Financial Report Fiscal Year 2007

Transforming the World through Diplomacy

FINANCIAL HIGHLIGHTS

(Dollars in Thousands)	% Change 2007 over 2006	2007	2006	2005
At End of Year:				
Condensed Balance Sheet Data:				
Fund Balances With Treasury	+22%	$ 19,778,998	$ 16,170,761	$ 14,023,542
Investments, Net	+4%	$ 14,412,447	$ 13,909,585	$ 13,389,090
Property and Equipment, Net	+11%	10,198,455	9,175,917	7,862,612
Other	+20%	843,929	701,692	1,079,749
Total Assets	+13%	$ 45,233,829	$ 39,957,954	$ 36,354,993
Foreign Service Retirement Actuarial[1]	+4%	$ 14,728,700	$ 14,215,300	$ 13,429,300
Liability to International Organizations	+28%	1,476,596	1,155,344	1,178,130
Other	+46%	3,687,827	2,522,403	2,472,568
Total Liabilities	+11%	19,893,123	17,893,047	17,079,998
Unexpended Appropriations	+11%	14,553,330	13,095,268	11,430,639
Cumulative Results of Operations	+20%	10,787,376	8,969,639	7,844,356
Total Net Position	+15%	25,340,706	22,064,907	19,274,995
Total Liabilities and Net Position	+13%	$ 45,233,829	$ 39,957,954	$ 36,354,993
For the Year:				
Total Cost	+11%	$ 19,024,539	$ 17,082,939	$ 15,953,921
Total Earned Revenue	+17%	(5,388,456)	(4,590,276)	(4,131,816)
Total Net Cost of Operations	+9%	$ 13,636,083	$ 12,492,663	$ 11,822,105
Budgetary Resources	+17%	$ 30,954,300	$ 26,432,961	$ 24,957,654
On-Time Payments (%)	+1%	96%	95%	96%
Interest Penalties Paid as a Percent of Total Payments	0%	1%	1%	2%
Electronic Funds Transfer Payments (%)	+3%	90%	87%	85%

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

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ABOUT THIS REPORT

The U.S. Department of State (State) has chosen to produce this Agency Financial Report (AFR) as an alternative to the consolidated Performance and Accountability Report, and elected to participate in the Office of Management and Budget's (OMB) Fiscal Year (FY) 2007 pilot pursuant to OMB Circular A-136. The AFR is one in a series of reports to convey our budget, performance, and financial information in a way that we hope is more useful to our constituents. The AFR for FY 2007 provides an overview of the Department's financial performance and results to help Congress, the President and the public assess our stewardship over the financial resources entrusted to us. Additional comprehensive performance information will be included in State's Annual Performance Report, to be incorporated into the FY 2009 Congressional Budget Justification, which will be available in February, 2008, at www.state.gov. A Joint State-USAID document, summarizing high-level budget, performance, and financial information, will also be posted to our Web site by February 1, 2008. We believe that this approach will improve our reporting by making the information more meaningful and transparent to the public, and by providing a more succinct and easily understood analysis of the Department's accountability over its resources.

ABOUT THE COVER

The sign used as the backdrop for press briefings at the U.S. Department of State is seen before a press conference at the State Department in Washington. (AP Photo/Charles Dharapak)

MESSAGE FROM THE SECRETARY

I am pleased to present the U.S. Department of State's Financial Report for Fiscal Year 2007. The Financial Report provides crucial financial and performance information for Congress and the American people, and highlights our efforts to manage taxpayer dollars responsibly in support of our mission to support partners worldwide who are working to build democratic and well- governed states that reflect their people's aspirations for freedom, security, and prosperity for all.

These ideals lie at the core of the Department's mission to *"Advance freedom for the benefit of the American people and the international community by helping to build and sustain a more democratic, secure, and prosperous world composed of well-governed states that respond to the needs of their people, reduce widespread poverty, and act responsibly within the international system."*

The joint Department of State and U.S. Agency for International Development Strategic Plan for 2007-2012 articulates a shared vision for meeting our global diplomatic and development challenges and advancing our national interests. Our two agencies work closely together to build and maintain strong bilateral and multilateral relationships with nations in all regions to address common international problems, like fighting terrorism and extremism, stemming the spread of weapons of mass destruction, reducing dire poverty, and promoting the development of democratic institutions that support civil society and keep citizens safe and secure. Our global agenda in public diplomacy, humanitarian assistance, and regional stability is providing the foundation for sustainable economic growth and human development, reinforcing effective democratic governance, and encouraging states to engage responsibly in the international system.

Supporting the President's commitment to enhance the effectiveness of American diplomacy, we have examined staffing and resource needs and taken steps to realign overseas positions to better reflect current foreign policy priorities. I remain dedicated to eliminating shortages of essential skills among our diplomatic corps, particularly in the areas of critical languages and reconstruction and stabilization expertise.

We have worked aggressively to resolve significant management control matters as they arise. When we underestimated the number of applicants for passports, we reassigned a large number of staff to New Orleans and New Hampshire and established a new facility in Arkansas to address the problem. We are strengthening controls over private security contractors by implementing recommendations of a special panel to improve accountability and control, working closely with our colleagues at the Defense Department to improve coordination and investigating instances of possible wrongdoing. We continue to monitor our overseas construction program to ensure success.

We have improved significantly our controls over accounting for property and information systems security. Our financial systems have improved and will continue to improve with the rollout of our Global Financial Management System this past Spring. We have, however, seen an increase in the value of older unliquidated obligations. While this condition does not expose the Department to the risk of waste or fraud, we acknowledge it needs improvement, and have designated the management of unliquidated obligations as a material weakness. In doing so, we will ensure that the appropriate management attention is applied to this weakness so that it is quickly resolved. While there are no other material weaknesses, in light of this weakness in unliquidated obligations, I am providing a qualified assurance regarding the Department's management controls. The financial and summary performance data in this report, except for the deficiency identified, are complete and reliable in keeping with the guidance from the Office of Management and Budget.

Since 2002, the State Department has submitted to Congress and the American public an annual Performance and Accountability Report. This year, the Department is honored to be one of the Federal agencies participating in a pilot program under the auspices of the Office of Management and Budget to explore different ways to report budget, performance, and financial information. Additional comprehensive performance information will be included in the Department of State's Annual Performance Report, to be incorporated into the FY 2009 Congressional Budget Justification, which will be available in February 2008, at www.state.gov.

I am proud to represent the Department of State's 28,000 American and Foreign Service National employees at more than 260 posts worldwide. These men and women are doing vital work for the American people, and in this mission, they have the honor and respect of a grateful nation.

Condoleezza Rice

Secretary of State

November 15, 2007

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 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.

Management's Discussion and Analysis

ABOUT THE DEPARTMENT

OUR MISSION AND VALUES

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, the United States has an immense responsibility to use its diplomatic influence constructively to advance security, democracy, and prosperity around the globe.

OUR MISSION STATEMENT

Advance freedom for the benefit of the American people and the international community by helping to build and sustain a more democratic, secure, and prosperous world composed of well-governed states that respond to the needs of their people, reduce widespread poverty, and act responsibly within the international system.

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.

DIVERSITY
Commitment to having a workforce that represents the diversity of America

OUR ORGANIZATION

Congress established the U.S. Department of State in 1789, replacing the Department of Foreign Affairs, which was established in 1781. 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 a little more than 1% of the total federal budget. 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.

