understood by global publics and institutions. *5 Results*	0	1	4	0	0
	American understanding and support for U.S. foreign policy, development programs, the Department of State, and USAID. *5 Results*	0	1	3	1	0
Management and Organizational Excellence **Budget Authority: $5,418 Million** **Human Resources: 9,675 Positions**	A high performing, well-trained, and diverse workforce aligned with mission requirements. *11 Results*	0	4	3	3	1
	Modernized, secure, and high quality information technology management and infrastructure that meets critical business requirements. *5 Results*	1	1	2	1	0
	Personnel are safe from physical harm and national security information is safe from compromise. *7 Results*	0	2	4	1	0
	Secure, safe, and functional facilities serving domestic and overseas staff. *8 Results*	0	2	2	4	0
	Integrated budgeting, planning, and performance management; effective financial management; and demonstrated financial accountability. *4 Results*	0	1	3	0	0
	Customer-oriented, innovative delivery of administrative and information services, acquisitions, and assistance. *6 Results*	0	3	3	0	0

SUMMARY OF RESULTS RATED "SIGNIFICANTLY BELOW TARGET"

STRATEGIC GOAL 1: REGIONAL STABILITY	
I/P #7: AN ENHANCED AND EXPANDED EURO-ATLANTIC PARTNERSHIP	
Indicator #3: Progress on Implementation of Adapted Conventional Forces in Europe (CFE) Treaty	
Target	Russia makes progress toward fulfillment of remaining Istanbul commitments, allowing for U.S. ratification and, after all other CFE states ratify, entry into force of the Adapted CFE Treaty.
Result	On May 30, 2005, Russia and Georgia agreed on a timeline for Russia to withdraw from two of its bases in Georgia and identified an initial step toward resolving the status of the Russian presence at a third base. NATO Allies agreed that while this constitutes important progress toward meeting the Istanbul commitments on Georgia, follow-on steps are needed. No progress to report yet this fiscal year regarding the Russian commitment to withdraw from Moldova.
Impact	While the continuing inability to begin the process of achieving entry into force of the Adapted CFE Treaty does not materially affect U.S. security, it is a growing irritant in U.S. and NATO relations with Russia. Russia's failure to implement its Istanbul commitments raises questions about Russian motivations regarding Georgia and Moldova. Failure to achieve entry into force of the Adapted Treaty could undermine the confidence and stability gained by the 1990 CFE Treaty.
Reason for Shortfall	Russia has yet to make the political decisions necessary to withdraw forces from Moldova.
Steps to Improve	The U.S. and NATO will continue to press Russia to implement its Istanbul commitments. The 2006 CFE Review Conference will provide a special occasion for applying such pressure.

STRATEGIC GOAL 7: DEMOCRACY AND HUMAN RIGHTS	
ECONOMIC SUPPORT FUND (PART PROGRAM EFFICIENCY MEASURE)	
Indicator #6: Percentage of Economic Support Funds (ESF) That Have Been Obligated Four Months After the Bureau of Western Hemisphere Affairs (WHA) Receives Its Final Line Item Allocations[1]	
Target	50%
Result	10%
Impact	The amount of time it takes WHA and USAID to obligate funds once line item allocations have been received determines when ESF programs can be implemented. The sooner WHA is able to obligate funds, the faster the region will benefit from these programs.
Reason for Shortfall	The target was not met until the sixth month after receipt of line item allocations due to the late issuance of new funding guidance and submission formats.
Steps to Improve	This situation was unique and due to circumstances beyond WHA's control.

1. *Moved in FY 2005 from Chapter Eight, "Economic Prosperity," Performance Goal 1, Indicator #5. The focus of projects covered under this indicator now primarily fall under democracy and human rights rather than economic development.*

STRATEGIC GOAL 12: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE	
I/P #9: MODERN, WORLDWIDE, INTEGRATED MESSAGING	
Indicator #5: Elimination of the Legacy Cable System & Status of SMART Deployment	
Target	1. Complete Pilot 2. Bring Online Second Secure Processing Facility 3. Initiate Worldwide Deployment 4. National Archives and Records Administration compliant records management and transfer capabilities established.
Result	1. System requirements decomposition effort results in validated list of derived requirements. 2. 50 users participated in a series of system usability demonstrations and provided feedback, driving defect corrections.
Impact	Vendor request for delay under negotiation. Now that the pilot has been postponed, the likely outcome is that completion of the Phase 1A Beta Solution schedule will be extended into FY 2006. However, due to SMART's firm fixed price, performance-based contract, no additional financial resources are required.
Reason for Shortfall	In November FY 2005, the system integrator requested an additional three-month delay in order to address system stability and functionality issues identified during a usability dry run. In March FY 2005, the system integrator named a new Program Manager for SMART, and an internal program review was initiated. In May FY 2005, the system integrator requested an additional 45-day delay in order to complete its re-planning effort, and develop and submit a proposal for the completion of Phase 1A.
Steps to Improve	Negotiations for the modification of the SMART contract are currently underway.

PROGRAM ASSESSMENT RATING TOOL (PART) STATUS

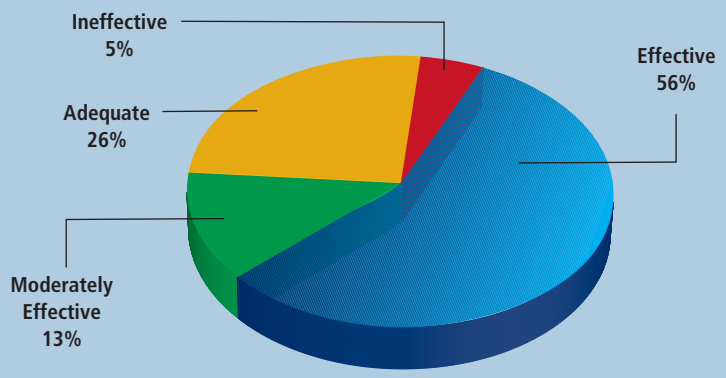
The Office of Management and Budget (OMB) uses the Program Assessment Rating Tool (PART) to assess federal programs. The PART is a series of diagnostic questions used to assess and evaluate programs across a set of performance-related criteria, including program design and purpose, strategic planning, 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 usage of taxpayer dollars.

To date, State and OMB have conducted 39 PART reviews for State's programs. Twelve new PART reviews were conducted in 2005 for inclusion in the President's FY 2007 budget submission to Congress. No reassessments were conducted for programs reviewed in previous years. Preliminary scores for the current-year assessments rate three State programs as "Effective," one program as "Moderately Effective'" six programs as "Adequate," and two programs as "Ineffective."

Recent results from PART reviews conducted by OMB are summarized below by strategic goal. Information is provided describing how bureaus have addressed and implemented findings and recommendations for each of the PART programs.

PART Program Scores and Ratings

CY 2002 - 2005 (39 programs)



RESULTS by PART Assessment Categories	
Effective	22
Moderately Effective	5
Adequate	10
Ineffective	2
Total Number of Assessments	**39**

PART PROGRAMS CY 2002 – 2005: SCORES AND RATINGS

Strategic Goal	Bureau	Program Name	Scores and Rating as of October 19, 2005
Public Diplomacy	ECA	Educational and Cultural Exchange Programs – Near East and South Asia	98% – Effective
Public Diplomacy	ECA	Educational and Cultural Exchange Program – Global	97% – Effective
Management Excellence	OBO	Capital Security Construction	97% – Effective
Regional Stability	AF	Security Assistance in Sub-Saharan Africa	97% – Effective
Humanitarian Response	**PRM**	**Migration and Refugee Assistance: Protection**	**96% – Effective**
Humanitarian Response	PRM	United Nations High Commission for Refugees	96% – Effective
Regional Stability	**SA**	**Security Assistance**	**93% – Effective**
Humanitarian Response	PM	Humanitarian Demining	93% – Effective
Humanitarian Response	**PRM**	**Migration and Refugee Assistance - Other PRM Programs**	**93% – Effective**
Homeland Security	CA	Border Security Program – Visa and Consular Services	92% – Effective
Management Excellence	DS	Worldwide Security Upgrades	92% – Effective
Humanitarian Response	PRM	Humanitarian Migrants to Israel	91% – Effective
Regional Stability	IO	United Nations Development Program	91% – Effective
Regional Stability	WHA	Security Assistance	90% – Effective
Weapons of Mass Destruction	ISN	Export Controls	90% – Effective
Weapons of Mass Destruction	ISN	Non Proliferation and Disarmament Fund	89% – Effective
Democracy and Human Rights	EUR	Freedom Support Act/Support for East European Democracy	88% – Effective
Regional Stability	IO	Contributions to International Peacekeeping Activities	86% – Effective
Management Excellence	OBO	Regular Construction/Asset Management	86% – Effective
Humanitarian Response	PRM	Refugee Admissions to the U.S.	86% – Effective
Counterterrorism	S/CT	Terrorist Interdiction Program	85% – Effective
Counterterrorism	S/CT	Anti-Terrorism Assistance	85% – Effective
Regional Stability	EUR	North Atlantic Treaty Organization	83% – Moderately Effective
Regional Stability	EUR	New NATO Countries and Aspirant Countries	80% – Moderately Effective
Weapons of Mass Destruction	ISN	Nonproliferation of Weapons of Mass Destruction Expertise	79% – Moderately Effective
Management Excellence	**DS**	**Protection of Foreign Missions and Officials**	**72% – Moderately Effective**
Economic Prosperity	WHA	Economic Support Funds	71% – Moderately Effective
Democracy and Human Rights	DRL	Human Rights and Democracy Fund	67% – Adequate
Management Excellence	**RM**	**International Cooperative Administrative Support Services**	**65% – Adequate**
Social and Environmental	**S/GAC**	**The President's Emergency Program for AIDS Relief - Focus Countries**	**65% – Adequate**
Social and Environmental	**S/GAC**	**The President's Emergency Program for AIDS Relief - Global Fund**	**60% – Adequate**
Social and Environmental	OES	International Fisheries Commissions	59% – Adequate
Economic Prosperity	**AF**	**Economic Support Funds**	**58% – Adequate**
Public Diplomacy	**R**	**Public Diplomacy**	**56% – Adequate**
International Crime and Drugs	INL	Andean Counterdrug Initiative	53% – Adequate
International Crime and Drugs	**INL**	**International Narcotics Control and Law Enforcement: Africa/Asia**	**53% – Adequate**
International Crime and Drugs	INL	International Narcotics and Law Enforcement in the Western Hemisphere	52% – Adequate
Social and Environmental	**S/GAC**	**The President's Emergency Program for AIDS Relief - Other Bilateral**	**49% – Ineffective**
Public Diplomacy	**IIP**	**International Information Programs**	**45% – Ineffective**

Programs in bold type were assessed in 2005.

