



UNITED STATES DEPARTMENT OF STATE

PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS FISCAL YEAR 2006



Transforming the World through Diplomacy and Development



The U.S. Department of State presents *The Performance and Accountability Report for Fiscal Year 2006* in four products:

- *The Performance and Accountability Report (PAR)*: the full report of the Department's annual performance results and financial statements, available on the internet and the PAR CD;
- *The PAR Highlights*: a summary version of the PAR, available on the internet and printed for worldwide distribution;
- *The PAR Brochure*: an eight-page, high-level overview of the PAR, printed for worldwide distribution;
- *The PAR CD*: an interactive CD featuring the full PAR, Department publications and relevant reports, maps, a photo gallery and more.

For copies or to comment on the PAR, please visit www.state.gov or contact the U.S. Department of State's Bureau of Resource Management at PAR@state.gov or 202-647-0300. The mailing address is: 2201 C Street, NW Room 3800, Washington, D.C. 20520.

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ABOUT THIS REPORT

The *United States Department of State Performance and Accountability Highlights for Fiscal Year 2006* offers a high-level, comprehensive summary of financial information and performance results reported in the Department’s *FY2006 Performance and Accountability Report (PAR)*. The *Highlights* is designed for use by a wide variety of audiences and stakeholders within and outside government. The *Highlights*, and the *FY 2006 PAR* enclosed on CD, help readers assess the Department’s performance relative to our mission and stewardship of resources entrusted to us. The report 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.

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MESSAGE FROM THE SECRETARY



I am pleased to present the U.S. Department of State's *Performance and Accountability Highlights for Fiscal Year 2006*. The FY 2006 Performance and Accountability Report (PAR) and the PAR Highlights provide the financial and performance information Americans deserve as investors in U.S. diplomacy and overseas development.

The Department of State's mission is to create a more secure, democratic, and prosperous world for the benefit of the American people and the international community. President Bush and I have called on America's diplomats to pursue this mission with a bold approach, one that answers the President's charge to support the growth of democratic movements and institutions in every nation and culture with the ultimate goal of ending tyranny in the world. Early on in my tenure as Secretary of State, I called this approach "transformational diplomacy." I am proud to share through this report the innovative, skillful and courageous ways the men and women of the Department of State are bringing this practice to life.

Transformational diplomacy means working with our partners around the world to build and sustain democratic, well-governed states that will respond to the needs of their people and conduct themselves responsibly in the international system. It is about using America's diplomatic power and resources to help people across the globe better their own futures, build their own nations, and thrive under an umbrella of security and peace.

The successes we achieved in FY 2006 are strides toward a future of expanded freedom, greater security, sustainable development, and increased diplomatic strength. To realize the President's vision of freedom across the world, the Department is transforming itself and its practices through a series of transformational diplomacy initiatives. For example, we are forward-deploying our people to the cities, countries, and regions where they are needed most. Through the first two phases of Global Diplomatic Repositioning, we have successfully redirected 200 positions to work directly on transformational priorities in strategic countries like China, India, Nigeria, and Indonesia to name a few. We are giving our diplomats more comprehensive training, including in critical language skills, to engage more effectively with local populations and better communicate America's message overseas.

With the creation of the Office of the Director of U.S. Foreign Assistance, we have fundamentally reorganized the way we plan, budget and manage foreign assistance to increase transparency, accountability, integration, and focus. Our new process establishes clear strategic direction and priorities for foreign assistance. This reform will transform our capability to use foreign assistance more efficiently and more effectively to further our foreign policy goals, bolster our national security, reduce poverty, and improve people's lives around the world. Our effort to improve how foreign assistance dollars are managed and spent reflects the Department's long-standing commitment to being effective and accountable stewards of taxpayer dollars.

The Department of State and USAID work together to meet the global diplomatic and development challenges of the twenty first century. In this critical moment in history, the men and women of the Department and USAID are engaged in an extraordinary partnership to transform our world for the better through diplomacy and development. Americans have every reason to be proud, as I am, of their service to secure a future of freedom for all people.

Condoleezza Rice
Secretary of State

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



The Performance and Accountability Report for Fiscal Year 2006 (Report) provides meaningful stewardship, program and financial information about the Department of State. Publication of the Report is an integral part of our efforts to improve our accountability to our customers, constituents, and the public. As you read the Report, you will learn of the exceptional accomplishments of the Department's highly dedicated staff as they seek to meet to the Department's mission to "create a more secure, democratic and prosperous world for the benefit of the American people and the international community".

For the past six years, the President has challenged us to meet rigorous performance standards through the President's Management Agenda (PMA). The Department of State is committed to achieving the goals of the PMA, as evidenced by "green" status scores on the scorecard for all five USG-wide Presidential initiatives at the end of FY 2006. This is a significant accomplishment considering the challenging nature of conducting business in our global, foreign affairs environment.

Very few agencies or corporations have the level of complexity and variety of challenges that the men and women of the Department face daily. The Department operates in over 260 locations in 188 countries, frequently in hostile environments, while conducting business in 150 currencies and an even larger number of languages. Thousands of financial professionals around the globe plan, budget, allocate, obligate, disburse, and account for billions of dollars in annual resources.