President Bush speaks during the Major Economies Meeting on Energy Security and Climate Change, Friday, September 28, 2007, at the Department of State in Washington. AP Image

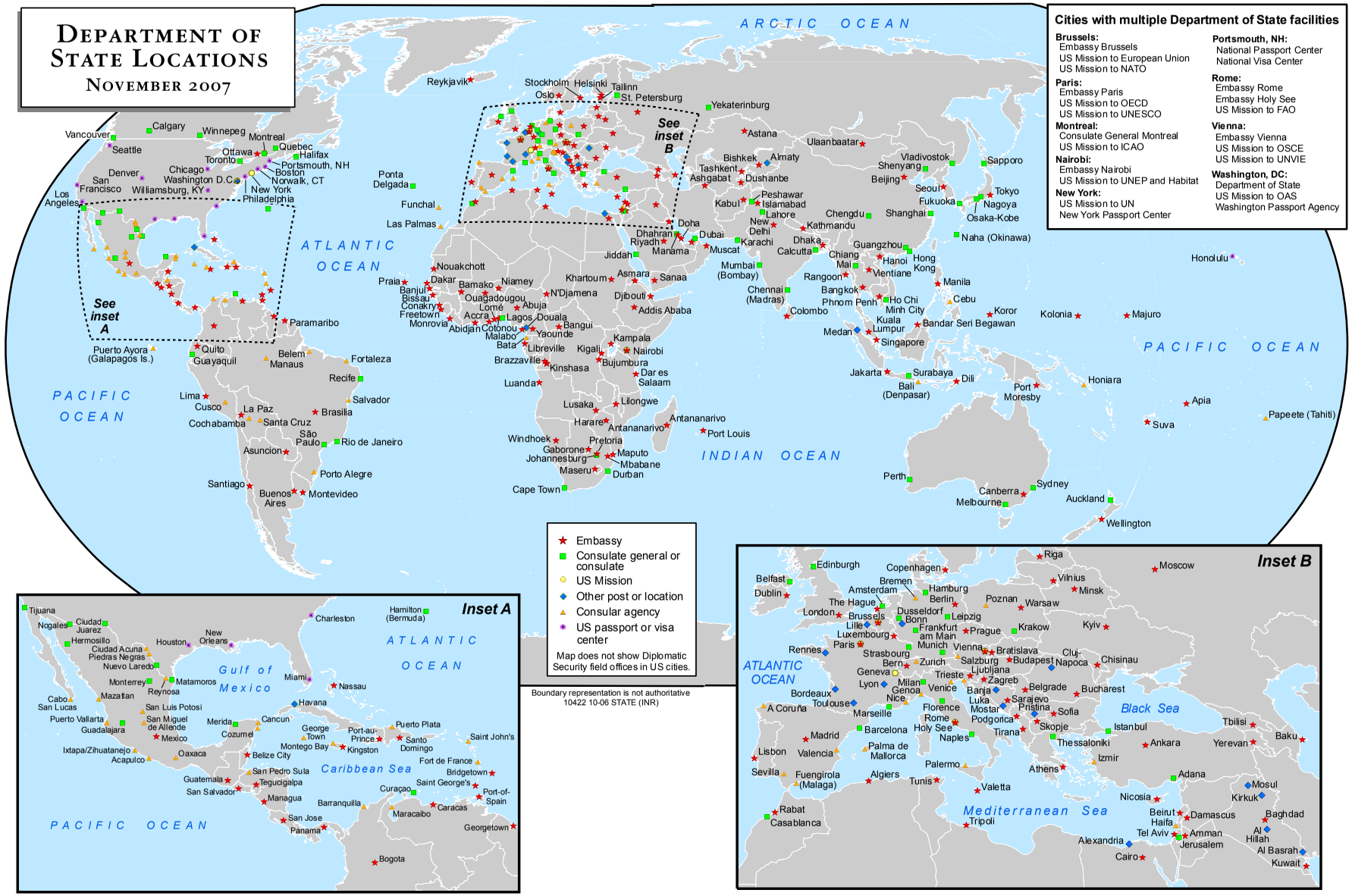
At our headquarters in Washington, D.C., the Department's mission is carried out through six regional bureaus – each of which is responsible for a specific geographic region of the world – the Bureau of International Organization Affairs, and numerous functional and management bureaus. These bureaus 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. State's organizational chart is contained in the Appendix.

State Department/Ann Thomas

The Department operates more than 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.

Department of State Locations
November 2007



Boundary representation is not authoritative
10422 10-06 STATE (INR)

Cities with multiple Department of State facilities

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

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

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

Portsmouth, NH:
National Passport Center
National Visa Center

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

OUR PEOPLE

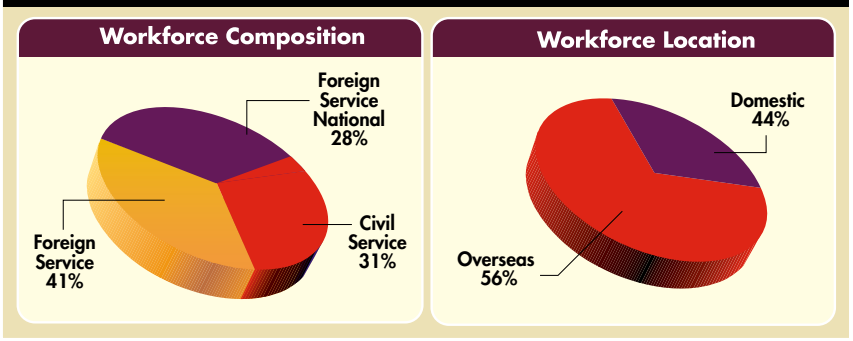
The Foreign Service and the Civil Service in the Department of State and U.S. missions abroad represent the American people. They work together to achieve the goals and implement the initiatives of American foreign policy. The Foreign Service is a corps of over 11,000 employees who are dedicated to representing America and to responding to the needs of American citizens living and traveling around the world. They are also 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, D.C., are involved in virtually every policy area of the Department – from democracy and human rights to narcotics control, trade, and environmental issues. They are also the domestic counterpart to consular officers abroad, issuing passports and assisting U.S. citizens overseas. 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

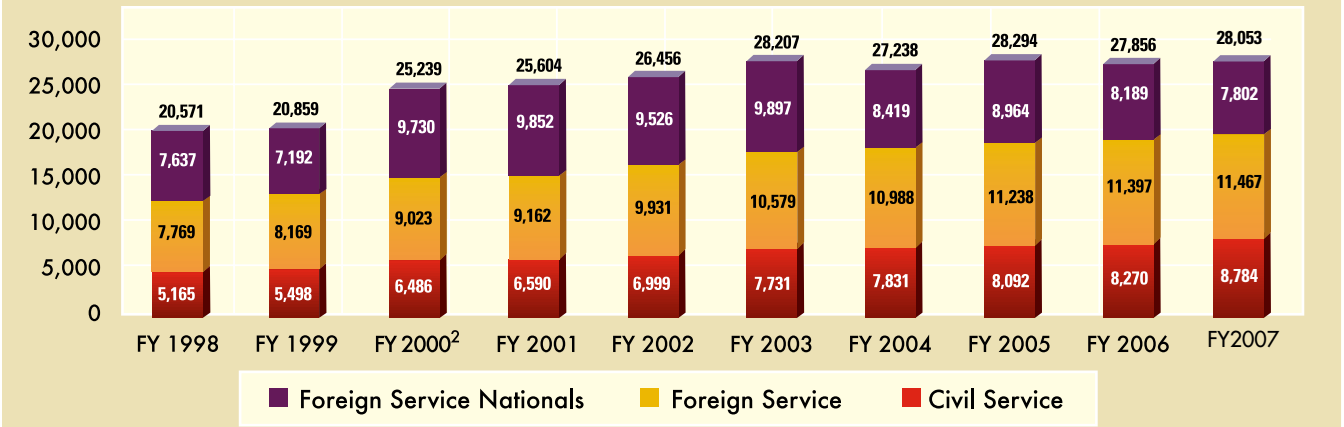
The charts below show the distribution of the Department's workforce by employment category and location.

Since FY 1998, the total number of employees at the Department has increased by 36%, with the greatest increase shown in the Department's Civil Service staff (70%). The Foreign Service staff and the Foreign Service National staff have increased by 48% and 2%, respectively, over the past decade. This expansion reflects the Department's increased emphasis on security, public diplomacy, counterterrorism, and management reforms.