THE PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda (PMA) is the President's strategy for improving the management and performance of the federal government. The Department has made substantial progress on each of the five government-wide PMA initiatives, as well as on the two additional initiatives for which State plays a key role. Each quarter, the Office of Management and Budget (OMB) releases an executive scorecard, which rates progress and overall status in each of the President's Management Agenda initiatives. The progress and status ratings use a color-coded system that is based on criteria determined by OMB and used by all agencies. Agency performance in specific areas is rated on the grading scale of red, yellow, and green. For more information on the PMA and the executive scorecard, please visit *www.whitehouse.gov/results/*.

The Department achieved green scores for progress on implementing each of the five government-wide PMA initiatives. With respect to overall status, the Department has made significant improvements in several areas, with the status scores for Strategic Management of Human Capital, Improved Financial Performance, and Budget and Performance Integration now at green. For the PMA initiatives in Competitive Sourcing, E-Government, and Federal Real Property Asset Management, the Department is currently at green for progress and yellow for status. E-Government went from green to yellow on status for the Fourth Quarter of FY 2005 because State did not meet e-Gov criteria on operations optimization and secure systems.

In addition, OMB designated the State Department as the principal implementing partner for the PMA initiative on a Rightsized Overseas Presence and Congress mandated the creation of the Office of Rightsizing the U.S. Government Overseas (M/R) within the Department. The Rightsizing initiative is now at green for progress and green for status. This initiative moved to double green because the Department: (1) established and implemented a rightsizing review process for all posts overseas; (2) focused on linking staffing to mission goals; (3) minimized duplication and promoted shared services and outsourcing; (4) established the Capital Security Cost Sharing program to have agencies pay pro-rata share of embassy construction costs; (5) established a strategic architecture for the regionalization and centralization of State Department support services, including the opening of the Frankfurt Regional Center; and (6) established an Office of Rightsizing to coordinate internal State and interagency rightsizing efforts. Our next challenges are to strengthen the rightsizing mechanisms now in place and systematically quantify outcomes and results.

The State Department develops its PMA performance goal milestones, which are integrated into Strategic Goal 12: Management and Organizational Excellence, through an annual deliberative process. This includes both agency initiative owners and OMB. Participants owning the PMA initiatives detail where they would be "Proud To Be" within one year, and then coordinate with OMB examiners to strategize how to best accomplish their goals through quarterly progress. OMB reviews this progress and issues its PMA government-wide scorecard summary. The Department, in consultation with OMB's International Affairs Division, fully articulated its "Proud To Be" goals for the third year of the PMA in August 2005.

The Stoplight Scoring System

OMB assesses agency progress and status for each PMA initiative. OMB's scorecard employs a simple scoring system common today in well-run businesses. Scoring is color-coded as follows:

SCORE	PROGRESS	STATUS
GREEN	Implementation is proceeding according to plans agreed upon with the agency	The Agency meets all of the scorecard standards for success
YELLOW	Some slippage or other appropriate issues require the agency to adjust operations to achieve objectives within timeframes	The agency meets all the scorecard standards for success but some areas could slip absent management intervention
RED	Initiative is in serious jeopardy; realizing objectives is unlikely absent significant management intervention	The agency demonstrates any one of a number of serious flaws listed in the standards for success

The following is a brief overview of the Department's overall PMA progress:

Progress	STRATEGIC MANAGEMENT OF HUMAN CAPITAL	Status

Goal

- Build, sustain, and deploy effectively a skilled, knowledgeable, diverse, and high-performing workforce aligned with mission objectives and goals.

Progress

- Fully implemented Civil Service (CS) Workforce Planning System for CS employees.
- Registered 76% of all Foreign Service (FS) and CS in "Employee Profile +"
- Collected data, developed reporting templates, populated on-line system to track and document HC results.
- Implemented new promotion procedures for FS Generalists.
- Completed Career Development plan (FS Generalists). Expanded to include Foreign Service and enhanced Civil Service opportunities.

Upcoming Actions

- Report on mission critical occupations (FY 2005 data and projections).
- Improve diversity/reduce under representation. Report FY 2005 hiring statistics.
- Report status on Civil Service Performance Appraisal System.
- Report progress on Mandatory Leadership and Management training and assess needs beyond 2006.
- Complete IT competency gap assessment and gap closure plan.
- Negotiate with unions for new CS Performance Appraisal System and prepare request for the Office of Personnel Management (OPM) approval.
- Report progress on family employment activities.
- With OPM, determine elements necessary for strengthening Agency accountability system.

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

- Modified structure, composition and duties of Management Control Steering Committee (MCSC) to facilitate implementation of Revised OMB Circular A-123.
- Issued interim financial statements for the quarter ending June 30, 2005.
- State and USAID installed production Joint Financial Management System (JFMS) hardware in Charleston, SC to support USAID operations.
- Continued to expand the content and use of financial data to inform the management decision-making process.
- State and USAID successfully upgraded to Momentum 6.02 for JFMS. Efforts included collaboration on software conversion utilities, procedures, configuration setups and post-implementation monitoring.

Upcoming Actions

- Issue final report and recommendation for migrating Consolidated American Payroll Processing System to the National Finance Center (NFC).
- Address auditor-identified material weaknesses in internal control relating to personal property and information systems security.
- Implement requirements of revised OMB Circular A-123, Appendix A in accordance with plan submitted to OMB.
- Report improper payments program results and recovery audit efforts in the FY 2005 PAR.
- Implement first E-Travel pilot in Charleston, SC.
- Move USAID financial system database to Charleston, SC, and begin production JFMS operations.

Progress	COMPETITIVE SOURCING	Status

Goal

- Achieve efficient, effective competition between public and private sources and establish infrastructure to support competitions.

Progress

- Announced standard competition for Human Resources/Career Assignments Technicians.
- Continuing to work with OMB to obtain approval of State's FAIR Act Inventory.
- Began drafting Performance Work Statement for motor-pool drivers.
- Conducted industry day for Multimedia Services Competition.
- Completed streamlined competition for language instruction.
- Announced and completed streamlined competition for TV Broadcast Technicians.

Upcoming Actions

- Publish solicitation for MMS competition, subject to resolution of issues.
- Issue draft solicitation for Career Assignments Competition (standard competition).
- Work with OMB to get approval for State's FAIR Act Inventory.
- Issue draft solicitation on MMS competition pending OMB approval of waivers.

Progress	BUDGET AND PERFORMANCE INTEGRATION	Status

Goal

- 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 better control of resources and greater accountability over results.

Progress

- Submitted draft pilot performance Congressional Budget Justification (CBJ) for two accounts to OMB for review.
- Included PART Ratings and Substantive Analysis in Account Justification section of draft Performance Budget Submission.
- Submitted OMB Exhibit 300 for joint State-USAID performance planning system.
- Rolled out the Global Affairs Dashboard to select bureau users.
- Provided final FY 2004 Efficiency Measure Report with 4th Quarter deliverables package.
- Continued to track status of PART findings and recommendations.

Upcoming Actions

- Produce PART Scores and Ratings Reports.
- Include PART ratings and substantive analysis in account justification section of draft performance budget submission.
- Further develop pilot CBJ format in coordination with OMB.
- Provide documentation highlighting bureau Quarterly Management Reports (QMRs) that were used in internal budget decision-making process to OMB and senior managers within the Department.
- Integrate select USAID performance data into Global Affairs Dashboard.

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**
  - Submitted quarterly report stating the agency has no IT acquisitions duplicative of e-Gov initiatives.
  - Submitted e-Gov/Line of Business/SmartBuy Implementation and Alignment Quarterly Milestones Report to OMB on September 15th.
  - Posted 100% of eligible Grants on Grants.gov and ensured that at least 25% are available for on-line application.
  - Completed Department of State/U.S. Agency for International Development Joint Enterprise Architecture Communications Strategy.
  - Completed Privacy Impact Assessments on all applicable IT systems to meet FY 2007 requirements before submitting the budget.
  - Awarded the first Department enterprise-wide contract renewal of ORACLE under the e-Gov SmartBuy program.
  - Provided OMB draft of the Department's Earned Value Management System Framework.
- **Upcoming Actions**
  - Incorporate Performance Reference Model into the Joint Enterprise Architecture.
  - Develop Comprehensive Department Earned Value Management System policies and fully implement plan by December 31, 2005.
  - Map Data Architecture to the Federal Enterprise Architecture Business Reference Model.

Progress	FEDERAL REAL PROPERTY ASSET MANAGEMENT INITIATIVE	Status

- **Goal**
  - To promote the efficient and economical use of America's real property assets.
- **Progress**
  - Asset Management Plan: State submitted a State and USAID consolidated plan.
  - Inventory and Performance Measures: Completed the collection of all necessary Federal Real Property Council (FRPC) inventory and performance measures (e.g., cost, condition, utilization) for buildings and structures.
  - Submitted a data validation procedure to ensure the quality of the data reported to the FRPC database in the first quarter of FY 2006.
  - State and USAID have agreed to expand the original OMB-approved Asset Management Plan and have begun to make revisions based upon comments from OMB.
- **Upcoming Actions**
  - Provide evidence that State continues to implement the previously approved Asset Management Plan.
  - Coordinate efforts with USAID to submit a draft USAID Asset Management Plan by November 15 and a final joint State/USAID plan by December 15, 2005.
  - Coordinate efforts with USAID to ensure that all FRPC data on USAID assets is captured in the Real Property Application database.
  - Submit complete draft of FY 2006-FY 2011 Long Range Overseas Buildings Plan.

Right-Sized Overseas Presence

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. Rightsizing is ensuring that the mix of U.S. Government 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 the Department of State.

Progress	RIGHT-SIZED OVERSEAS PRESENCE (OMB LEAD)	Status

Goal

- Reconfigure U.S. Government 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

- Submitted Regionalization Shared Service Architecture and migration plan to OMB to create lines of business and systematically regionalize or centralize support functions from all overseas posts for the next three years, starting with critical danger posts in FY 2006.
- Submitted draft five-year Post Rightsizing review schedule/plan to OMB.
- Submitted FY 2007 and FY 2006 Rightsizing Review Report for staffing projections for New Embassy Construction (NEC) projects.
- OMB guidance (A-11) includes requirement for agencies to report on overseas positions and costs for the FY 2007 budget submission.
- M/R submitted a draft proposal on regional cost distribution system for International Cooperative Administrative Support Services (ICASS) system to the ICASS Executive Board.