Our strong commitment to corporate governance is evidenced by the priority we place on improving our internal controls. To that end, we made considerable progress in 2006, working closely with the Independent Auditor to address the material weaknesses in accounting for personal property and information systems security reported in their FY 2005 *Independent Auditor's Report*. As a result, the Independent Auditor downgraded these items to a reportable condition, and reported no material weaknesses in internal controls in their FY 2006 *Independent Auditor's Report*. In addition, the Department committed to, and fully implemented, the requirements of Appendix A, Internal Control over Financial Reporting, of OMB Circular A-123. During the implementation of Appendix A, we identified a material weakness related to accounting for real property, and took actions to resolve the deficiencies by September 30, 2006.

Unfortunately, due to the complexity of the matters involved in addressing the real property deficiencies, the accelerated financial reporting requirements, and our commitment and focus to successfully resolve the material weaknesses noted above, we were unable to provide timely financial statements or documentation on the appropriateness of the associated restatement to satisfy the Independent Auditor with regard to the presentation of real property in time to meet the November 15, 2006 deadline required by OMB. As a result and as more fully explained in the *Independent Auditor's Report* in the FY 2006 PAR, the Independent Auditor issued a disclaimer of opinion on our FY 2006 and restated FY 2005 financial statements. Since then, with the cooperation of the Independent Auditor and OIG, our efforts continued, and the Department satisfied the Independent Auditor about the amounts presented and have therefore received an unqualified ("clean") opinion thereon, dated December 12, 2006.

The scale and complexity of the Department's missions that demand effective financial management and control have grown exponentially since 9/11, making the need for more effective financial management even more pronounced. The hallmark of top financial operations is their ability to provide accurate and timely financial data to use that data and expertise to provide high-value financial advice to the decision-makers. The Bureau of Resource Management has built the foundation of solid budgeting and reporting; our mission going forward will be to combine this strong financial information base with a high level of financial advisory expertise as a strategic partner to the Secretary and the Bureau, to ensure that the Department obtains maximum results from its funding.

Bradford R. Higgins

Assistant Secretary for Resource Management and Chief Financial Officer

MISSION AND ORGANIZATION

OUR MISSION

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

OUR VALUES

L O Y A L T Y

Commitment to the United States and the American people.

C H A R A C T E R

Maintenance of high ethical standards and integrity.

S E R V I C E

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

A C C O U N T A B I L I T Y

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

C O M M U N I T Y

Dedication to teamwork, professionalism, and the customer perspective.

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

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 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.

OUR PEOPLE



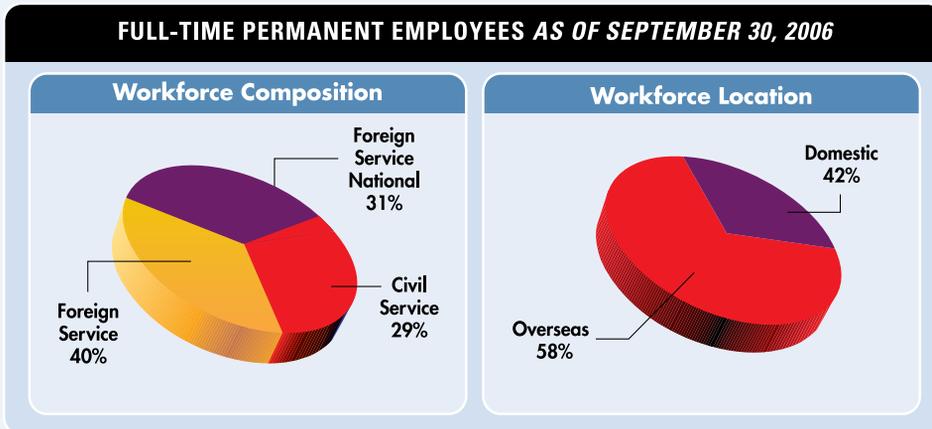
Secretary Rice announces a new direction for U.S. Foreign Assistance, January 2006 State Department photo

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 around the world. Our employees are committed to carrying out the President's foreign policy agenda and to sharing American values with the world.

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 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.

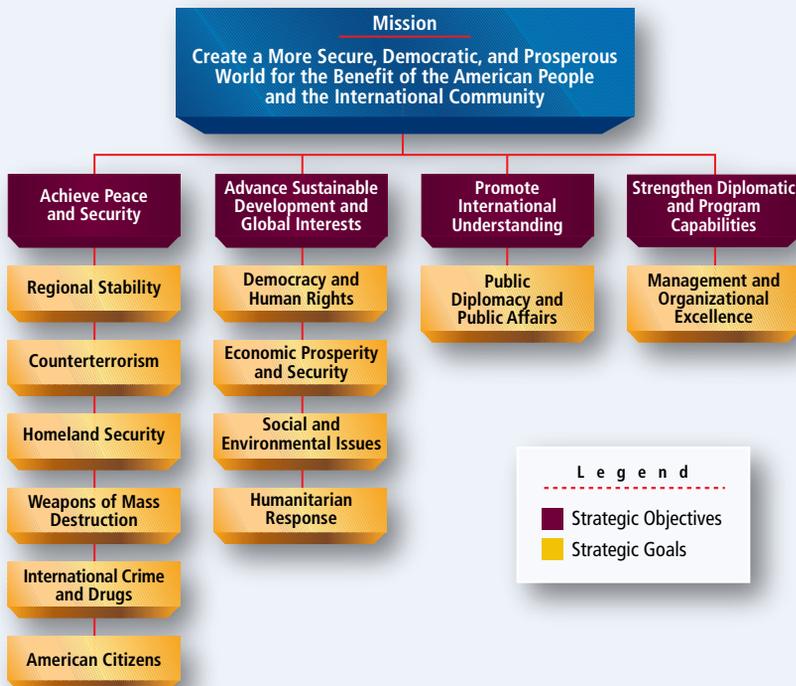
EMPLOYEE COMPOSITION AND NUMBERS

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.