FULL-TIME PERMANENT EMPLOYEES *AS OF SEPTEMBER 30, 2007*



SUMMARY OF FULL-TIME PERMANENT EMPLOYEES[1]



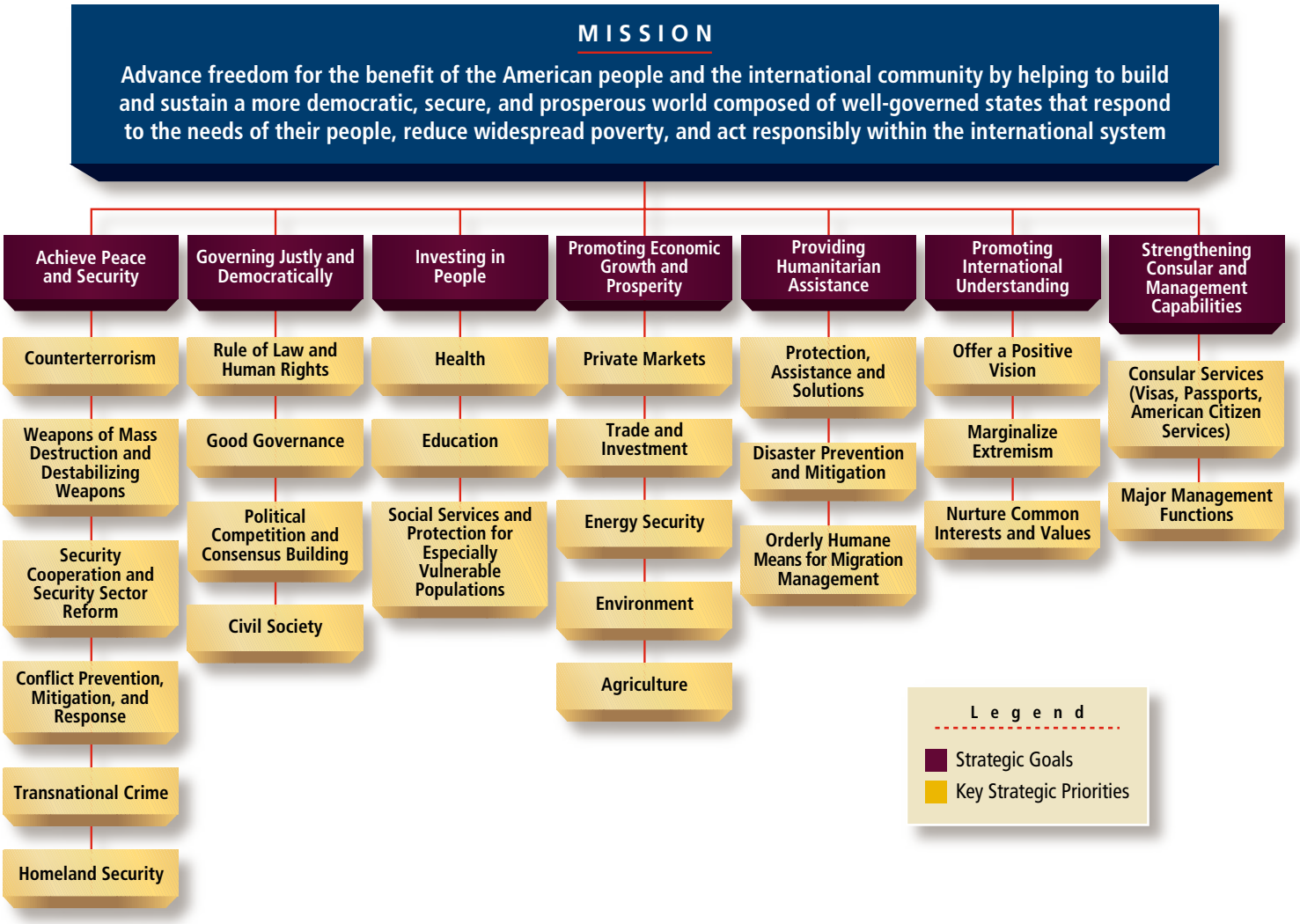
[1] *These numbers do not include FSNs employed under personal service agreements or as personal service contractors.*
[2] *Reflects integration of employees of the United States Information Agency (USIA) and the Arms Control and Disarmament Agency (ACDA).*

PERFORMANCE SUMMARY AND HIGHLIGHTS

HOW WE MANAGE PERFORMANCE

Performance measurement is the process of assessing progress toward achieving predetermined goals. Performance management builds on that process and includes activities to ensure that the Department's strategic goals are achieved through a framework of strategic priorities, performance measures, and data collection that are reliable and useful to guide American diplomacy toward the successful achievement of creating a world of democratic states and enduring security for the American people.

The integration of performance and budget information starts with the President's highest foreign policy and foreign assistance priorities, expressed through the Department of State-USAID Joint Strategic Plan for 2007-2012, and implemented via mission- and bureau-level planning and evaluation processes that culminate each year in the submission of the President's budget to the Congress. The shared strategic goals of the Department of State and the U.S. Agency for International Development (USAID) define this integrated vision and represent the core of our transformational diplomacy efforts. The accompanying table, reflecting the Department of State/USAID's Joint Strategic Goal Framework, is structured around seven strategic goals and the key strategic priorities within them.



Below, we present highlights of important FY 2007 results in each of our seven strategic goal areas.

Strategic Goal 1: Achieving Peace and Security

Palestinian President Mahmoud Abbas shakes hands with U.S. Secretary of State Condoleezza Rice, during their meeting in the West Bank city of Ramalah. October 17, 2007. AP Image

U.S. Secretary of State Condoleezza Rice, right, meets with Israeli Prime Minister Ehud Olmert, October 17, 2007. AP Image

Israeli-Palestinian Road Map to Peace. Promoting dialogue between the Israelis and Palestinians, consistent with the Road Map and the Quartet principles (renunciation of violence, recognition of Israel, and commitment to previous agreements between the parties) is central to the Department's mission to foster peace, security, democratic and economic progress throughout the Middle East and North Africa. Lack of progress toward a negotiated two-state solution to the Israeli-Palestinian conflict fuels extremism and impacts U.S. national security and interests throughout the Middle East and around the world. Hamas' violent takeover of Gaza in June precipitated the dismissal of the unity government between Fatah and Hamas, and the establishment of a moderate Palestinian government committed to the Quartet principles under Prime Minister Salam Fayyad and President Mahmoud Abbas. With a new Palestinian Authority government in place committed to peace, recognition of Israel, and a two-state solution, Israeli PM Olmert and Palestinian Authority President Abbas launched serious bilateral talks, including on core final status issues, and the President in July called for an international meeting to rally international support for discussions and negotiations between the parties. The Secretary of State traveled to the region on a near monthly basis to support and advance these bilateral talks and lay a foundation for serious negotiations.

Strategic Goal 2: Governing Justly and Democratically

Protecting Human Rights and Building Democracy. Sustainable democracies promote greater governmental accountability, vibrant and active civil societies, and democratic practices that are more likely to result in respect for human rights and basic freedoms. Through public-private partnerships with non-governmental organizations in 2007, the Department led the effort to strengthen the Voluntary Principles on Security and Human Rights (VPs) by developing formal criteria to foster greater accountability on the part of all members and reinforcing a shared commitment to ensure that extractive industry security practices protect human rights. In other fronts, intensive diplomacy with Vietnam led to greater concrete improvements in religious freedom, such as releases of religious prisoners and registration of hundreds more places to worship. Through ongoing diplomacy and relationships with multilateral organizations, the Department succeeded in keeping international focus on abuses of religious freedom and holding governments accountable.