Upcoming Actions

- Complete draft of Rightsizing Review Standard Operating Procedures.
- Submit Global Staffing Matrix, outlining approved, disapproved, pending, new position, reduction, or realignment. NSDD-38 and State equivalent data on overseas staffing changes to be included.
- Develop a performance standard for the NSDD-38 process.
- Submit FY 2006 financial plan for the Office of Rightsizing.
- Expand Model for Overseas Management Support services to additional pilot posts.

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.

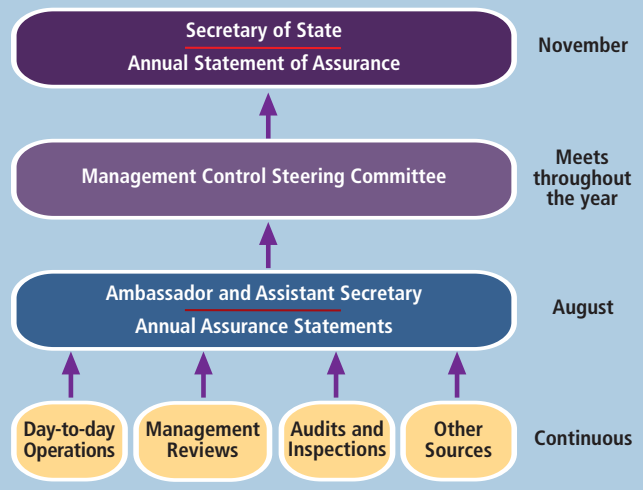
The Department evaluated its management control systems and financial management systems for the fiscal year ended September 30, 2005. This evaluation provided reasonable assurance that the objectives of the FMFIA were achieved in FY 2005, and formed the basis for the Secretary's Statement of Assurance. The Secretary of State's unqualified Statement of Assurance for FY 2005 is included in the Message from the Secretary located at the beginning of this Report.

Management Control Program

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

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

FMFIA Annual Assurance Process



FMFIA MATERIAL WEAKNESS CRITERIA

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

Status of Management Controls and Financial Manaagement Systems

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
2001	3	0	0	3
2002	3	3	0	0
2003	0	0	0	0
2004	0	0	0	0
2005	0	0	0	0

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 and FY 2005. As a result, the Secretary has provided an unqualified Statement of Assurance regarding the Department's financial management systems.

Future Plans

In FY 2005, OMB revised Circular A-123, *Management's Responsibility for Internal Control*, which implements FMFIA, to include a new requirement for agency management to provide an annual assessment of internal control over financial reporting beginning for FY 2006. The Department began implementing the revised Circular during FY 2005 and is well-positioned for full implementation in FY 2006.

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).

To assess conformance with FFMIA, the Department uses OMB Circular A-127 survey results, FFMIA implementation guidance issued by OMB (January 2001 Memorandum to Executive Department Heads, Chief Financial Officers, and Inspectors General), 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 FMFIA, 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 initially 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 FMFIA material noncomformance for our Financial and Accounting Systems, and (3) systems efforts completed in FY 2003 along with additional improvements to our financial systems during early FY 2004.

In November 2004, the Department conducted a comprehensive OMB Circular A-127 assessment. The assessment included (among other things) a collection of the various background materials, reference documents, and supporting details that document how the Department meets the applicable A-127 requirements and OMB FFMIA implementation guidance. Based on the results of this assessment, along with information contained in the Department's FY 2005 FISMA Report and evaluations and assurances provided under FMFIA, the Department reaffirmed its determination of substantial compliance with FFMIA in its FY 2005 Management Representation Letter provided to the Independent Auditor. The Department will reassess this determination based upon receipt of the FY 2005 Independent Auditor's Report.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The Department's Federal Information Security Management Act (FISMA) and Privacy Management Report for FY 2005 shows considerable improvement over previous reports. The Department remains acutely aware of the value and sensitivity of its information and information systems and is dedicated to the vigilance required to ensure their adequate protection. A wide range of measures is used to assess the Department's performance in information security. The 2005 FISMA report presents major accomplishments, as well as the specific metrics upon which performance is assessed. There is commitment at all levels to continually maintain and enhance the Department of State information security posture.

Over the past year, the Department made considerable strides in the following areas, while maintaining steady improvement across the Information Security Program in automating its IT asset inventory, systems authorization, professionalizing the cyber security workforce, integrating information security costs with IT investments, implementing information security into acquisitions, automating configuration management, enhancing incident reporting, information security policy development, and awareness, training, and education.

The Information Security Program focus areas for FY 2006 include improved contractor oversight, continued enhancements and refinements to the Department's IT asset baseline, implementing Personnel Identity Verification, and increased support for Information Systems Security Line of Business. The Program goal for FY 2006 will continue the development and implementation of improved metrics for managing and reporting on the performance of the Program. Information security costs will be fully integrated into the IT investment process. The Information Security Program will accelerate the use of the internal bureau scorecard, which highlights each quarter all bureau achievements and needed improvements in the areas of Systems Authorization, Role Based Training, Patch Management, and Plans of Actions and Milestones (POA&Ms).

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 has a proud tradition of unqualified opinions on our annual financial statements from our independent auditors for the better part of the last decade. However, late in FY 2005, the Department became aware of potentially material amounts of Department-owned personal property held by host countries and contractors, including aircraft and spare parts inventories, which had not been reflected in our financial statements. Due to the need for a complete and thorough analysis, the complexity of the matters involved, and the accelerated financial reporting requirements, the Department was unable to satisfy our independent auditors with regard to the presentation of personal property by November 15, 2005.

As a result, and as more fully explained in the *Independent Auditor's Report,* the independent auditors issued a qualified opinion on our FY 2005 and FY 2004 financial statements released on November 15, 2005. Since then, the independent auditors satisfied themselves about the amounts presented as personal property in the Department's FY 2005 and FY 2004 financial statements, and issued an unqualified opinion thereon, dated December 14, 2005, which has cleared the way for updating this Report.

In relation to internal control, the Report cites material weaknesses in (1) the recording and related depreciation of personal property and (2) the Department's security of information systems networks. In addition, the report cites three reportable conditions: (1) the inadequacy of the Department's financial management systems, (2) the management of unliquidated obligations, and (3) the implementation of Managerial Cost Accounting Standards. The Department's financial management systems are also reported as noncompliant with laws and regulations, including the Federal Financial Management Improvement Act of 1996 (FFMIA).

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

Reportable conditions are significant 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.

The table starting on the adjoining page summarizes the weaknesses in internal control and compliance with laws and regulations cited in the FY 2005 Independent Auditor's Report, as well as the actions taken or planned to resolve the problems.

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

Material Weakness	Corrective Actions	Target Correction Date	Strategic Goal
Information Systems Security Information system networks for domestic operations are vulnerable to unauthorized access. Consequently, systems, including the Department's financial management system, that process data using these networks may also be vulnerable. These deficiencies were cited as material weaknesses in the Department's 1997 Principal Financial Statements and subsequent audits through 2002. In response, the Department initiated a program to assess its information systems security on a comprehensive and continuing basis. As a result, the Independent Auditor downgraded these deficiencies to a reportable condition in connection with the audit of the Department's 2003 Principal Financial Statements. Their review of information system security in connection with the audit of the Department's 2005 Principal Financial Statements disclosed that the Department is no longer assessing information system security to the same extent as it was during 2003 and 2004. Consequently, the Independent Auditor reclassified this deficiency to a material weakness.	The Department remains acutely aware of the value and sensitivity of its information and information systems and is dedicated to the vigilance required to ensure their adequate protection. The 2005 FISMA Report presents major accomplishments, as well as specific metrics upon which performance is assessed. For FY 2006, the Information Security Program (ISP) will focus on addressing any identified shortfalls in assessing information system security, along with improved contractor oversight, implementing Personnel Identity Verification, and integrating information security costs into the IT investment process. In addition, the Department will accelerate the use of an internal bureau scorecard, which highlights each bureau's needed improvements in the areas of systems authorization, role based training, patch management, and Plans of Actions and Milestones (POA&Ms).	2006	Management and Organizational Excellence
Recording of Personal Property The Department does not have a system of controls to identify and record property in the hands of contractors. Further, the Department's controls over aircraft, vehicles and other personal property are ineffective. Audit work disclosed significant discrepancies between inventories of property reported by posts and bureaus and those maintained centrally and used as a source for reporting for financial statement purposes, posts not submitting inventories of property with no investigation by responsible Department officials, property not reported by posts and/or bureaus, significant unreported vehicle armoring costs, and errors in depreciation resulting from incorrect in-service dates.	In recognition of the deficiencies with respect to personal property, the Department's Management Control Steering Committee (MCSC) created in October 2005 a subcommittee to address these weaknesses. The subcommittee is charged with developing recommendations for the MCSC's approval in December 2005 regarding the scope and severity of identified deficiencies along with corrective actions needed to address these issues Departmentwide. Each of the matters identified in the Independent Auditor's Report will be addressed as well as additional deficiencies noted during the audit process.	2006	Management and Organizational Excellence

(continued)