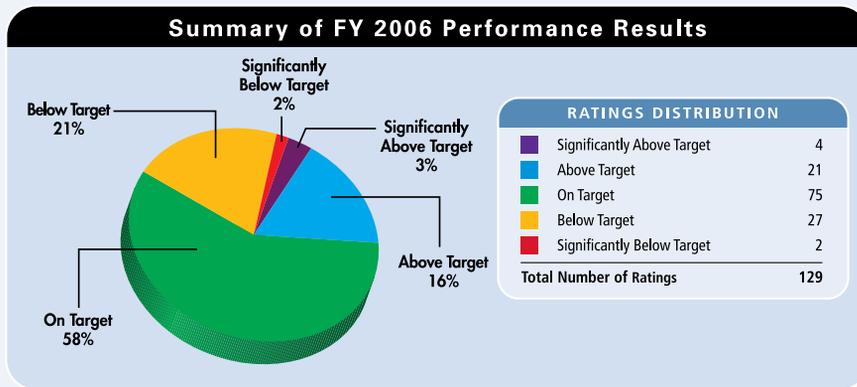
FY 2006 STRATEGIC PLANNING FRAMEWORK

In FY 2006, the Department and USAID structured their work around twelve strategic goals that centered on four core strategic objectives, as shown in the diagram below.



SUMMARY OF FY 2006 PERFORMANCE

The pie chart below shows the ratings distribution for Department and USAID performance indicators reported in the Joint Performance Section. As shown, 78% of the ratings were "On Target" or above, meaning that these initiatives or programs met or exceeded performance targets.



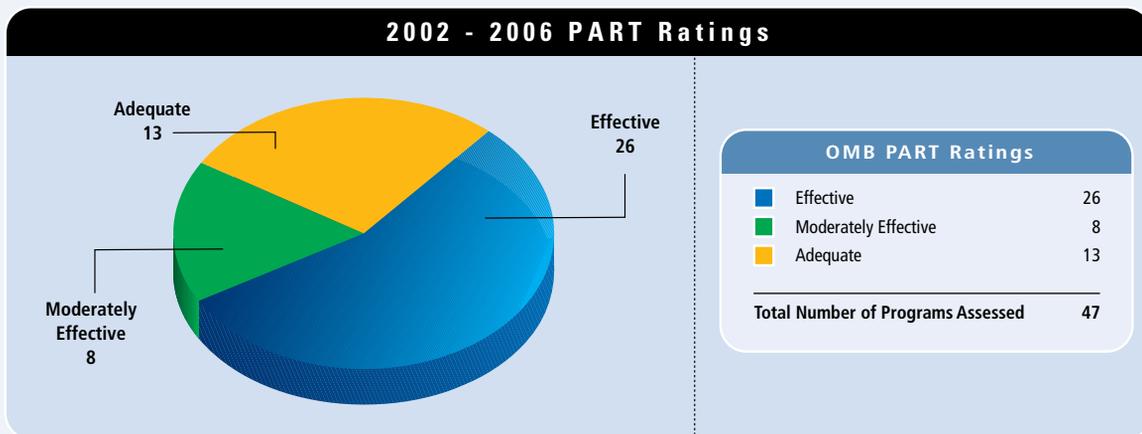
The table below shows allocated resources and the average of performance ratings under each strategic goal. Positions are U.S. direct hire only.

SUMMARY BUDGET AUTHORITY AND HUMAN RESOURCES BY STRATEGIC GOAL							
	FY 2005			FY 2006			Change
	Positions	Dollars in Millions	Performance Rating	Positions	Dollars in Millions	Performance Rating	Performance Rating
1 Regional Stability	1,282	\$ 7,092	On Target	1,295	\$ 6,761	On Target	↔
2 Counterterrorism	906	1,768	On Target	916	1,659	On Target	↔
3 Homeland Security	567	262	On Target	573	163	On Target	↔
4 Weapons of Mass Destruction	519	422	On Target	525	433	On Target	↔
5 International Crime and Drugs	702	1,918	On Target	709	1,659	On Target	↔
6 American Citizens	556	66	On Target	562	73	On Target	↔
7 Democracy and Human Rights	830	1,500	On Target	839	1,871	On Target	↔
8 Economic Prosperity and Security	1,553	2,654	On Target	1,570	3,000	On Target	↔
9 Social and Environmental Issues	284	2,306	On Target	287	3,542	On Target	↔
10 Humanitarian Response	552	1,179	On Target	558	1,163	On Target	↔
11 Public Diplomacy and Public Affairs	2,251	597	On Target	2,275	868	On Target	↔
12 Management and Organizational Excellence	9,675	5,415	On Target	9,778	5,225	On Target	↔
Total	19,677	\$ 25,179		19,887	\$ 26,417		No Change

PROGRAM ASSESSMENT RATING TOOL (PART) STATUS

The Office of Management and Budget (OMB) uses the Program Assessment Rating Tool (PART) to evaluate programs across a set of performance-related criteria, including program design, strategic planning, program management, and results. Programs are assessed and assigned numeric scores, which correspond to qualitative ratings of Effective, Moderately Effective, Adequate, Ineffective, and Results Not Demonstrated. PART scores and findings are used to inform the budget process and drive improvements.