Former Assistant Secretary of State Barry Lowenkron, holds the disc, containing the 2006 country reports on human rights practices, during its release at the State Department in Washington, March 6, 2007. AP Image

Strategic Goal 3: Investing in People

Fighting Global HIV/AIDS. One of the surest long-term strategies for addressing transnational threats is to promote the health, stability, and economic well-being of developing nations. Confronting global HIV/AIDS in some of the hardest-hit countries is at the heart of this strategy. Through the President's Emergency Plan for AIDS Relief (PEPFAR), the U.S. Government (USG) has responded to the global challenge of HIV/AIDS with a bold strategy for integrated prevention, treatment and care services in more than 100 countries with a particular focus on fifteen of the most affected countries. As the President's initiative enters its fifth year, the top priority is to meet the President's goals by supporting: treatment for two million HIV-infected individuals; prevention of seven million new HIV infections; and care for ten million people infected or affected by HIV/AIDS, including orphans and vulnerable children. The American people's investment in PEPFAR has enabled this initiative to build networks of country-owned strategies with a dedication to results that are saving lives in the face of a devastating health crisis that has the potential to impact us all.

After speaking on his efforts to fight HIV/AIDS, President Bush, right, hoists 4-year-old Baron Mosima Loyiso Tantoh, son of Manyongo Mosima "Kuene" Tantoh of South Africa, left, who is HIV-positive, May 30, 2007. AP Image

Strategic Goal 4: Promoting Economic Growth and Prosperity

Transformational Diplomacy and U.S. Prosperity. Promoting sustainable economic growth, promoting good governance, and encouraging openness to trade and investment are the foundation of USG efforts to undercut terrorist recruitment and financing. These efforts also contribute to a dynamic international economic system that will continue to provide new opportunities for American workers here and abroad. In the fight against corruption and other systematic business climate issues, the Department and country team members from other federal agencies provided advocacy services in 2007 for 300 company-specific cases to resolve commercial disputes and strengthen U.S. and foreign economies. Completion of an 'open skies' aviation agreement with the European Union was a major step toward a more competitive global aviation market. And the Department's success in promoting international transportation security continued in 2007 with the commencement of operational testing of the Secure Freight Initiative in three ports.

Secretary of State Condoleezza Rice and German Federal Minister of Transport, Building and Urban Affairs Wolfgang Tiefensee sign the US-European Union Air Transportation Agreement in the Treaty Room at the State Department in Washington, April 30, 2007. AP Photo/Manuel Balce Ceneta AP Image

Strategic Goal 5: Providing Humanitarian Assistance

Refugee Protection. Providing protection and assistance to refugees threatened by the atrocities of war persecution is one way the Department puts into practice the best humanitarian traditions of the American people. Together with partners including the United Nations, non-governmental organizations, and others, the Department works to save lives, relieve suffering and sustain the

livelihoods of refugees, victims of conflict and other vulnerable populations, while also working to achieve durable solutions that enable refugees to return voluntarily, integrate locally or resettle elsewhere. The Department and its partners continue the American tradition of admitting refugees for resettlement in the United States. Since 1975, the United States has resettled more than 2.66 million refugees, and we continue to resettle more refugees than all other resettlement countries combined. To address the immediate needs of those fleeing their homes or caught in protracted situations, the Department advocates for governments to uphold their responsibility to protect populations within their territories, and integrates protection policies throughout its humanitarian assistance programs. Emphasizing protection for refugee women and children, these efforts support family reunification, combat gender-based violence and exploitation, strengthen humanitarian field presence, and strive to prevent the forcible return of refugees to places where they fear persecution or harm.

Strategic Goal 6: Promoting International Understanding

Engaging International Audiences. Through technology, including video and other media, web-based outreach, a speakers program, and educational and cultural exchange programs, the Department seeks to broaden domestic and global understanding of U.S. foreign policy priorities and programs. New in 2007 was the creation at the Department of a Counterterrorism Communication Center that provides leadership to the entire USG in the war of ideas and the integration of USG communications strategies. Other accomplishments include the Digital Outreach Team that overtly engages in dialogue on foreign Arabic-language blogs and discussion forums, as well as a new multimedia production capability that facilitates the delivery of messages to broader and younger audiences. These efforts offer people throughout the world a positive vision of hope, help isolate and marginalize violent extremists and help reduce the level of anti-Americanism among key foreign audiences.

Baseball Hall of Famer Cal Ripken Jr. becomes a "special sports envoy" during a ceremony at the State Department August 13, 2007. AP Image

Strategic Goal 7: Strengthening Consular and Management Capabilities

Protecting the Lives and Interests of American Citizens. Border security and protecting the lives and interests of American citizens abroad form the core initiatives designed to enhance the security of our nation and citizens. In 2007 the Department obtained Congressional approval to initiate the Visa and Passport Security Strategic Plan that focuses on the detection of terrorist activity, methods, and trends that exploit international travel vulnerabilities. The Department also implemented mandatory use of an electronic visa application form and transitioned to full electronic connectivity, and by December 2007 expects to capture 10-print finger scans from applicants who require fingerprinting. Building on these accomplishments, the Department will transition to the development of an effective remote data collection process to support consular screening of nonimmigrant visa applications. In the area of providing safe, secure and functional facilities to assist our overseas missions to achieve the foreign policy objectives of the United States, the Department awarded eleven capital projects in FY 2007 as part of an initiative to deliver capital construction projects on time and within budget.

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, with a focus on delivering results. Each quarter, the Office of Management and Budget (OMB) releases an executive scorecard that rates agencies' overall status and progress on PMA initiatives. The scorecard employs a color-coded grading scale of green, yellow, and red commonly used by businesses today: Green for success; Yellow for mixed results; and Red for Unsatisfactory. A summary of the Department's FY 2007 Fourth Quarter Scorecard is provided below. For more information on the PMA and the executive scorecard, please visit *www.whitehouse.gov/results/.*

PMA Initiative	Description	Status	Progress
Strategic Management of Human Capital	Build, sustain, and deploy effectively a skilled, knowledgeable, diverse and high-performing workforce aligned with mission objectives and goals.	Green	Green
Improved Financial Performance	World-class financial services that support strategic decision-making, mission performance, and improved accountability to the American people.	Green	Green
Competitive Sourcing	Achieve efficient, effective competition between public and private sources and establish infrastructure to support competitions.	Yellow	Green
Performance Improvement	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.	Yellow	Green
Expanded Electronic Government	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.	Green	Yellow
Federal Real Property Asset Management	To promote the efficient and economical use of America's real property assets.	Green	Green
Right-Sized Overseas Presence (OMB Lead)	Reconfigure U.S. Government overseas staff allocation to the minimum necessary to meet U.S. foreign policy goals.	Green	Green

PROGRAM ASSESSMENT RATING TOOL (PART) STATUS

The Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) is used by agencies across the Federal government to assess program performance and to drive a sustained focus on program results. A key component of the President's Management Agenda, PART assessments review overall program effectiveness, from how well a program is designed to how well it is implemented and what results it achieves. PART results are used to improve program management and to ensure the most effective and efficient use of taxpayer dollars.

Since 2002, the Department and OMB have used PART to review a total of fifty-two programs covering State Operations and Foreign Assistance. In 2007, the Department completed five new foreign assistance PARTs, three of which are pilot PARTs managed jointly with USAID. The chart below lists the fifty-two programs assessed between 2002 and 2007 and their PART scores and ratings. For additional information on PART and these assessments, please visit http://www.expectmore.gov.