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

Reportable Condition	Corrective Actions	Target Correction Date	Strategic Goal
Management of Unliquidated Obligations 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.	Strengthening the management of unliquidated obligations (UDOs) is an important financial management initiative, and the Independent Auditor's Report notes that there have been improvements in this area. In 2004, new capabilities were installed in the Department's Central Financial Management System that allow for the automatic deobligation of UDOs based on a wide range of criteria (e.g., age, object class, dollar amount). In 2005, the UDO database was analyzed by a variety of criteria to identify potentially invalid items. In some instances, meetings were held with bureaus to assist with identifying questionable obligations, understand unique bureau issues for their aged obligations, raise their awareness of their older obligations, and stress the requirement for the bureau to review and deobligate invalid UDOs. Based on these reviews, the new capabilities were used to deobligate 37,000 UDOs for over $220 million. As part of the President's Management Agenda Initiative for Improved Financial Performance, the Department prepares quarterly reports for OMB and senior management. The March 2005 report, and all subsequent reports, includes a chart that identifies by bureau the percentage of UDOs with no activity for the past 12 months. This analysis is used to focus improvement efforts on those bureaus with the higher percentages of no activity. Overall, the Independent Auditor's FY 2005 tests identified over $340 million that should have been deobligated. However, this amount is $184 million (35%) lower than the $524 million reported for FY 2004, and takes on added significance when considering the $1 billion increase in UDO balances in FY 2005. The Department will continue to develop reports and processes to improve the management of UDOs.	2006	Management and Organizational Excellence
Compliance with Managerial Cost Accounting Standards 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.	To address MCAS requirements, the Department developed an automated Statement of Net Cost that enables reporting of cost information by strategic objects and goals, along with responsibility center. It also allows for the allocation of support costs. In FY 2005, the Department established a project team, which includes consultants with experience implementing Cost Accounting Systems. A project plan (Plan) has been developed that includes developing survey instruments to identify outputs and assess each bureaus' need for managerial cost information, preparing a detailed Concept Paper and implementing managerial cost data for pilot bureau(s) by the end of FY 2006. Implementation will be expanded during FY 2007. The Plan includes reviewing the current Statement of Net Cost to improve the gathering and reporting of cost data by strategic goal and responsibility center, including the allocation of indirect or support costs.	2007	Management and Organizational Excellence
Financial and Accounting Systems (See Nonconformance below)	See discussion on next page.	2007	Management and Organizational Excellence

(continued)

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS *(Refer to Independent Auditor's Report Section)*			
Nonconformance with Laws and Regulations	**Corrective Actions**	**Target Correction Date**	**Strategic Goal**
Financial and Accounting Systems 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.	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. In 2005, the overseas Regional Financial Management System was upgraded to the most current version of commercial off-the-shelf (COTS) software used by this system. The Department also expanded the number of on-line overseas users, added and/or enhanced a number of interfaces, and deployed improved reporting capabilities.	2007	Management and Organizational Excellence

IMPROPER PAYMENTS INFORMATION ACT

Narrative Summary of Implementation Efforts for FY 2005 And Agency Plans for FY 2006 – FY 2008

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 percent 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 requirements.

Summarized below are the Department's IPIA accomplishments and future plans for identifying improper payments as prescribed by OMB Circular A-136, *Financial Reporting Requirements*. Additional IPIA reporting details are provided in the Financial Section of this Report.

Summary IPIA accomplishments

In FY 2004, the Department focused on reviewing programs with a high risk of being susceptible to significant improper payments. Federal Financial Assistance and Vendor Pay were the two categories of payments considered to be susceptible to significant improper payments. The results of the three program reviews completed in FY 2004 are reflected in the table on the following pages. Only the U.S. Speaker and Specialist program actual error rate was high at 81.18%, although the estimated amount of improper

payments was low. This high actual error rate reflects misuse of invitational travel rather than grants for participant transportation. With implementation of a revised "Grants Policy Directive" on October 1, 2005, the error rate is expected to be lower in FY 2006.

In FY 2005, the Department reviewed the high-risk programs that were not reviewed in FY 2004 and performed a reassessment of risk for all payment categories (i.e., Federal Financial Assistance, Vendor Pay and Employee Pay). The results, reflected in the table on the following page, show that the programs reviewed were of moderate risk of being susceptible to significant improper payments. No new high-risk programs were identified in FY 2005.

Future plans

Future plans provide for expanding the IPIA program to include programs assessed as having a 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.

SUMMARY STATUS OF IMPROPER PAYMENTS REVIEWS

Program (Dollars in Millions)	Outlays for First Nine Months of FY 2004	Outlays for Last Quarter FY 2004 and First Three Quarters of FY 2005	Initial Risk	Task	Status and Results	Error Rate	Revised Risk
Year Reviewed: 2005							
Federal Financial Assistance							
Population, Refugee and Migration (PRM) - Refugee Assistance	$ —	$ 682	Moderate	Performed reassessment of risk, selected statistical sample, and reviewed program for improper payments	No improper payments were identified and no further reviews are planned for this program.	0%	Low
Educational and Cultural Affairs (ECA) - Fulbright Program	$ —	$ 169	Moderate	Performed reassessment of risk, selected statistical sample, and reviewed program for improper payments	No improper payments were identified and no further reviews are planned for this program.	0%	Low
International Narcotics and Law Enforcement (INL) - Law Enforcement, Eradication, Aviation Support and Support to the Military Program	$ —	$ —	Moderate	Performed reassessment of risk, selected statistical sample, and reviewed program for improper payments	The review for this program was started in FY 2005 and will be completed in FY 2006 and reported in the FY 2006 PAR.	N/A	N/A
International Organizations (IO) -Voluntary Contributions and Peacekeeping	$ —	$ 1,891	Moderate	Performed reassessment of risk, selected statistical sample, and reviewed program for improper payments	No improper payments were identified and no further reviews are planned for this program.	0%	Low

(continued)

SUMMARY STATUS OF IMPROPER PAYMENTS REVIEWS *(continued)*							
Program (Dollars in Millions)	Outlays for First Nine Months of FY 2004	Outlays for Last Quarter FY 2004 and First Three Quarters of FY 2005	Initial Risk	Task	Status and Results	Error Rate	Revised Risk
Year Reviewed: 2005 *(continued)*							
Vendor Pay							
Structures and Equipment	$ 671	$ —	High	Review was started in FY 2004 for first nine months of FY 2004 and was completed in FY 2005	The error rate was a result of isolated incidents caused by human error. This program will not be reviewed for improper payments in the future unless new information becomes available that might increase the risk. The projected error rate for the last quarter of FY 2004 and the first three quarters of FY 2005 < 1%.	3.97%	Low
Year Reviewed: 2004							
Federal Financial Assistance							
INL - Narcotics Program	$ 313	$ —	High	Followed-up on corrective action taken in FY 2005 to reduce improper payment error rate reported in FY 2004	Due to the low error rate, no further reviews are planned.	0.87%	Low
International Information Program (IIP) -- U.S. Speaker and Specialist Program	$ 30	$ 41	High	Followed-up on corrective action taken in FY 2005 to reduce improper payment error rate reported in FY 2004, resulting from the mis-designation of participants as invitational travelers rather than grantees	The high error rate was due to travel vouchers not being submitted at the completion of travel due to the incorrect use of invitational travel forms rather than grant forms. However, with the issuance of revised "Grants Policy Directive 10" on October 1, 2005, participants will be properly designated as grantees and use the appropriate form. This will reduce errors beginning in FY 2006. No review was conducted in FY 2005. The next planned review is in FY 2006.	81.18%	High
Vendor Pay							
Other Contractual Services	$ 1,534	$ 3,299	High	Followed-up on corrective action taken in FY 2005 to reduce improper payment error rate reported in FY 2004	Due to the low error rate, no further reviews are planned.	2%	Low

FINANCIAL HIGHLIGHTS

The Department's financial statements, which appear in the Financial Section of this Report, are audited 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).

AUDIT RESULTS

The Department has a proud tradition of unqualified opinions on our annual financial statements from our independent auditors for the better part of the last decade. However, late in FY 2005, the Department became aware of potentially material amounts of Department-owned personal property held by host countries and contractors, including aircraft and spare parts inventories, which had not been reflected in our financial statements. Due to the need for a complete and thorough analysis, the complexity of the matters involved, and the accelerated financial reporting requirements, the Department was unable to satisfy our independent auditors with regard to the presentation of personal property by November 15, 2005.

As a result, and as more fully explained in the *Independent Auditor's Report,* the independent auditors issued a qualified opinion on our FY 2005 and FY 2004 financial statements released on November 15, 2005. Since then, the independent auditors satisfied themselves about the amounts presented as personal property in the Department's FY 2005 and FY 2004 financial statements, and issued an unqualified opinion thereon, dated December 14, 2005, which has cleared the way for updating this Report.

The Department is committed to resolving these personal property issues as quickly as possible and strengthening our controls in this area. In October 2005, the Department's Management Control Steering Committee (MCSC) – the body charged with overseeing the Department's management control program under the Federal Managers' Financial Integrity Act (FMFIA) -- created a Department-wide subcommittee to address the identified weaknesses in personal property. This subcommittee will report to the MCSC in December 2005 and propose a corrective action plan to resolve these issues.

OVERVIEW OF FINANCIAL POSITION

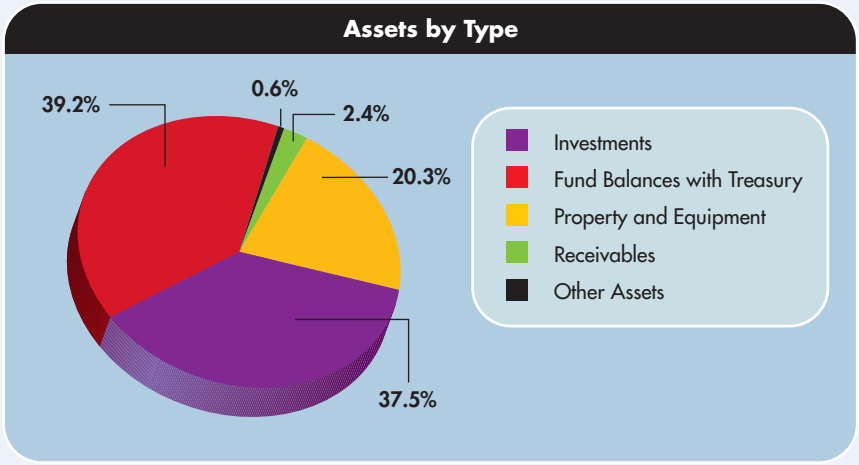
Assets. The Consolidated Balance Sheet shows the Department had total assets of $35.7 billion at the end of 2005. This represents an increase of $3.8 billion (11.9%) over the previous year's total assets of $31.9 billion. The increase is primarily the result of increases of $2.1 billion in Fund Balances with Treasury, $921 million in property and equipment, and $543 million in investments in the Foreign Service Retirement and Disability Fund (FSRDF). The increase in Fund Balances with Treasury primarily resulted from a $2.2 billion increase in unexpended appropriations.

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

	2005	2004	2003
Investment, Net	$ 13,389,090	$ 12,846,060	$ 12,301,173
Fund Balances with Treasury	14,023,542	11,900,569	9,953,197
Property and Equipment, Net	7,244,965	6,323,916	5,996,493
Accounts, Loans & Interest Receivable, Net	854,315	730,951	584,230
Other Assets	225,434	122,051	59,553
Total Assets	$ 35,737,346	$ 31,923,547	$ 28,894,646

Investments, Fund Balances with Treasury and Property and Equipment comprise approximately 97% of total assets for 2005, 2004, and 2003. Investments consist almost entirely of U.S. Government Securities held in the FSRDF.