As shown below, the Department and OMB have used the PART to review 47 programs since 2002, covering nearly 80% of the Department’s appropriations. For more information on PART, please visit www.omb.gov/part.



PART ASSESSMENT RATINGS AND SCORES (2002-2006)

Program Name	Scores and Ratings as of November 15, 2006
Contributions to the International Atomic Energy Agency	98% – Effective
Educational and Cultural Exchange Programs, Near East and South Asia	97% – Effective
Global Educational and Cultural Exchanges	97% – Effective
Capital Security Construction	97% – Effective
Migration and Refugee Assistance- Protection	96% – Effective
United Nations High Commissioner for Refugees	96% – Effective
South Asia Military Assistance	93% – Effective
Humanitarian Demining	93% – Effective
Migration and Refugee Assistance – Other PRM Programs	93% – Effective
International Boundary and Water Commission	92% – Effective
Visa and Consular Services	92% – Effective
Worldwide Security Upgrades	92% – Effective

(continued)

Program Name	Scores and Ratings as of November 15, 2006
Humanitarian Migrants to Israel	 91% – Effective
Contribution to United Nations Development Program	 91% – Effective
Contribution to United Nations Children’s Fund and Other Programs	 91% – Effective
Security Assistance for Western Hemisphere	 90% – Effective
Export Control Assistance	 90% – Effective
Nonproliferation and Disarmament Fund	 89% – Effective
Foreign Service Institute	 88% – Effective
Support for East European Democracy/ Freedom Support Act	 88% – Effective
U.S. Embassy Compound Security	 87% – Effective
Contributions for 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
Peacekeeping Operations – OSCE	 83% – Moderately Effective
Contributions to International Organizations	 82% – Moderately Effective
Military Assistance to new NATO and NATO Aspirant Nations	 82% – Moderately Effective
Security Assistance to Sub-Saharan Africa	 77% – Moderately Effective
Nonproliferation of Weapons of Mass Destruction Expertise	 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
Security Assistance for Near East Asia	 69% – Adequate
Economic Support Fund – Africa	 67% – Adequate
Economic Support Fund – 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 and Law Enforcement Programs, Africa/Asia	 53% – Adequate
International Narcotics and Law Enforcement Programs, South Asia	 53% – Adequate
International Narcotics and Law Enforcement Programs, Western Hemisphere	 53% – Adequate
Andean Counterdrug Initiative	 52% – Adequate
International Information Programs	 50% – Adequate

Programs in bold type were assessed in 2006.

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 results. Each quarter, the Office of Management and Budget (OMB) releases an executive scorecard that rates agencies' progress and overall status on PMA initiatives. The scorecard employs a color-coded grading scale of red, yellow, and green commonly used by businesses today: ● Green for success; ● Yellow for mixed results; and ● Red for Unsatisfactory.

A summary of the Department's FY 2006 Fourth Quarter Scorecard is provided below. For more information on the PMA and the executive scorecard, please visit www.whitehouse.gov/results/.

● Progress	STRATEGIC MANAGEMENT OF HUMAN CAPITAL	● Status
Build, sustain, and deploy effectively a skilled, knowledgeable, diverse, and high-performing workforce aligned with mission objectives and goals.		
● Progress	IMPROVED FINANCIAL PERFORMANCE	● Status
World-class financial services that support strategic decision-making, mission performance, and improved accountability to the American people.		
● Progress	COMPETITIVE SOURCING	● Status
Achieve efficient, effective competition between public and private sources and establish infrastructure to support competitions.		
● Progress	BUDGET AND PERFORMANCE INTEGRATION	● Status
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	EXPANDED ELECTRONIC GOVERNMENT	● Status
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	FEDERAL REAL PROPERTY ASSET MANAGEMENT INITIATIVE	● Status
To promote the efficient and economical use of America's real property assets.		
● Progress	RIGHT-SIZED OVERSEAS PRESENCE (OMB LEAD)	● Status
<ul style="list-style-type: none"> ● 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. 		