Program Name	Score and Rating
Contributions to International Atomic Energy Agency	98% Effective
Educational & Cultural Exchanges, NEA/SCA	97% Effective
Educational & Cultural Exchanges, Global	97% Effective
Capital Security Construction	97% Effective
Migration & Refugee Assistance-Protection	96% Effective
UN High Commissioner for Refugees	96% Effective
South Asia Military Assistance	93% Effective
Humanitarian Demining	93% Effective
Migration & Refugee Assistance-Other	93% Effective
International Boundary & Water Commission	92% Effective
Visa & Consular Services	92% Effective
Worldwide Security Upgrades	92% Effective
Humanitarian Migrants to Israel	91% Effective
Contribution to UN Development Program	91% Effective
Contribution to UNICEF & Other Programs	91% Effective
Nonproliferation & Disarmament Fund	89% Effective
Security Assistance for Western Hemisphere	90% Effective
Export Control Assistance	90% Effective
Global Peace Operations Initiative	91% Effective
Foreign Service Institute	88% Effective
Support for East European Democracy/FSA	88% Effective
U.S. Embassy Compound Security	87% Effective
International Peacekeeping Activities	86% Effective
Refugee Admissions to the U.S.	86% Effective
Non-Security Embassy Construction	86% Effective
Terrorist Interdiction Program	85% Effective
Anti-Terrorism Assistance	85% Effective
Organization for Security and Coorperation in Europe	83% Moderately Effective
Contributions to International Organizations	82% Moderately Effective
Military Assistance to NATO & NATO Aspirant Nations	82% Moderately Effective
Assistance to Refugees	82% Moderately Effective

Program Name	Score and Rating
Security Assistance to Sub-Saharan Africa	77% Moderately Effective
Assistance to Transforming Countries (pilot)	76% Moderately Effective
Global Threat Reduction	76% Moderately Effective
President's Emergency Plan for AIDS Relief (PEPFAR)-Focus Countries	73% Moderately Effective
Protection of Foreign Missions and Officials	72% Moderately Effective
Economic Support Fund-Western Hemisphere	71% Moderately Effective
Assistance to Developing Countries (pilot)	71% Moderately Effective
Security Assistance for Near East Asia	69% Adequate
Assistance to Rebuilding Countries (pilot)	69% Adequate
Economic Support Fund-Africa	67% Adequate
Human Rights and Democracy Fund	66% Adequate
PEPFAR-Global Fund	65% Adequate
Interagency Cooperative Administrative Support Services	65% Adequate
Contributions to International Fisheries Commissions	59% Adequate
Public Diplomacy	59% Adequate
PEPFAR-Other Bilateral Programs	58% Adequate
International Narcotics Control & Law Enforcement (INCLE), Africa/Asia	53% Adequate
INCLE, WHA	53% Adequate
Andean Counterdrug Initiative	52% Adequate
International Information Programs	50% Adequate
INCLE, South Asia	50% Adequate

Legend

- Effective (85-100%)
- Moderately Effective (70-84%)
- Adequate (50%-69%)

State Operations PARTs
Foreign Assistance PARTS

SUMMARY ANALYSIS OF FINANCIAL CONDITION

OVERVIEW OF FINANCIAL POSITION

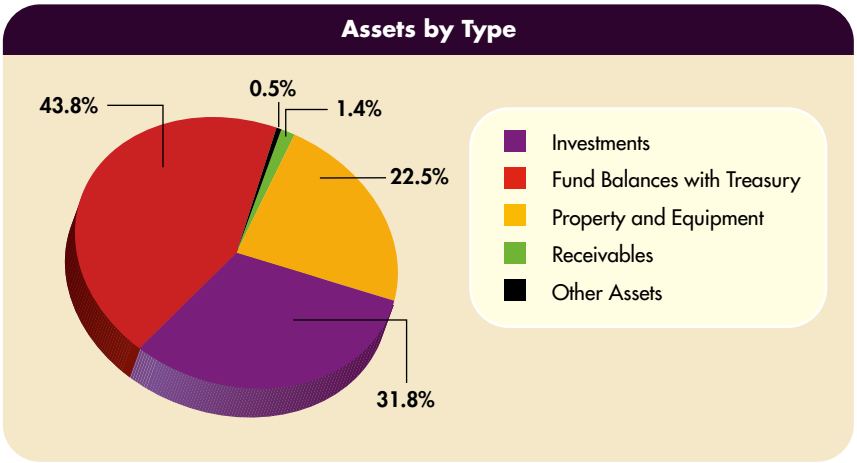
Assets. The Consolidated Balance Sheet shows the Department had total assets of $45.2 billion at the end of 2007. This represents an increase of $5.2 billion (13%) over the previous year's total assets of $40.0 billion. The increase is primarily the result of increases of $3.6 billion in Fund Balances with Treasury, $1.0 billion in property and equipment, and $.5 billion in investments in the Foreign Service Retirement and Disability Fund (FSRDF). The increase in Fund Balances with Treasury primarily resulted from the increased appropriations received for HIV/AIDS initiatives of $1.3 billion, supplemental appropriations of over $2 billion, and increased reimbursements for international narcotics control from DOD and Justice of $404 million. The increase in property and equipment is due to the increase in construction of new embassies and capital construction projects to upgrade embassy security.

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

	2007	2006
Fund Balances with Treasury	$ 19,778,998	$ 16,170,761
Investments, Net	14,412,447	13,909,584
Property and Equipment, Net	10,198,455	9,175,917
Accounts, Loans & Interest Receivable, Net	618,799	570,538
Other Assets	225,130	131,154
Total Assets	$ 45,233,829	$ 39,957,954

Investments, Fund Balances with Treasury and Property and Equipment comprise approximately 98% of total assets for 2007 and 2006. Investments consist almost entirely of U.S. Government Securities held in the FSRDF.

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

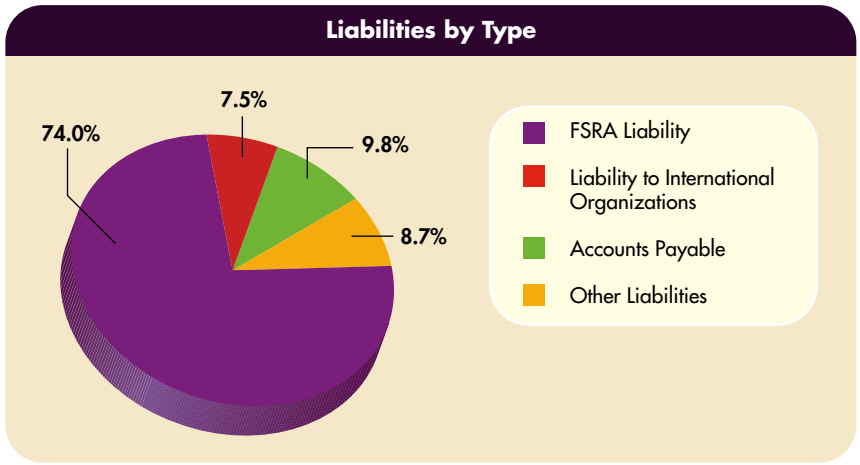


Liabilities. The Department had total liabilities of $19.9 billion at the end of 2007, which is reported on the Consolidated Balance Sheet and summarized in the following table (dollars in thousands):

	2007	2006
Foreign Service Retirement Actuarial Liability	$ 14,728,700	$ 14,215,300
Liability to International Organizations	1,476,596	1,155,344
Accounts Payable	1,949,924	1,253,677
Other Liabilities	1,737,903	1,268,726
Total Liabilities	$ 19,893,123	$ 17,893,047

The Foreign Service Retirement Actuarial (FSRA) Liability of $14.7 billion and the Liability to International Organizations of $1.5 billion comprise 82% of the Department's total liabilities at the end of 2007.

The Department's total liabilities of $19.9 billion at September 30, 2007, represents an increase of $2.0 billion (11%) over the total liabilities of $17.9 billion for the same period last fiscal year. This increase was due in large part to the $513 million increase in the Foreign Service Retirement Actuarial Liability, a $321 million increase in the Liability to International Organizations, and a $369 million increase in deferred revenue for international narcotics control services from DOD and Justice. Of the total liabilities, $2.4 billion were unfunded, i.e., budgetary resources were not available to cover these liabilities, and primarily comprised of the $1.5 billion Liability to International Organizations, and the unfunded portion of the Environmental Liabilities of $392 million.