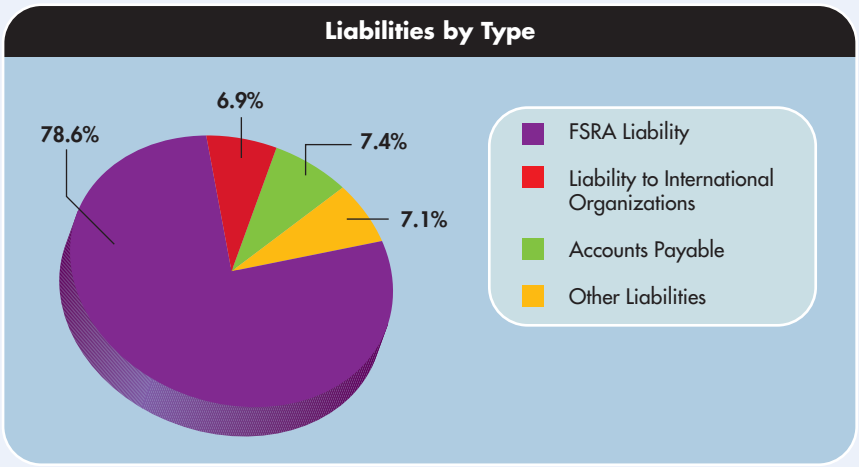
Information on Heritage Assets, which consists of art furnishings held for public exhibition, education and official entertainment, is provided in the RSSI section of this report.



Liabilities. The Department had total liabilities of $17.1 billion at the end of 2005, which is reported on the Consolidated Balance Sheet and summarized in the following table (dollars in thousands):

	2005	2004	2003
Foreign Service Retirement Actuarial Liability	$ 13,429,300	$ 13,317,900	$ 13,093,800
Liability to International Organizations	1,178,130	897,381	919,428
Accounts Payable	1,269,794	1,250,142	1,058,514
Other Liabilities	1,202,774	866,772	709,394
Total Liabilities	$ 17,079,998	$ 16,332,195	$ 15,781,136

The Foreign Service Retirement Actuarial (FSRA) Liability of $13.4 billion and the Liability to International Organizations of $1.2 billion comprise 85% of the Department's total liabilities at the end of 2005.



Of the total liabilities, $1.85 billion were unfunded, i.e., budgetary resources were not available to cover these liabilities. The $1.85 billion is primarily comprised of the $1.2 billion Liability to International Organizations, and the unfunded portion of the Environmental Liabilities of $392.3 million.

The $1.2 billion Liability to International Organizations consists of $1.1 billion in calendar year 2005 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, 2005, 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 2005 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position is $18.7 billion, a $3.1 billion (20%) increase from the previous fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

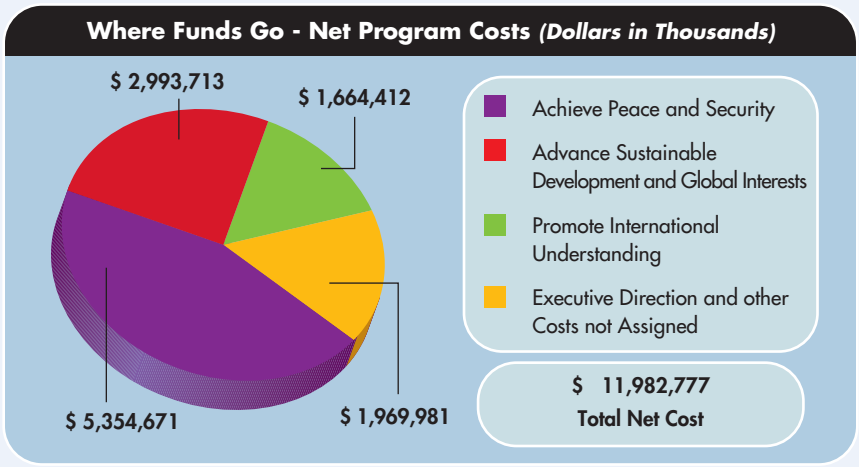
The growth in Unexpended Appropriations is due principally to the continued increase in budget authority received to provide funding for Iraq, embassy security, international narcotics control, and the Global HIV/AIDS initiative. The increase in Cumulative Results of Operations resulted mainly from the $921 million increase in property and equipment.

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

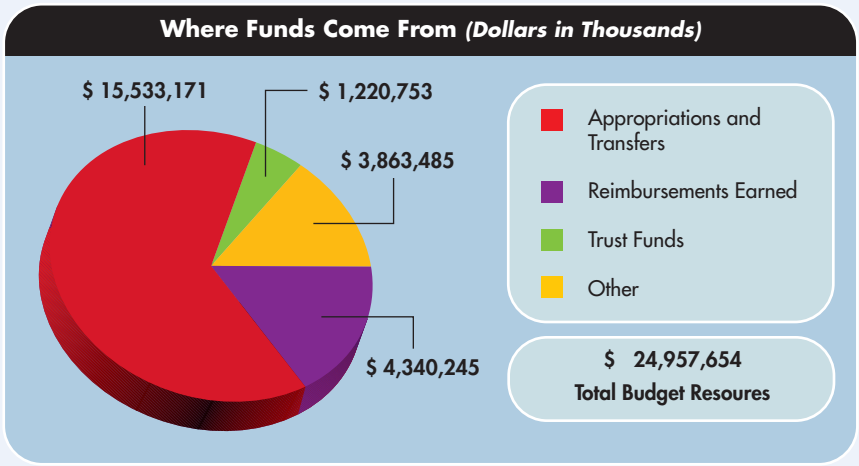
on the Bureaus (or equivalent) that report to each Under Secretary can be found on the Organization Chart for the Department provided earlier in this Report. The presentation of program results by strategic objectives and strategic goals is based on the Department's current Strategic Plan established pursuant to the Government Performance and Results Act of 1993.



The Department's total net cost of operations for 2005, after intra-departmental eliminations, was $12 billion. The strategic objective to "Achieve Peace and Security" represents the largest investment for the Department at 44.7% of the Department's net cost of operations. The net cost of operations for the remaining strategic objectives varies from 13.9% to 25%.

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 $13.6 billion, comprising 90.1% of the Department's total revenues and financing sources after considering intra-departmental eliminations of $2.0 billion. The charts on this page reflect the funds that the Department received during 2005 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 $25 billion, an increase of 17% from 2004 levels. Budget Authority of $16.8 billion – which consists of $15.6 billion for appropriations (direct, related, and supplemental) and transfers, and $1.2 billion financed from trust funds – comprise 67% of the total budgetary resources. The Department incurred obligations of $20.7 billion for the year, a 16% increase over the $17.9 billion of obligations incurred during 2004. 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 2005 budget for the Department of State totaled $10.134 billion. It included appropriations for the Administration of Foreign Affairs ($7.691 billion), contributions to international organizations and peacekeeping activities ($2.280 billion), international commissions ($63 million), and related programs ($99 million). It does not include funds for foreign operations.

In addition to regular funding provided by the *Consolidated Appropriations Act, 2005*, the Department's FY 2005 budget reflected supplemental funding provided through the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief Act, 2005*. This supplemental funding was required to address the extraordinary security and operating costs of the U.S. Missions in Iraq and Afghanistan, as well as U.S. assessments for international peacekeeping.

The Department continued to rely on Machine Readable Visa (MRV), Expedited Passport, and other user fee collections for the Border Security Program to strengthen protection of America's borders. This revenue helped support increased consular workloads and meet the national security mandate to collect biometric data for U.S. passports and visas.

Appropriations under Administration of Foreign Affairs provide the Department's core funding. They support the people and programs required to carry out U.S. foreign policy and advance American interests 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 operate overseas.

In FY 2005, the Department's principal operating appropriation – Diplomatic and Consular Programs (D&CP) – was funded at $4.906 billion. Together with MRV fees, this funding sustained critical diplomatic and consular operations and enabled the Department to meet new requirements in the post-September 11 environment. The funding included $650 million for Worldwide Security Upgrades to increase security for diplomatic personnel and facilities under threat from terrorism and $316 million for vigorous public diplomacy to inform foreign opinion and gain support for U.S. policies abroad. The funding also included resources to further the government-wide reforms of the President's Management Agenda.

The Department's appropriations for information technology initiatives totaled $128 million – $51 million in the Capital Investment Fund (CIF) and $77 million in the Centralized Information Technology Modernization Program. FY 2005 investments helped modernize the Department's global IT infrastructure and provide ready access to foreign affairs applications and information. The Department's infrastructure and mission-oriented application systems supported approximately 50,000 users at over 390 locations worldwide for both classified and unclassified processing.

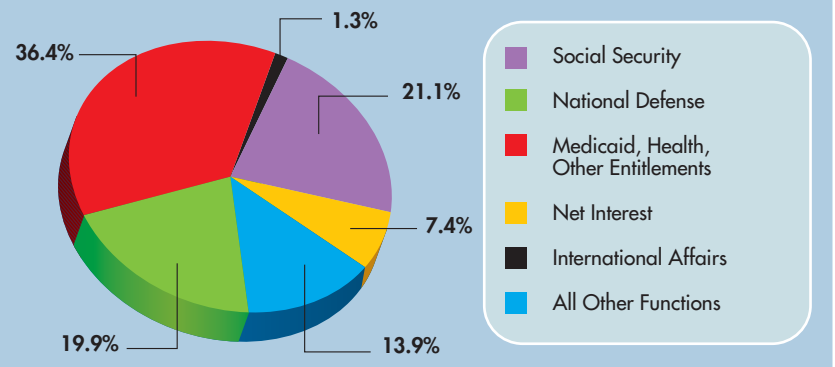
The Embassy Security, Construction, and Maintenance (ESCM) appropriation was funded at $2.096 billion (regular appropriations plus supplemental funding). This funding helped provide U.S. missions overseas with secure, safe, and functional facilities. The funding also supported management of the Department's real estate portfolio, which exceeds $12 billion and includes over 15,000 properties. From the appropriation total, $900 million supported capital security construction and compound security projects and $592 million was for construction of the new embassy in Iraq. Under the Capital Security Cost Sharing program, all agencies with overseas staff under Chief of Mission authority contributed to the construction costs of new embassy compounds.