Performance Section



STRATEGIC GOAL 1: REGIONAL STABILITY

Avert and Resolve Local and Regional Conflicts to Preserve Peace and Minimize Harm to the National Interests of the United States

I. Public Benefit

The United States Government seeks to provide security for American citizens and their interests through international treaties, alliances, and the active promotion of freedom, democracy, and prosperity around the world. Employing diplomacy and development assistance, the U.S. builds and strengthens relations with neighbors and allies worldwide to promote shared values and prevent, manage, and mitigate conflicts and human suffering. The Department of State and USAID work with international partners to alleviate regional instability by: promoting good governance and sustainable civil institutions; fighting terrorism and the proliferation of dangerous weapons; targeting criminal activities that undermine legitimate governments; and by developing professional, responsible, and accountable police and military forces. Engagement of like-minded foreign partners contributes to and enhances the legitimacy of U.S. stabilization and reconstruction efforts. Success can be seen in the expansion of NATO missions into Afghanistan, strong and growing security relationships with Japan, South Korea, India and Australia, and steady improvements in the capability of the African Union to respond to crises on the African continent. These and related efforts reduce threats created by regional instability and thereby protect the security of Americans and our interests at home and abroad.



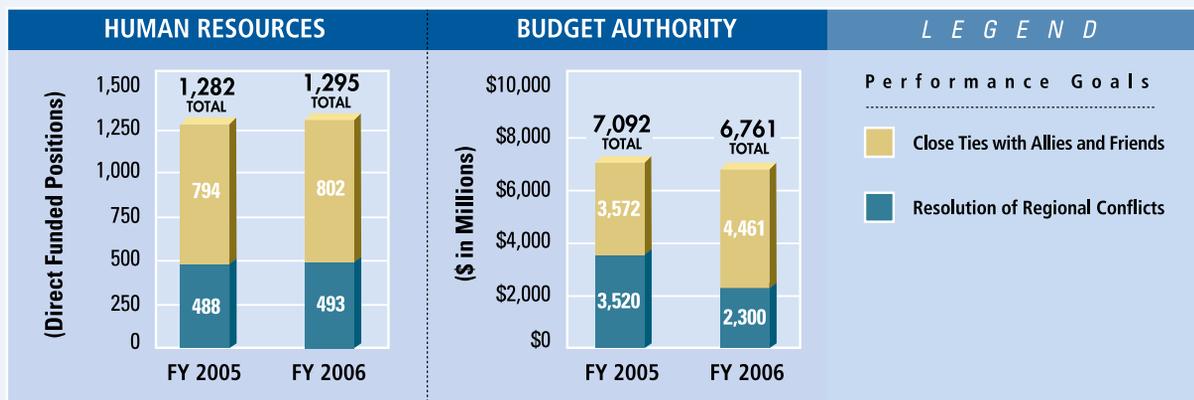
Secretary Rice gestures while speaking during a media conference after a NATO foreign ministers meeting at the National Palace of Culture in Sofia, April 2006. AP/Wide World

II. Performance Summary

The chart below summarizes Department of State and USAID performance ratings for the Regional Stability strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. There have been a number of significant trends under the Regional Stability goal. One trend is the steady increase since FY 2003 in the percentage of U.S. trained African units deployed to peace support/humanitarian response operations. Another trend is the decrease in the number of foreign military officers participating in International Military Education and Training (IMET) programs from FY 2003 to FY 2006, attributable in part to fewer training opportunities available for foreign military officers due to military operations in Iraq and Afghanistan. A final notable trend is USAID's positive results in supporting local peace-building initiatives, conflict sensitivity training and conflict mitigation-focused media campaigns. USAID's grassroots approach has advanced USG efforts toward peace and regional stability.

KEY INITIATIVES AND PROGRAMS. For FY 2006, Congress appropriated \$86.7 million to the Department of State for international military education and training, \$4.5 billion for foreign military financing, and more than \$1.2 billion to fund international peacekeeping operations.

Meeting the Challenges of the 21st Century

NATO's role in building security in Afghanistan, far outside the traditional NATO area of operations, is a clear indication of NATO's commitment to combat increasingly global threats in the 21st century. NATO has over 19,000 soldiers from 36 countries under its command in Afghanistan, demonstrating the enhanced security posture and international commitment to continue fighting the war on terrorism. Since 2005, NATO has trained over 2,000 Iraqi officers and has provided airlift and other logistical and training support to the African Union's Darfur mission. NATO has also played a key role in maintaining peace and stability in the Balkans.



A German ISAF patrols in northern Afghanistan, October 2005. AP/Wide World

V. FY 2006 Performance Results

	INDICATOR: Status of Chinese Cooperation on Regional Stability	
	Outcome	
JUSTIFICATION: China is capable of playing a significant role in reducing tension in the East Asia and Pacific region.		
FY 2006 PERFORMANCE	Target	China continues to host and participate in Six-Party settlement of the North Korea nuclear issue.
	Results	China continues to prioritize the Six-Party Talks as the best venue to resolve the North Korea nuclear issue, and urges further participation in the talks by all parties. A fifth round of the talks took place in Beijing in November, but North Korea has refused to participate in subsequent sessions.
	Rating	■ On Target
	Impact	Chinese assistance in limiting North Korea's WMD proliferation is critical to our greater nonproliferation objectives.