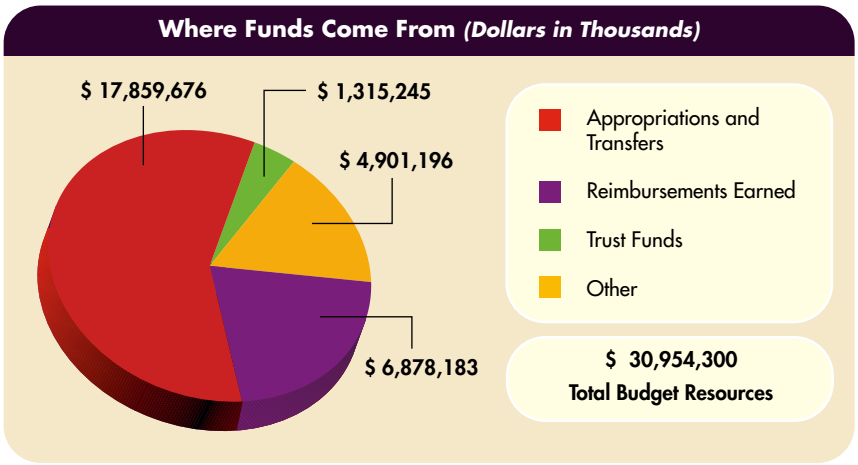
The $1.5 billion Liability to International Organizations consists of $1.4 billion in annual assessments, and $60 million in accumulated arrears assessed by the UN, its affiliated agencies and other international organizations. These financial commitments mature into obligations only when funds are authorized and appropriated by Congress.

Ending Net Position. The Department's Net Position at the end of 2007 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position is $25.3 billion, a $3.3 billion (15%) increase from the previous fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

The $1.4 billion growth in Unexpended Appropriations is due principally to $1.0 billion and $333 million increases in the Global HIV/AIDS and Democracy Fund accounts, respectively. The $1.8 billion increase in Cumulative Results of Operations resulted mainly from the $1.0 billion increase in property and equipment, net, and $493 million revenue from the sale of real property in London.

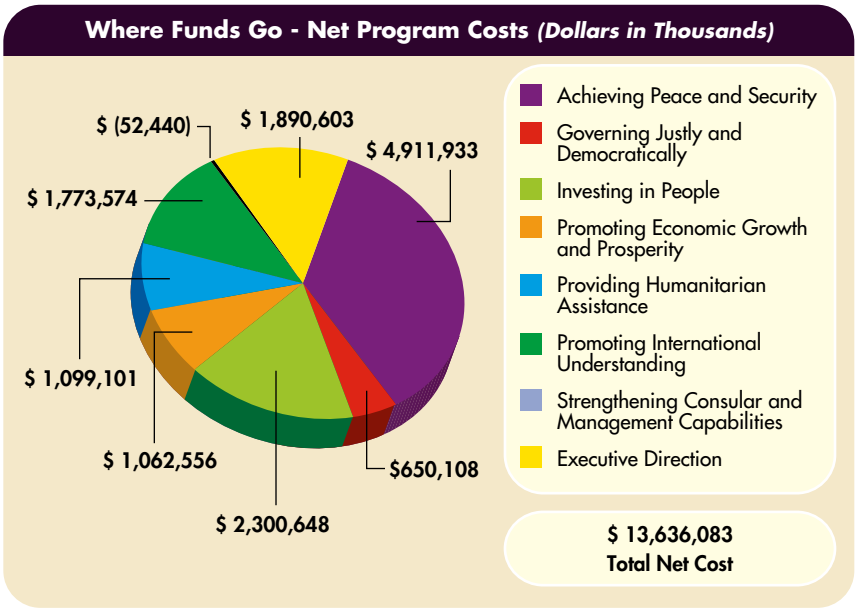
RESULTS OF OPERATIONS

The two charts that follow reflect the funds that the Department received during FY 2007 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 $31.0 billion, an increase of $4.5 billion (17%) from 2006 levels. Budget Authority of $25.8 billion – which consists of $17.7 billion for appropriations (direct, related, and supplemental) and transfers, $6.8 billion for spending authority from providing goods and services, and $1.3 billion financed from trust funds – comprise 83% of the total budgetary resources. The Department incurred obligations of $25.2 billion for the year, a 19% increase over the $21.2 billion of obligations incurred during 2006. Outlays reflect the actual cash disbursed against the Department's obligations.

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 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 (Footnote 16 of the Financial Statements) 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). The presentation of program results by strategic goals is based on the Department's current State-USAID Joint Strategic Plan for 2007 - 2012 established pursuant to the Government Performance and Results Act of 1993.

The Department's total net cost of operations for 2007, after intra-departmental elimina-tions, was $13.6 billion. The strategic objective to "Achieve Peace and Security" represents the largest investment for the Department at 36% of the Department's net cost of operations.

BUDGETARY POSITION

The FY 2007 budget for the Department of State totaled $10.216 billion. It included State Operations appropriations for Administration of Foreign Affairs ($7.420 billion), contributions to international organizations and international peacekeeping activities ($2.620 billion), international commissions ($67 million), and related programs ($108 million). These amounts do not include foreign assistance funding, which was provided through Foreign Operations appropriations.

The Department's FY 2007 budget was funded through the *Revised Continuing Appropriations Resolution, 2007,* which held appropriations to FY 2006 levels with limited adjustments. The budget also included supplemental funding provided through the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007. Supplemental funding was required primarily to address the extraordinary costs for security and operations of the U.S. Missions in Iraq and Afghanistan, as well as the U.S. share of costs for United Nations peacekeeping missions.

In addition to appropriated funds, the Department continued to rely on revenue from user fees – Machine Readable Visa fees, Enhanced Border Security Program fees, the Western Hemisphere Travel Surcharge, and other fees – for the Border Security Program. The revenue from these fees supported program requirements to protect American citizens and safeguard the nation's borders. FY 2007 requirements included heavier consular workloads in connection with renewals of Border Crossing Cards and dramatically increased passport demand associated with implementation of the Western Hemisphere Travel Initiative.

Appropriations for Administration of Foreign Affairs constitute the Department's core funding. They support the people and programs required to carry out U.S. foreign policy and advance U.S. national security, political, and economic interests at more than 260 posts in over 180 countries around the world. They also build, maintain, and secure the infrastructure of the American diplomatic platform, from which most U.S. Government agencies operate overseas.

For FY 2007, the Department's principal operating appropriation – Diplomatic and Consular Programs (D&CP) – was funded at $5.258 billion. Within the restricted level imposed by the full-year Continuing Resolution, the Department reprogrammed funds to sustain critical diplomatic and consular operations and meet foreign policy priorities. Total D&CP funding included $716 million to support operations of the U.S. Mission in Iraq, $778 million for the Worldwide Security Upgrades program to strengthen security for diplomatic personnel and facilities under threat from terrorism, and $351 million for vigorous public diplomacy to counter extremist misinformation and secure support for U.S. policies abroad. The funding also included resources to further the Government-wide reforms of the President's Management Agenda and agency-specific initiatives on rightsizing the U.S. Government's overseas presence and Federal real property asset management.

The Department's IT Central Fund for FY 2007 investments in information technology totaled $260 million. The Fund total included $58 million from the Capital Investment Fund (CIF) appropriation and $202 million in revenue from Expedited Passport fees. Investment priorities included modernization of the Department's global IT infrastructure to assure reliable access to foreign affairs applications and information and projects to facilitate collaboration and data sharing internally and with other agencies. IT investments also supported E-Government initiatives of the President's Management Agenda.