The Educational and Cultural Exchange Programs appropriation was funded at $356 million. These strategic activities engaged foreign audiences to develop mutual understanding and build foundations for international cooperation. Aligned with public diplomacy efforts, they reached out to wider and younger audiences, especially in the Muslim world. This funding provided $204 million for academic exchanges with foreign participants and U.S. citizens, notably through the Fulbright program. Funding also

provided $121 million for professional and cultural exchanges, including the International Visitor Leadership Program and Citizen Exchanges.

For FY 2006, the Department's budget request (at this date still pending before Congress) totals $9.283 billion. It includes resources to address ongoing foreign policy priorities, particularly to support the global war on terror and maintain the operational readiness of American diplomacy. The request for D&CP is $4.473 billion, including $690 million for upgrades of physical security equipment and technical support, information and systems security, perimeter security, and security training. The request provides $133 million in CIF for information technology investments worldwide. Finally, the request for ESCM totals $1.526 billion, including $910 million for design and/or construction of secure facilities, additional site acquisitions, and compound security projects.

The Federal Government Dollar



Source: Mid-Session Review, Budget of the United States Government, Fiscal Year

America's Best Guesses

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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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 OMB Circular A-136, *Financial Reporting Requirements*, 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.

FINANCIAL PERFORMANCE METRICS

Below is a year-end summary provided to senior managers of the Department's performance relative to the Chief Financial Officers (CFO) Council financial metrics. Because of the unique aspects of operating in both a domestic and overseas environment, the Department adjusts these metrics were appropriate to reflect a measure for domestic operations and a separate indicator for overseas performance. A good example of this would be *Percent of Vendor Payments Made by EFT* where the domestic percentage target would be higher than the overseas target to convey the differences in the overseas banking systems ability to handle EFT transactions.

For FY 2005, the Department's financial metrics improved to green in two categories and slipped to yellow in four categories.

Measure and Frequency	Why Is It Important	State Sept 2004		State Sept 2005		Governmentwide Sept 2005		Governmentwide Performance Standards		
		Actual	Rating	Actual	Rating	Actual	Rating	Fully Successful	Minimally Successful	Unsuccessful
Fund Balance With Treasury - Net Percent Unreconcil-ed [Monthly]	Smaller reconciliation differences translate to greater integrity of financial reports and budget results.	0.21%		2.90%		0.21%		< = 2%	> 2% to < = 10%	> 10%
Percent of Amount in Suspense (Absolute) Greater than 60 Days Old [Quarterly]	Timely reconciliation supports clean audits and accurate financial information.	No Data		83.10%		28.49%		< = 10%	> 10% to < = 20%	> 20%
Percent of Accounts Receivable from Public Delinquent Over 180 Days [Quarterly]	Actively collecting debt improves management accountability and reduces Treasury borrowing.	51.10%		27.20%		15.49%		< = 10%	> 10% to < = 20%	> 20%
Percent of Vendor Payments made Electronically [Monthly]	Use of electronic funds transfer saves money, reduces paperwork, and improves cash management.	65.20%		96.00%		89.76%		> = 96%	> = 90% to < 96%	< 90%
Percent Non-Credit Card Invoices Paid On-Time [Monthly]	Timely payment reduces interest charges and reflects a high degree of accountability and integrity.	85.00%		90.00%		95.70%		> = 98%	> = 97% to < 98%	< 97%
Interest Penalties Paid as a Percent of Total Payments [Monthly]	Smaller percentages of interest paid shows that an agency is paying its bills on time which saves money and allows funds to be used for their intended purpose.	0.0204%		0.0163%		0.0104%		< = .02%	> .02 to < = .03%	> .03%
Travel Card Delinquency Rates - Individually Billed Accounts [Monthly]	Reducing outstanding travel card balances helps increase rebates to agencies.	2.00%		2.30%		4.15%		< = 2%	> 2% to < = 4%	> 4%
Travel Card Delinquency Rates - Centrally Billed Account [Monthly}	Reducing outstanding travel card balances helps increase rebates to agencies.	0.00%		0.90%		1.96%		= 0%	> 0% to < = 1.5%	> 1.5%
Purchase Card Delinquency Rate [Monthly]	Reducing outstanding purchase card balances helps increase rebates to agencies and reduces interest payments.	0.00%		0.88%		3.30%		= 0%	> 0% to < = 1.5%	> 1.5%

Inspector General's Discussion and Analysis

This section is an overview of the Office of Inspector General's FY 2005 performance results, which are addressed in more detail in a separate report and published as a companion to this Report. The section also provides 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 at 703-284-1833. You may also view the report on the OIG website (http://oig.state.gov).

MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to present the Office of Inspector General's (OIG) FY 2005 Performance Report. OIG's results for the past year—both quantitatively and qualitatively—are among the best OIG has ever achieved, despite the daunting challenge of meeting exponentially increasing demands for our expertise and oversight within the continuing constraints of limited resources and rapidly rising costs. During the past year, OIG has provided significant value and a substantial return on investment in terms of cost savings to the government and in improvements to the effectiveness, efficiency, economy, and integrity of Department of State (Department) and Broadcasting Board of Governors (BBG) operations and the safety, quality of life, and accountability of their personnel.

Since taking up my responsibilities as Inspector General in May 2005, I have been impressed by the scope of OIG's oversight mandate and the opportunity it offers to make a positive impact in strengthening the management of the Department and the BBG. OIG was created to prevent and detect waste, fraud, abuse, and mismanagement, and to support the Department and BBG in achieving their missions. We do this primarily through audits, inspections, and investigations that provide independent, objective, and professional assessments of their operations and activities and recommend ways to strengthen and improve them. Our focus is on issuing reports, not report cards, that help the Department and BBG work better. As appropriate, we also provide consultative services and participate in committees, task forces, training, and other efforts to prevent problems and vulnerabilities from occurring, rather than just identifying ways to fix them as they are detected.

As shown in the pages that follow, FY 2005 was a very successful and cost-effective year for OIG, in part because of a supplemental appropriation that enabled OIG to perform valuable services related to Iraq. We met or exceeded 68% of our performance targets, the highest percentage achieved in our seven-year history of performance reporting. We issued almost 150 audit and inspection reports. More important—and of even greater benefit to the government and the public—were the outcomes resulting from our work, which included:

- Actual recoveries and savings of almost $8.6 million and identified potential savings of $29 million more in questioned costs and funds put to better use;
- The Secretary's merger and reorganization of the Bureaus of Arms Control and Nonproliferation, and changes to the Bureau of Verification and Compliance;
- The Interagency Assessment of the Iraq Police Training Program;
- The resignation of the commissioner of a U.S. Commission following a critical OIG inspection; and
- Establishment, in coordination with other Department bureaus, of an initiative to strengthen border security by targeting individuals using identity theft to obtain U.S. passports.

Although we are proud of our results, we recognize the opportunity and the need for improvement, as well as the significant resource constraints we face. These results represent not only accomplishments of the past year, but a benchmark to build upon. We continue to review and reengineer our organization and internal processes as we strive to become more effective and efficient and to improve the services that we provide. We remain committed and confident that, through continued management innovation, the dedication and professionalism of our employees, and adequate investment by the administration and Congress, we will continue to expand our results and the benefits they provide to the Department, the BBG, the Congress, and the American people.

Howard J. Krongard
Inspector General

SUMMARY OF FY 2005 PERFORMANCE

This overview presents the highlights of OIG's FY 2005 Performance Report. Detailed information on OIG's results in meeting performance targets and achieving strategic and performance goals, as required by the Government Performance and Results Act, can be found in our full performance report, which has been published separately as an annex to the Department's FY 2005 *Performance and Accountability Report.*

Vision

To be a world-class organization promoting effective management, accountability, and positive change in the Department of State, the Broadcasting Board of Governors, and the foreign affairs community.

Mission

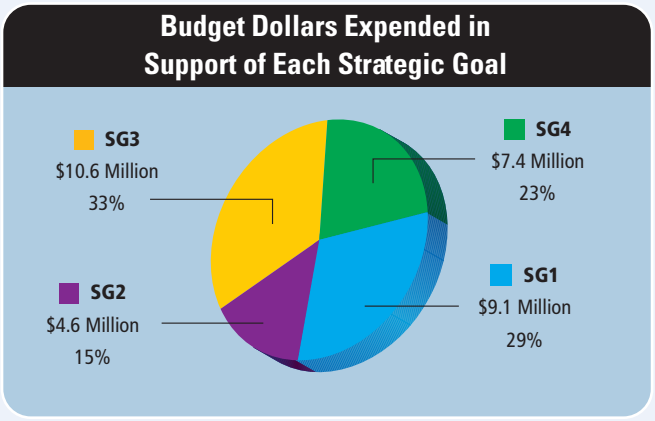
The Office of Inspector General conducts independent audits, inspections, and investigations that advance the missions of the Department of State and the Broadcasting Board of Governors. OIG provides leadership to: promote integrity, efficiency, effectiveness, and economy; prevent and detect waste, fraud, abuse, and mismanagement; identify vulnerabilities and recommend constructive solutions; offer expert assistance to improve Department and BBG operations; communicate timely, useful information that facilitates decision-making and achieves measurable gains; and keep the Department, BBG and the Congress fully and currently informed.

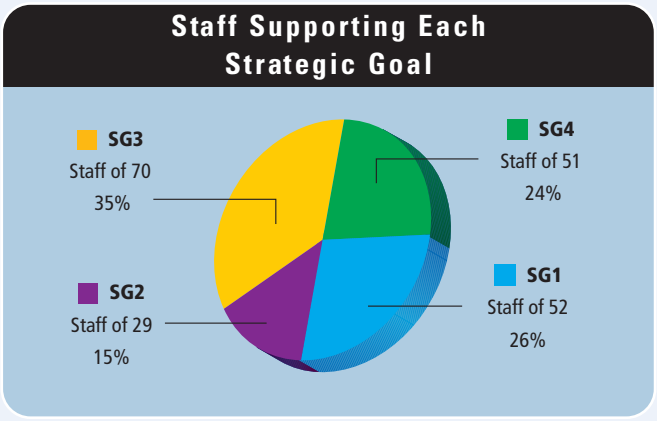
Strategic Goals

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[1]





[1] *Includes $1.698 million in supplemental funding for work related to Iraq*

Highlights of OIG's Most Significant Results and Outcomes

During FY 2005, 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 in support of our strategic goals.