	INDICATOR: Free, Democratic, and Whole Iraq at Peace with Itself and Its Neighbors	
	Outcome	
JUSTIFICATION: A free and democratic Iraq would contribute to economic and political stability in the region.		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> ● Draft permanent constitution successfully adopted in October 2005 referendum. ● Law enforcement institutions begin to enforce and the judiciary begins to uphold civil liberties protections in the new constitution. ● Political parties announce coalitions and register for December elections, offering voters real choices. Parties and coalitions campaign peacefully. December 2005 elections successfully held. Results of elections receive broad public support. ● Newly elected government takes power peacefully in early 2006 with broad domestic and international legitimacy and support. ● Iraq assumes primary responsibility for its own security, able to defend itself without being a threat to its neighbors.
	Results	Recognizing progress in establishing a democratic society, international donors have increased assistance for Iraq, announcing \$900 million in new pledges since the Madrid conferences. International recognition of and exchanges with Iraq have increased, including through opening of Embassies.
	Rating	■ Below Target
	Impact	Success will contribute to security, economic and social development, and political reform in the region.
	Reason for Shortfall	<ul style="list-style-type: none"> ● Governance capacity shortfalls have resulted from inadequate training resources, and the Iraqi failure to obligate and spend a large majority of ministerial budgets. ● Development of civil society institutions has been inhibited due to a perilous security environment, and a lack of devoted Iraqi resources and attention. ● Security forces are failing to achieve levels of quality and quantity required to allow Government of Iraq to assume primary responsibility in the current security environment. ● High attrition retards the rate of Iraqi Security Forces growth while corruption and infiltration by militias and others loyal to parties instead of the Government of Iraq is resulting in the Iraqi Security Forces, especially police, being part of the problem in many areas instead of a solution; the Minister of Interior recently stated that 2/3 of MOI forces should be fired.
	Steps to Improve	<ul style="list-style-type: none"> ● Accelerate National Capacity Development Program across central ministries, and focus enhanced Mission field resources to develop provincial ministry capacity. ● Put in place defined processes and requirements to obligate and execute 2007 Iraqi budget. ● Support programs to promote Iraqi national reconciliation efforts, which will reduce politically driven violence and intimidation. ● Significantly enhanced focus is required on present-for-duty strength of Iraqi Security Forces units, versus numbers initially trained and equipped, and upon developing true capability and readiness.

 INDICATOR: Progress of Implementation of Sudan Peace Process		
Outcome		
<p>JUSTIFICATION: A peaceful Sudan with an inclusive government based on the rule of law could be a hedge against regional instability and an important partner in the global war on terrorism. Ending the conflict would also alleviate one of the world's worst humanitarian situations and stimulate regional economic prospects.</p>		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> ● Regional democratic elections are planned; non-violent transitions to appropriate new government in Sudan or at minimum, preparation activities toward a program of democratic elections are put in place. ● Military reform continues with additional assistance provided to the southern Army. ● Disarmament, Demobilization, and Reintegration (DDR) on both sides results in force reduction of 40% globally. ● 40% of refugees and internally displaced persons (IDPs) return home. Darfur IDPs and refugees return home. ● UN authorizes extension of UN Mission in Sudan (UNMIS) in Darfur.
	Results	<ul style="list-style-type: none"> ● Comprehensive Peace Agreement (CPA) implementation showed progress in security arrangements; less progress on power- and wealth-sharing protocols. ● Darfur Peace Agreement signed in Abuja, Nigeria and Eastern Sudan Peace Agreement completed. Both agreements complement framework of CPA. ● Planning for elections barely in preliminary phase; however, technical preparations for a national census, a precursor to elections, are on schedule. ● Military transformation and U.S. support for Security Sector Transformation have slowly begun in the South. ● UNMIS verified redeployment on schedule with 63% Sudanese Armed Forces redeployed and 65% Sudan People's Liberation Army (SPLA) forces redeployed. ● The National Disarmament, Demobilization, Reintegration (DDR) Commission has not met since it was established in February 2006. The Northern Sudan DDR Commission started preliminary assessment work in Darfur. ● Internally Displaced Persons (IDP) are returning in the South, but displacements are increasing in Darfur. ● UNSCR 1706 authorizes the extension of UNMIS to Darfur and expansion by up to 17,300 troops, 3,300 UN Police, and 16 Formed Police Units.
	Rating	 Below Target
	Impact	<p>The crisis in Darfur and Sudanese military offensive in Darfur have hindered progress on the implementation of the Comprehensive Peace Agreement. Implementation of the Darfur Peace Agreement and Comprehensive Peace Agreements are closely linked, and resolving the Darfur crisis is key not only to those affected by the crisis directly, but for all Sudanese whose future depends on the full and sustainable implementation of the Comprehensive Peace Agreement.</p>
	Reason for Shortfall	<p>Non-signatories to the Darfur Peace Agreement as well as the Sudanese Government continue to escalate violence and further embroil the Darfur region in conflict. Additionally, both the Sudan People's Liberation Movement (SPLM) and particularly the National Congress Party have been slow to act on key aspects of the CPA which require direct cooperation among members of the Government of National Unity.</p>
Steps to Improve	<p>Resolving the Darfur crisis through a two-tracked diplomatic and security strategy will be crucial to progress on CPA implementation. This includes broadening support for the Darfur Peace Agreement among non-signatories, full and expeditious implementation of the agreement, and deployment of a UN peacekeeping force to Darfur respectively.</p>	

STRATEGIC GOAL 2: COUNTERTERRORISM

Prevent Attacks Against the United States, our Allies, and our Friends, and Strengthen Alliances and International Arrangements to Defeat Global Terrorism