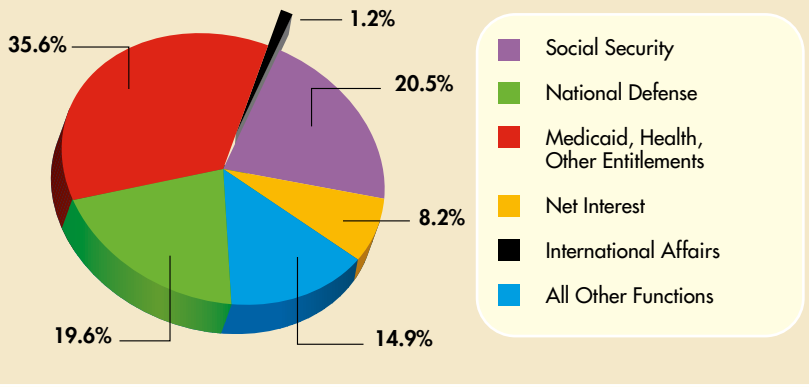
The Embassy Security, Construction, and Maintenance (ESCM) appropriation was funded at $1.491 billion. This funding helped provide U.S. missions overseas with secure, safe, and functional facilities. The funding also supported management of the Department's real estate portfolio, which exceeds $14 billion in value and includes over 15,000 properties. The ESCM funding included $899 million to support capital security construction and compound security projects. Under the Capital Security Cost Sharing program, all agencies with overseas staff under Chief of Mission authority contributed $363 million to the construction costs of new diplomatic facilities.

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at $466 million. Aligned with public diplomacy efforts, these strategic activities engaged foreign audiences to develop mutual understanding and build foundations for international cooperation. The funding included $273 million for academic programs of proven value, such as the J. William Fulbright Scholarship Program and English language teaching. It also included $156 million for professional and cultural exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program.

For FY 2008, the Department's budget request (at this date still pending before the Congress) totals $10.014 billion. It includes resources to address ongoing national security and foreign policy priorities, particularly supporting the global war on terror and advancing transformational diplomacy. The request for D&CP is $4.943 billion, including $965 million for Worldwide Security Upgrades to meet new demands in all regions. The request provides $71 million for CIF for further investments in IT infrastructure and collaborative tools. The request for ESCM totals $1.599 billion, including $807 million for design and/or construction of secure facilities, additional site acquisitions, and compound security projects. Further, the request provides $486 million for ECE to strengthen the exchanges component of public diplomacy, expand the National Security Language Initiative, and bring key influencers to America.

The Department has also requested FY 2008 supplemental funding for State Operations totaling $3.220 billion. The FY 2008 President's Budget originally included a supplemental request of $1.935 billion focused on emergency requirements for the U.S. Mission in Iraq. A request for additional FY 2008 supplemental funding of $1.285 billion was presented to the Congress to address new requirements for U.S. diplomatic operations in Iraq and Afghanistan and for international peacekeeping efforts in Darfur.

The Federal Government Dollar



Source: FY 2008 Mid-Session Review, Budget of the U.S. Government, Estimates for FY 2007

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.

The Department also issues financial statements for its Foreign Service Retirement and Disability Fund (FSRDF), International Cooperative Administrative Support Services (ICASS) and the International Boundary and Water Commission (IBWC). The complete, separately-issued FSRDF, 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.

OTHER ACCOMPANYING INFORMATION

Refer to the Other Accompanying Information section of this report for summary data on the following:

- Financial Management Plans and Reports (Overview and Financial Management Systems)
- Management of Obligations to the Department (Civil Monetary Penalties and Debt Management)
- Management of Payments (Prompt Payment Act and Electronic Payments)
- Improper Payments Information Act
- OIG FY 2007 Management and Performance Challenges
- Summary of Financial Audit and Management Assurances
- Financial Performance Metrics

INTERNAL CONTROLS, FINANCIAL MANAGEMENT SYSTEMS AND COMPLIANCE WITH LAWS AND REGULATIONS

MANAGEMENT ASSURANCES

The Department's Management Control policy is comprehensive and requires all Department managers to establish cost-effective systems of management controls to ensure U.S. Government activities are managed effectively, efficiently, economically, and with integrity. All levels of management are responsible for ensuring adequate controls over all Department operations.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Department of State's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Department conducted its assessment of the effectiveness of internal control over the efficiency and effectiveness of operation and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Department can provide reasonable assurance, except for the material weakness for the management of unliquidated obligations noted below, that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations and financial management systems meet the objectives of FMFIA as of September 30, 2007.

Management is also responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The Department conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123. Based on the results of this assessment, the Department is reporting a material weakness related to the management of unliquidated obligations in its internal control over financial reporting as of June 30, 2007. The details of the material weakness are provided in the Departmental Governance section of this report. Other than the exception noted, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over financial reporting.

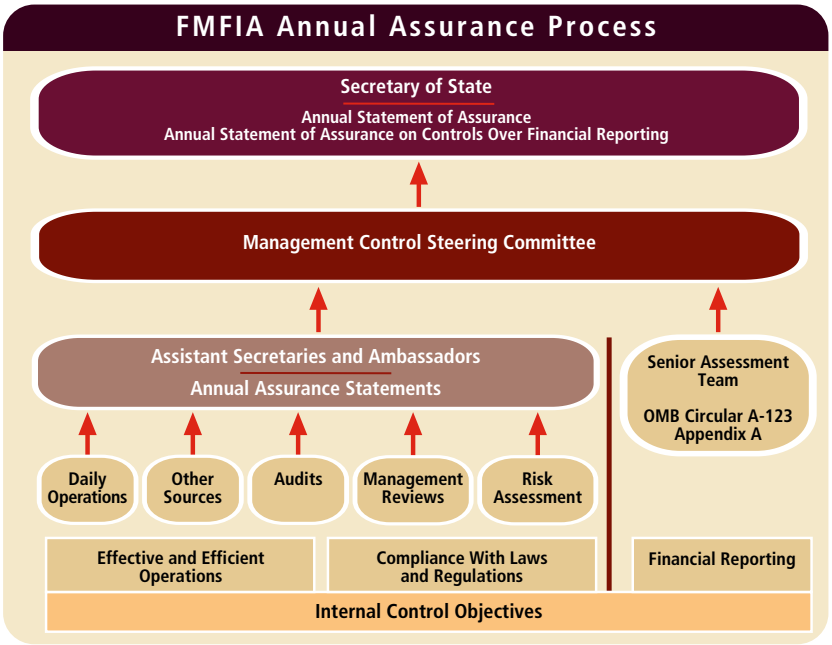
Because of its inherent limitation, internal control over financial reporting, no matter how well designed, cannot provide absolute assurance of achieving financial reporting objectives and may not prevent or detect misstatements. Therefore, even if the internal control over financial reporting is determined to be effective, it can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Condoleezza Rice
Secretary of State
November 15, 2007

DEPARTMENTAL GOVERNANCE

Management Control Program

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires agencies to establish internal 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. OMB Circular A-123, *Management's Responsibility for Internal Control,* implements the FMFIA and defines management's responsibility for internal control in Federal agencies.



The Sarbanes-Oxley Act of 2002 governs internal control requirements for publicly-traded companies and was the foundation for OMB's amending Circular A-123 by adding Appendix A, *Internal Control Over Financial Reporting.* Appendix A was designed to improve governance and accountability for internal control over financial reporting in Federal entities. The revised circular became effective in the prior fiscal year and requires that the agency head also provide an assurance statement on the effectiveness of internal control over financial reporting (ICOFR), which is an addition to and also a component of the overall FMFIA assurance statement.

The Secretary of State's 2007 Annual Assurance Statement for FMFIA and ICOFR is provided on the preceding page.

The Department's 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 eleven other Assistant Secretaries [including the Chief Information Officer and the Inspector General (non-voting)], the Deputy Chief Financial Officer, the Deputy Legal Adviser, the Deputy Assistant Secretary for Global Financial Services and the Director for the Office of Overseas Buildings Operations. Individual assurance statements from Ambassadors assigned overseas and Assistant Secretaries in Washington, D.C. serve as the primary basis for the Department's FMFIA 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.

The Department's management control program implemented OMB's new requirements contained in Appendix A of the revised OMB Circular A-123, in 2006. The MCSC established a senior assessment team (SAT) in 2006 to oversee the implementation of Appendix A, and continued the SAT oversight throughout our 2007 work. The senior assessment team (SAT) reports to the MCSC and is comprised of 11 senior executives from bureaus that have significant impact on the Department's financial statements and financial processes. For 2007, the Department instituted a risk-based approach in evaluating internal control over financial reporting.