SIGNIFICANT RESULTS IN RESPONSE TO OIG REPORTS AND INVESTIGATIONS

FOREIGN POLICY

- The Secretary's merger and reorganization of the Bureaus of Arms Control and Nonproliferation and the expanded mandate of the Bureau of Verification and Compliance
- The resignation of a commissioner of a U.S. Commission following a critical OIG inspection
- Improved program coordination between regional bureaus and the Bureaus of Educational and Cultural Affairs and International Information Programs
- More timely processing of exchange visitor visas
- Issuance of a joint DOD-State OIG assessment of Iraqi Police Training

SECURITY

- Identification of $21.8 million in potential funds put to better use from an Iraq Security contract
- Removal of information from embassy websites and publications that increased vulnerability of U.S. citizen faculty and students at overseas schools to anti-American violence and terrorism
- Improved border security because of a strengthened nonimmigrant visa referral process
- BBG reconsideration of how it performs FISMA and information management oversight and reorganization of its approach so that IT systems at transmitting stations are managed centrally

FINANCIAL MANAGEMENT AND ADMINISTRATIVE SUPPORT

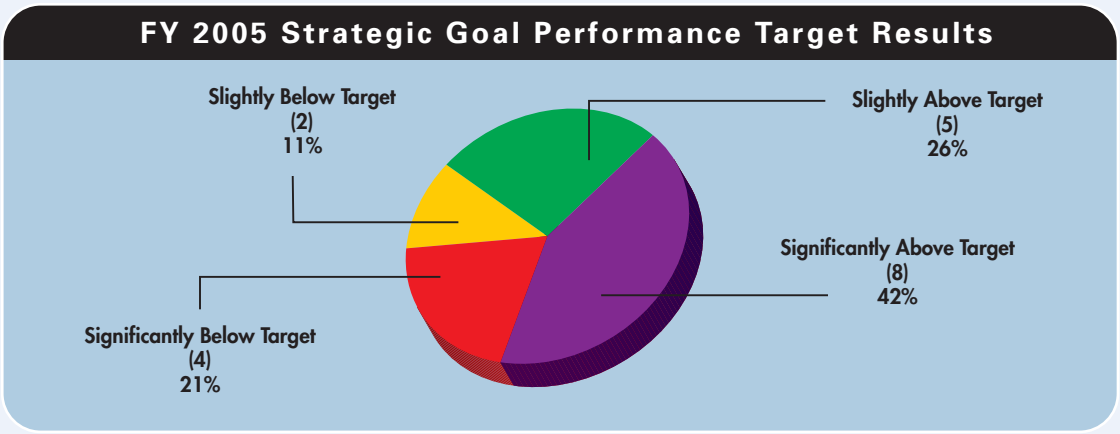
- Recovery by the Department of $3.5 million in deobligated funds from an overseas security construction upgrade project, which were subsequently used to fund other security upgrade projects
- Savings of over $250,000 in the cost of a new contract for cellular services at an overseas mission
- Establishment of a committee for financial assistance to ensure adequate controls for awarding, monitoring and accounting for Federal financial assistance, including joint work with USAID to establish a system of accounting for Federal financial assistance

ACCOUNTABILITY

- Recovery of nearly $2 million in questioned costs from a Department contract for Afghanistan protective services
- Savings of $1.3 million in contract costs resulting from a double-billing error by a contractor
- 20 judicial actions, 22 administrative actions, and more than $900,000 in fines and recoveries

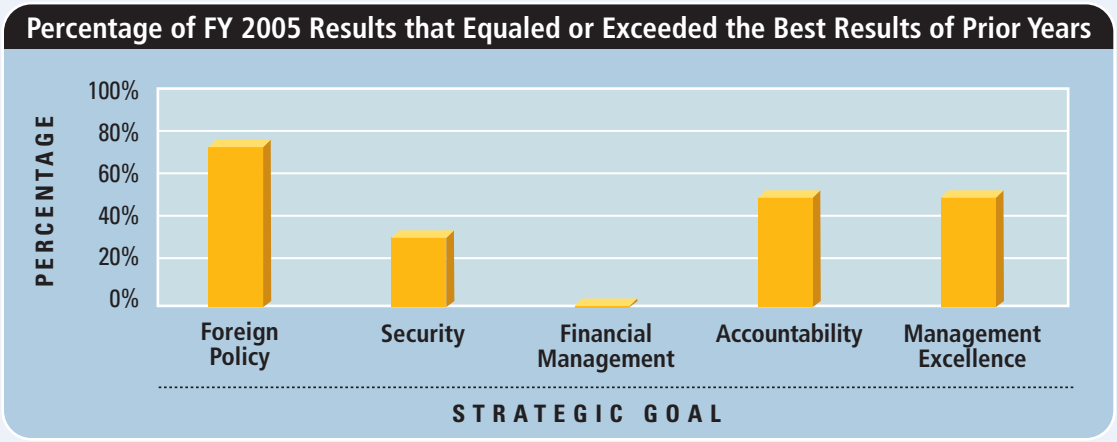
Performance Results

OIG's Performance Plan contains four strategic goals and one internal management goal, eight performance goals, and nineteen indicators and targets used to evaluate its success in achieving its goals.



As shown above, 68 percent of OIG's performance results met or exceeded performance targets. This represents a significant improvement over FY 2004, when 41 percent of results met or exceeded performance targets, and is higher than the prior OIG best of 58 percent in FY 2003. In addition, 50 percent of the FY 2005 results exceeded FY 2004 results.

OIG's most successful performance target results were under its strategic goals for Accountability, Foreign Policy, and Security. FY 2005 results for these goals exceeded 100 percent, 75 percent and 67 percent, respectively of their targets. The results for the strategic goal related to Financial Management and Administrative Support and the internal goal in support of Management Excellence, were less successful, falling short of targeted levels. However, as shown in the bar graph below, 50 percent of the results for Foreign Policy, Accountability, and Management Excellence and 33 percent of the results for Security exceeded the best results of prior years.



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 unanticipated resource constraints resulting from significantly increased travel costs, a declining dollar, and a decline in staff on board due to budgetary shortages;
- Department and BBG failure to ensure timely agreement with recommended 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 ongoing (such as the legislatively mandated five-year inspection schedule) and new (such as activities related to Iraq and Afghanistan) 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 reorganization introduced in FY 2005 to combine related operations, flatten the organization and structure and reduce redundant layers of management 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 work papers, 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 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, 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 currently is reevaluating its performance indicators and targets for FY 2006 and beyond.

MANAGEMENT AND PERFORMANCE CHALLENGES

The *Reports Consolidation Act of 2000* requires that the Department's *Performance and Accountability Report* include a statement by the Inspector General that summarizes the most serious management and performance challenges facing the Department and briefly assesses the progress in addressing those challenges. The Office of Inspector General (OIG) considers the most serious management and performance challenges to the Department to be in the following areas:

- Protection of People and Facilities
- Information Security
- Financial Management
- Human Resources
- Counterterrorism and Border Security
- Public Diplomacy
- Post-Conflict Stabilization and Reconstruction

The first five challenges previously appeared on OIG's list. The last two challenges, Public Diplomacy and Post-Conflict Stabilization and Reconstruction, recently were added. OIG has removed from this year's list Strategic and Performance Planning in recognition of the Department's considerable progress in addressing that challenge.

Protection of People and Facilities

The protection of people and facilities is fundamental and continues to be one of the Department's highest priorities. A number of issues arose during OIG reviews indicating that such protection remains a management and performance challenge. While security at all posts abroad has improved since the bombings of the Embassies in Nairobi and Dar es Salaam in 1998, many posts, e.g., still do not meet essential security standards for setback and blast protection.

OIG's inspections of the security programs at 25 overseas missions identified substantial progress by the Department in addressing this challenge. The majority of the findings and recommendations from these reviews were in the areas of physical security and emergency preparedness. A common finding was that posts needed to expand their Intrusion Detection Notification Systems to increase their ability to react to a terrorist attack. OIG also found room for improvement in emergency action plans, emergency preparedness, and emergency drills.

OIG's review of contractual agreements for a compound security upgrade construction project led to more than $3 million being deobligated from the current contract and reprogrammed for immediate use to fund other, high-priority security construction projects. OIG's report recommended options to restart the construction project as a partnership between OBO and the post in order to enhance the security posture at facilities located at this high-threat location.

In a procurement audit review, OIG recommended improved communication between the Bureau of Overseas Buildings Operations (OBO) and posts in the early stages of planning to prevent problems during construction. In response to an OIG review of compound perimeter lighting standards for security upgrade projects, OBO created a condensed version of guidelines for site lighting to assist regional security officers at all worldwide locations.

Based upon an OIG investigation, it was found that the Department was unaware that official certification standards for forced entry, ballistic resistant structural systems were posted on an approved vendor website on the Internet, thus potentially providing information to entities seeking to harm U.S. facilities abroad. Once aware, the Department took steps to ensure this material was removed from the Internet.

Information Security

The Department's information security program and practices continue to evolve. The Department recognizes that more must be done to develop fully and ensure the continuity of its information systems security program, and OIG considers information security to be a continuing management and performance challenge.

As mandated by the Federal Information Security Management Act of 2002 (FISMA), OIG conducted its annual evaluation of the Department's information security program and noted several improvements over last year's evaluation. The Department is in the process of upgrading the information technology application baseline to strengthen the connections between enterprise architecture, e-Authentication, privacy, systems authorization, the plan-of-action-and-milestones process, and the capital planning process. Additionally, to identify the number of contractor services or facilities performing work for the Department using their own systems or connecting to Department networks, the Department has initiated a project to be completed within the next three years. The separation of the cyber security roles and responsibilities continues to affect the Department's information security program and continues to be a work-in-progress. Implementation of information security at overseas posts and domestic bureaus continues to require Department attention. OIG observed problems with information system security officer duties, patch management, contingency planning, and inappropriate use at many of the sites visited.

OIG conducted the congressionally mandated review of the protection of classified information at Department headquarters and also reviewed the Department's compliance with Director of Central Intelligence Directives regarding the storage and handling of sensitive compartmented information (SCI) and removing access of employees no longer requiring it. During the review, OIG found that the Department generally met the requirements of the directives for personnel and information security, but found that opportunities existed to improve security program management.

Financial Management

OIG believes that financial management remains a management and performance challenge. The Department has made great strides in financial management in recent years and last year received an eighth consecutive unqualified opinion as a result of the audit of the FY 2004 principal financial statements. In August 2005, however, OIG became aware of a potentially material understatement of assets that could affect the Department's previously issued FY 2004 financial statements. Based on preliminary information, a significant amount of spare parts and aircraft were not included in the FY 2004 statements.