I. Public Benefit

The tragic events of September 11, 2001, demonstrated the gravity of the threat international terrorists pose to the United States and its citizens, at home and abroad. The Global War on Terrorism remains the U.S. Government's top priority. The Department of State and USAID, in partnership with other U.S. Government agencies, international organizations, and countries around the world, work to combat terrorist networks wherever they exist and prevent attacks against Americans and our friends. This includes support for extending protection of the homeland beyond America's borders, through programs such as the Container Security Initiative, Immigration Security Initiative, Proliferation Security Initiative, Customs-Trade Partnership Against Terrorism, and sharing of terrorist watch list information. To date, the Department has mobilized some 180 countries and territories in the war on terrorism to identify, disrupt and destroy

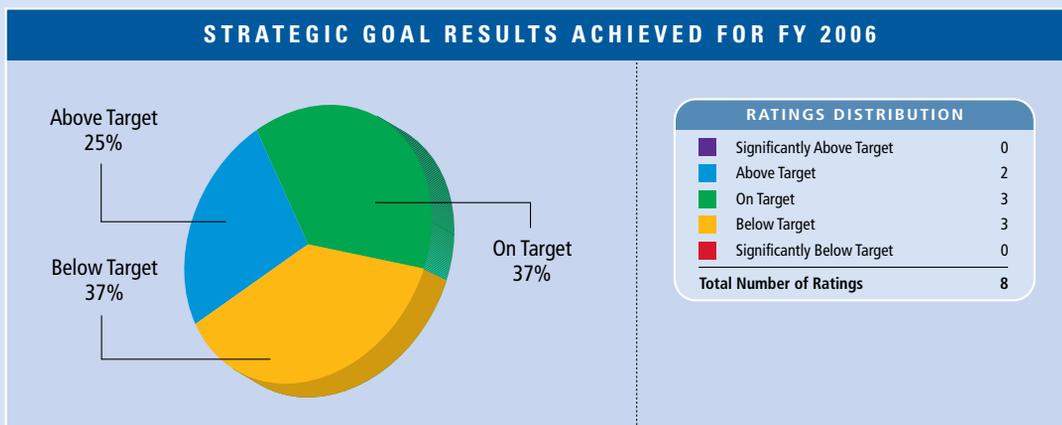
international terrorist organizations. Key to the ability to mobilize effective action by our foreign partners is the provision of training to those who want to help but lack the means. Since 9/11, programs such as anti-terrorist assistance, terrorist interdiction, and antiterrorist finance, combined with long term efforts to increase stability, have significantly improved U.S. global partners' counterterrorism.



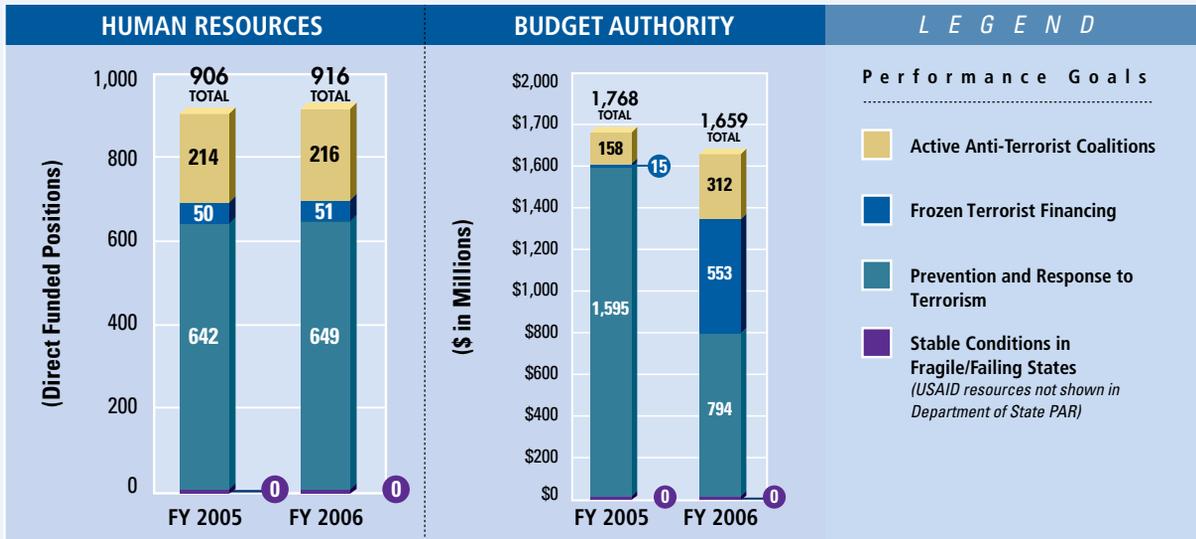
A theater troupe member reads stories of 9/11 victims in front of ground zero in New York to commemorate the anniversary of the attacks. AP/Wide World

II. Performance Summary

The chart below summarizes Department of State and USAID performance ratings for the Counterterrorism strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. One noteworthy trend under the Counterterrorism Strategic Goal is the steady increase in the percentage of travelers screened around the world using the Terrorist Interdiction Program’s watch listing system. The number of sites at which the system is installed has increased from 58% in FY 2003 to 80% in FY 2006. The number of foreign man portable air defense systems (MANPADS) destroyed or secured by foreign governments trended downward in FY 2006. The Department continues to press implementing partners to honor commitments and schedules to destroy MANPADS.