It is the Department's policy that any organization with a material weakness or significant deficiency is required to submit a plan to correct the weakness to the MCSC or the senior assessment team (SAT) for review and approval. The plan, combined with the individual assurance statements, provide the framework for monitoring and improving the Department's management controls on a continuous basis.

To administer a successful management control program, including conducting Appendix A requirements, the Department has dedicated significant resources, encouraged department-wide participation, effectively communicated the Appendix A initiative, and held a training workshop on management's role in maintaining effective internal control. The Department also continued to expand the management control program in 2007 by establishing a new Office of Management Controls to perform the requirements of Appendix A while concurrently expanding its FMFIA program.

Status of Management Controls and Financial Management Systems

The Department evaluated its management controls and financial management systems for the fiscal year ending September 30, 2007. This evaluation provided reasonable assurance that as of September 30, 2007, except for a material weakness in the management of unliquidated obligations in the internal control over financial reporting noted below, the objectives of the FMFIA were achieved and the internal controls over financial reporting were operating effectively.

The Department performed the 2007 Appendix A review in three phases: planning, assessing and testing, and concluding and reporting. While continuously obtaining SAT consultation, the Department defined the scope of financial reporting as the financial statements, updated control documentation for all significant financial processes, determined the materiality threshold, documented the key controls as well as evaluated and tested the controls, and tested corrective actions related to prior year significant deficiencies.

Based on an assessment of the controls over the management of unliquidated obligations, the Department determined there was a lack of consistent review procedures being performed at bureaus and posts. As a result, accounts were not being deobligated on a timely basis as required by Department regulations and procedures. Improvement in the management of unliquidated obligations is a priority for the Department in FY 2008, and corrective actions are already underway including the distribution of aging reports, and using recently developed enhancements to its Global Financial Management System's capabilities to automate deobligations. In addition, actions to improve contract closeout procedures relative to unliquidated obligations will be established, and the Senior Assessment Team will be actively engaged with the implementation and oversight of these corrective actions.

In the prior fiscal year, the Department worked closely with the Independent Auditor to address the reported material weakness related to the accounting for personal property. As a result, and as reflected in the Independent Auditor's Report on the FY 2006 financial statements, the Independent Auditor downgraded this item to a significant deficiency. In FY 2007, management continued efforts to remedy this weakness, making considerable progress. As a result of the improved status by September 30, 2007, the MCSC voted to downgrade this item from a significant deficiency to a deficiency. However, the Independent Auditor did not feel that the pace of progress was sufficient, and has reported the accounting for personal property as a material weakness. In FY 2007, management did complete its assessment of the controls over personal property, noting additional improvements in conducting inventories of vehicles, both held by the Department and by contractors; the successful implementation of tools in Integrated Logistics Management System (ILMS) to manage its vehicle fleet; and improvements in guidance and policy. Further corrective actions are planned for FY 2008, including expanding the capabilities for overseas posts to report acquisitions and disposals in the ILMS.

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) at the transaction level.

To assess conformance with FFMIA, the Department uses 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 performed to meet the requirements of the FMFIA including assessments performed to meet the requirements of OMB Circular A-123, Appendix A. Particular importance is given to any material weaknesses, significant deficiencies and material non-conformances identified during these internal control assessments.

The Department has made it a priority to meet the objectives of the FFMIA. Based on assessment results, along with information contained in the Department's FY 2007 FISMA Report and evaluations and assurances provided under FMFIA, the Department affirmed its determination of substantial compliance with FFMIA in its FY 2007 Management Representation Letter provided to the Independent Auditor. Further reinforcing FFMIA substantial compliance, the Department's Management Control Steering Committee voted in September 2006 to classify the Department's Financial and Accounting Systems as a financial system deficiency (versus significant deficiency or material non-conformance).

During FY 2007, the Department completed a major system implementation to upgrade its core financial management system, the Central Financial Management System (CFMS), to the Global Financial Management System (GFMS). GFMS establishes a common, uniform platform based on CGI's Momentum® financial system. Momentum® is a COTS product that has been tested and certified through the Chief Financial Officers Council software certification process as meeting Office of Federal Financial Management financial system requirements. The Momentum product complies with federal accounting standards and the U.S. Standard General Ledger. Momentum is also the underlying accounting system for the Department's Regional Financial Management System (RFMS).

The Department set clear objectives for the transition to the new Global Financial Management System (GFMS). Rigorous processes were implemented to completely convert reference and financial information from CFMS to GFMS and ensure the proper accountability of transactions during the transition period. Testing was conducted to confirm that GFMS (1) can effectively process transactions, (2) contains the necessary edit checks and automated controls, and (3) can produce reports needed for accurate financial reporting.

To further ensure continued FFMIA compliance and conformance of the new system to Federal accounting standards and the U.S. Standard General Ledger, the Department included the transition to GFMS in the scope of its FY 2007 A-123, Appendix A review. Specifically, the A-123 team determined (1) if procedures were sufficient to meet transition objectives and (2) identify any significant issues that could potentially impact the accuracy of financial reporting. The A-123 assessment determined that the Department had sufficient procedures in place to ensure the successful transition from CFMS to GFMS and no significant GFMS conversion issues were outstanding at September 30, 2007.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The Department of State 2007 Federal Information Security Management Act (FISMA) and Privacy Management Report presented continued improvement in IT security within the Department, as well as a framework for 2008 efforts. The Department is dedicated to protecting information and information systems with a comprehensive Information Security Program integrating operational security and information assurance programs monitored by performance metrics that are continually improving.

Over the past year, the Department continued streamlining processes, eliminating duplicative initiatives, and focusing on its Annual Testing, Plan of Action & Milestones, Certification and Accreditation, Configuration Management, Incident Detection and Response, Training, and Inventory. To further accelerate the integration of IT security within the Department, the Under Secretary of Management officially established the Information Systems Security Committee (ISSC), jointly chaired by the Chief Information Security Officer and the Senior Coordinator for Security Infrastructure in the Bureau of Diplomatic Security. Also, this past year, the Under Secretary for Management established a Privacy Protection Governance Board charged with directing the formation of personally identifiable information (PII) task forces, committees and/or teams to work collaboratively to address potential Privacy or PII issues with all stakeholders.

Recognizing the significance of an accurate and complete inventory of the Department's major information systems, on March 7, 2007, a telegram from the Under Secretary for Management was sent to all Diplomatic and Consular Posts concerning a Department-wide 90-day push effort. The effort requested Department-wide assistance in focusing on two key FISMA elements: Annual Testing and Inventory. The Department is pleased to announce that 100% of overseas posts and domestic bureaus certified their inventory in the Department asset database as up to date and complete.

In addition to the "scored" FISMA elements of the Department information security program, the Department is pleased to report significant enhancements in the following areas:

- **Penetration Testing** – This process helps to address vulnerabilities through a series of proactive cyber security measures including reporting and analysis on system assets; potential undesirable events; the motives, intentions, capabilities, and history of adversaries; security weaknesses; and the potential impact of countermeasures.

- **Regional Computer Security Officers (RCSOs)** – RCSOs perform on-site cyber security assessments, which involve an examination of a site's operational, technical, and management controls. By stationing highly-trained cyber security experts in regional operating positions around the globe, the Department is able to deliver exceptional security support to the field on short notice.

- **Threat Detection & Analysis** – This capability involves the in-depth analysis of network intrusions; coordinating the Department's response to sophisticated cyber attacks; delivering timely all-source reports on threat issues; and working closely with the law enforcement and Computer Network Defense communities to develop a comprehensive threat picture and devise remediation measures.

The 2007 fiscal year effort achieved measurable progress throughout the agency-wide information security program. These accomplishments are key indicators the Department gained forward momentum for FY2008 focusing attention on security concerns and designed processes and procedures to sustain that momentum. The Department begins fiscal year 2008 with renewed confidence that the constant security challenges facing any global enterprise will be planned for, identified and resolved in a timely and comprehensive manner and substantial progress on all the initiatives started in FY2007 will be maintained.