Once these issues were identified, the Department notified appropriate officials that the FY 2004 financial statements and the related report by an independent public accountant (IPA) should no longer be relied upon. The Department quickly developed a plan to resolve this matter. In addition to the issues related to personal property, the IPA's report on the audit of the Department's FY 2004 financial statements identified concerns consistent with previous years regarding information systems security, the adequacy of the Department's financial systems, undelivered orders, and managerial cost accounting.

During its audit of the FY 2005 financial statements, the IPA noted other concerns related to personal property, including inadequate controls over recording items in a timely manner, reporting the full cost of personal property improvements (eg. armoring of vehicles), and tracking items maintained by contractors, which also could have had an impact on the FY 2004 financial statements.

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 $6.4 billion at the end of FY 2003 to $7 billion at the end of FY 2004. During the FY 2004 audit, the IPA estimated that at least $524 million should have been de-obligated. The Department has initiatives underway that it believes will improve the management and oversight of obligations.

The Department provides Federal financial assistance through a variety of instruments including grants, cooperative agreements, loans, and certain types of contributions, which is projected to exceed $5 billion in fiscal year 2005. However, the Department lacks comprehensive and reliable information on Federal financial assistance. This is due, in part, to the Department's use of non-standardized policies and procedures and disparate tracking systems. Another contributing factor is the decentralized manner in which Federal financial assistance is managed in the Department (i.e., no one office is responsible for managing, and no one existing system is capable of capturing, data essential for overseeing, administering, managing, and reporting Department-wide Federal financial assistance). In 2005, the Department established a Department-wide steering committee to oversee and coordinate all aspects (e.g., awarding, monitoring, and closure) of State's Federal financial assistance. In addition, the Department is standardizing Federal financial assistance policies and procedures for use throughout the Department and implementing a financial management system that meets the government-wide Federal financial assistance requirements and managerial demands of the Department.

OIG conducted several investigations involving financial matters affecting different areas of the Department. For example, a private company under contract to OBO double billed the Department for equipment costs which occurred when the company developed a new inventory tracking form after OBO changed the contract terms from a time-and-materials to firm-fixed-price procurement. The company fully cooperated with the investigation, took appropriate administrative actions, reduced its equipment prices and refunded $44,000 to OBO. Additionally, OBO took steps to ensure that proper internal management controls were in place to prevent similar problems in the future.

Human Resources

The Department's goal is to have a high-performing, well-trained and diverse workforce aligned with mission requirements. Rightsizing has been an element of the President's Management Agenda since 2001. In FY 2004, responding to a congressional mandate, the Department established the Office of Rightsizing (M/R) to serve as the focal point for the Department's role in the OMB-led President's Management Agenda initiative to rationalize the federal government's overseas presence. A number of Department initiatives related to rightsizing are underway, including M/R rightsizing reviews, a regionalization working group, State-USAID Joint Management Council efforts, and staffing incentives for hard-to-fill overseas positions. Nevertheless, rightsizing and other issues broadly related to human resources continue to be a management and performance challenge.

OIG in its inspections has focused on the Department's progress in rightsizing, including regionalization and consolidation, of overseas missions and domestic bureaus. Overall, OIG found that the Department has made positive but limited progress to address rightsizing issues. The most recent OMB scorecard gives the Department a green light in assessing State's progress towards key rightsizing milestones, and OIG concurs.

OIG found numerous untapped regionalization opportunities overseas that could reduce costs and security vulnerabilities or improve operations. In Bandar Seri Begawan, for example, OIG found that most administrative functions (as well as nonimmigrant visa services, due to unique circumstances in Brunei) could be provided more securely and more effectively from a regional center.

Redundant administrative structures continue to exist overseas and in Washington. OIG recommended that Embassy Paris and the U.S. Missions to the Organization for Economic Cooperation and Development and the United Nations Educational, Scientific, and Cultural Organization share a joint management structure. OIG also recommended that a number of like functions be consolidated in Frankfurt, including functions in the Vienna Regional Program Office, Paris Financial Support and Training Office, and Embassy Berlin, and identified duplicate administrative support structures in Amman, Paris, Gaborone, Harare, and Lilongwe.

Domestically, OIG found that unclear lines of authority, uneven workload, and unproductive competition impeded performance of the Bureaus of Arms Control, Nonproliferation, and Verification and Compliance. Following OIG's recommendation, the Department is consolidating the first two bureaus and restructuring the third.

OIG also found that in particular cases regional center growth had not been planned or managed effectively. During inspections of some of the Department's largest regional centers, including those in Thailand, Germany, and South Africa, it was found that in some cases growth occurred in a piecemeal fashion and strained existing resources and structures. These reports also cited weaknesses in managing regional center growth due to the inherent difficulty in hosting regional support services and the complexity of dealing with such growth in other agencies.

Counterterrorism and Border Security

The Department continues to play a central role in combating international terrorism, including efforts to stop terrorists before they reach our shores. Posts abroad are encouraged to maintain vigilance in identifying, reporting on, and denying documentation to persons engaged or likely to engage in terrorist activity or in support for such activity. High priority is also given to enlisting the cooperation of host governments in implementing joint counterterrorism initiatives. Counterterrorism and border security are of critical importance and remain a management and performance challenge for the Department.

During inspections of 25 embassies and 10 constituent posts over the past year, OIG found that coordinated interagency efforts to identify and report on international terrorist activities are working well. However, this coordination was found to be more difficult to achieve at those small posts where other-agency representatives working on counterterrorism were based at other posts in the region. At those larger posts where counterterrorism is a major activity, the organizational structure of the American staff appears well suited to the operation.

OIG conducted two management reviews of the Department's visa function: one on the standards used for refusing visa applicants suspected of terrorist or other harmful intent in visiting the United States; and another on management of post visa referral programs. In the former review, OIG found that adjudication officers were generally aware of the possibility of applying a particular section of the law in those cases where they believe the intent of the applicant may involve activities deemed harmful to the U.S. in terms of national security. In the latter review, OIG found that over 95 percent of visa officers responding said they were fully supported by senior management in their visa decisions and not subject to any pressure to approve visa issuance. In a separate review of the Department's visa and passport fraud prevention programs, OIG found that the joint program of the bureaus of Consular Affairs and

Diplomatic Security to establish DS special investigator positions at 25 of the most fraud-prone posts is proving to be successful in countering visa fraud and corruption. OIG has recommended that this new program be expanded as funding permits. In FY 2005, OIG testified twice before congressional committees concerning inspections of U.S. border security.

OIG established the "Passport Sentinel" identity theft initiative to determine if individuals have fraudulently obtained U.S. passports through the use of false identities and to identify and address weaknesses in the passport issuance system. Close interagency cooperation through the Passport Sentinel Alliance now ensures a comprehensive law enforcement approach and addresses systemic aspects relating to the subversion of the nation's passport system by individuals, terrorists, and domestic/transnational criminal organizations.

Public Diplomacy

The Department, as a strategic goal, aims to increase understanding for American values, policies, and initiatives to create a receptive international environment. The Under Secretary for Public Diplomacy and Public Affairs has made clear the importance and urgency of this goal. Given the work yet to be done, OIG now views public diplomacy as a management and performance challenge for the Department.

In order to realize its vision, the Department needs to make progress on the public diplomacy agenda in three major areas: coordination of public diplomacy; perceptions in the Muslim World; and performance measurement.

With regard to the coordination of public diplomacy, OIG reports have identified a mixed picture regarding coordination within missions abroad and a complex system of lines of authority weaving together public diplomacy resources within the Department in Washington. In both the field and in Washington, there is a need to include public diplomacy officers more effectively in the early stages of all policy development and implementation.

Independent surveys such as the Pew Global Attitudes Project, audience research by the Broadcasting Board of Governors, and work by the Office of Research all paint the picture of a tough audience in the Muslim World to which the Department must play in order to generate greater understanding of U.S. policy as well as recognition of the non-threatening U.S. goals of mutual understanding, regional stability, and the promotion of democracy and human rights.

The conventional wisdom is that the impact or results of public diplomacy efforts and activities cannot be easily measured. However, this does not negate the Department's need for better, objective information so that it can consider carefully where to apply resources and how to evaluate the results that can be expected.

The Bureau of Educational and Cultural Affairs (ECA) reported to the Management Control Steering Committee, as a material weakness, the Department's inability to monitor compliance or abuse by designated sponsors of exchange visitors within existing regulations, policies and procedures. The Office of Inspector General worked with ECA and other bureaus to develop a plan for ECA to provide effective oversight of the sponsors and their programs. In addition, the Office of Inspector General took the initiative to create a law enforcement subcommittee to develop practical and effective methods to vet sponsors to ensure they are not associated with criminal or terrorist elements. When implemented this will strengthen the Department's ability to ensure the integrity of the J-Visa program and add another link to the protection of the U.S. borders.

Post-Conflict Stabilization and Reconstruction

The Department views regional stability as one of its strategic goals. In the view of OIG, post-conflict stabilization and reconstruction – in Iraq, Afghanistan, and elsewhere – is now a management and performance challenge.

Operations in both Iraq and Afghanistan offer some of the greatest risks and potential rewards facing the Department. The Department's responsibilities in those locations include: managing massive economic reconstruction and development assistance packages; assisting in the development of integrated democratic systems and the rule of law; training local security forces; recruiting embassy staff; and, in Iraq, constructing the largest and most costly embassy in the world.

OIG completed with the Department of Defense OIG an Interagency Assessment of Iraqi Police Training which concluded that the police training has been a qualified success, but there were several areas that required urgent attention. Embassy Baghdad and Coalition military officials have worked to implement key recommendations including greater involvement of Iraqi officials in all aspects of training, shifting the emphasis from the numbers trained to the quality of training, and addressing issues such as the Iraqi commitment and capacity to sustain the police force being trained. An OIG audit reviewed contractor diesel fuel overcharges at the Jordan International Police Training Center (used for Iraqi police training) and resulted in reimbursements to the Department of about $685,000. An audit of demining operations identified potential savings of about $21.8 million.

As of this writing, OIG is about to release its report on Rule of Law Programs in Iraq. This should provide a valuable framework from which those numerous entities participating in rule-of-law activities in Iraq can go forward in a more integrated and effective manner.

The newly created Office of the Coordinator for Reconstruction and Stabilization in the Department is defining and implementing its mission to strengthen international capacities to address conditions in failed, failing, and post conflict states.