KEY INITIATIVES AND PROGRAMS. In FY 2006, of the \$410 million appropriated for nonproliferation, anti-terrorism, demining and related programs, \$136 million was allocated to anti-terrorism assistance, the terrorist interdiction program, counterterrorism financing, and engagement with allies.

U.S. Anti-Terrorism Assistance to Indonesia

The Department provided assistance in FY 2006 to train and equip a special Indonesian counterterrorism police unit called Special Detachment 88. SD-88 was launched in 2003 in response to the October 2005 bombings in Bali. In November 2005, SD 88 located Indonesia’s most wanted terrorist, Azahari bin Husin, who was linked to the Bali bombings and to bombings in Jakarta. SD 88 planned and executed a successful assault on Azahari’s stronghold, killing him and securing valuable intelligence to help prevent other attacks.



A bomb squad member removes a mock explosive device from a hijacked passenger plane during a September 2006 anti-terror drill at Juanda airport in Surabaya, East Java, Indonesia. AP/Wide World

V. FY 2006 Performance Results

	INDICATOR: Number of Participant Countries That Achieve and Sustain a Capability to Effectively Deter, Detect, and Counter Terrorist Organizations and Threats	
	PART Output	
JUSTIFICATION: Anti-Terrorism Assistance (ATA) not only provides quality training to priority counterterrorism countries but enables each country to achieve sustainment by providing them with the capability to incorporate anti-terrorism curriculum into their own training methods over a set course of time, thereby optimizing USG cost efficiency of each nation's participation in the ATA program.		
FY 2006 PERFORMANCE	Target	Two new countries (6 total) ascend from basic through advanced training and have attained competence in countering terrorist activities.
	Results	The Department conducted counterterrorism training for 77 partner nations and performed 269 training events. Two new countries ascended from basic through advanced training and attained competence in countering terrorist activities.
	Rating	■ On Target
	Impact	The ATA program continues to serve as the U.S. Government's primary provider of anti-terrorism training to partner nations by delivering a wide range of courses to strengthen critical counterterrorism capacities. ATA alumni have served as the lead investigators of a number of recent terrorist attacks and have utilized their training in tracking down and arresting perpetrators.

	INDICATOR: Capacity of the Afghan National Army to Defend the Afghan Government and Its Territory from External and Internal Threats	
	Outcome	
JUSTIFICATION: The training and deployment of, and expansion of influence by, the Afghan National Army (ANA) indicates progress toward establishing sustainable security in Afghanistan, without which the war on terrorism will not succeed.		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> ● Afghan National Army (ANA) units conduct routine operational deployments throughout Afghanistan as needed; continued fielding of regional corps with at least one brigade at each location. ● Ministry of Defense and General Staff assumes, with limited international community support, policy, planning, budget and operational responsibilities; institutional training base completed; functional commands provide increasing support for regional commands. Ministry of defense personnel reform process complete; includes ethnically balanced and increasingly professional staff. ● Afghan National Police, Highway Patrol and Border Police are increasingly capable of enforcing law and securing transportation routes and borders. All Border Police brigades have undergone training and been provided with individual and basic unit equipment.
	Results	<ul style="list-style-type: none"> ● 30,400 Afghan National Army forces trained and equipped and partially capable of conducting counterinsurgency operations in conjunction with Coalition units. ● Minor improvements to Ministry of Defense and General Staff action process are being initiated despite the delay in assigning personnel to key leadership positions. Assistant Minister for Defense for Personnel and Education office beginning to take on a more active role in policy development. Operational Planning Guidance complete; staff beginning to develop the seven operational plans based on this guidance. ● 48,100 Afghan National Police trained and equipped.
	Rating	■ Below Target
	Impact	The training and deployment of the ANA to defend the credibly elected Afghan government from internal and external threats contributes to the fight against the global war on terror.
	Reason for Shortfall	<ul style="list-style-type: none"> ● The international community has had to remain engaged in developing the capacity of the Afghan National Police more than expected and the reconstituted enemy is more lethal than expected.
	Steps to Improve	<ul style="list-style-type: none"> ● The Department will continue to develop and expand the capacity of the Afghan National Army and Afghan National Police, with a focus on strengthening the policy, planning, and budget operations of those institutions.
	Reason for Shortfall	



INDICATOR: Number and Effectiveness of U.S. Training and Assistance Programs and Assessments Delivered to Priority States to Help Combat the Financing of Terrorists

Output

JUSTIFICATION: Counterterrorism finance capacity building is one mechanism for the U.S. to engage its allies to provide early warning, detection and interdiction of terrorist financing.

FY 2006 PERFORMANCE	Target <ul style="list-style-type: none"> • Three countries assessed by financial systems assessment teams and three training and technical assistance plans developed. • Six countries at least partially implement technical assistance and training plans (training received in at least three of the five functional areas). • Eight countries fully implement technical assistance and training plans (training received in at least all five of the functional areas). • At least five countries undergo comprehensive review of the effectiveness of technical assistance and training.
	Results <ul style="list-style-type: none"> • One country assessed by financial systems assessment teams and one training and technical assistance plans developed. • Five countries at least partially implemented technical assistance and training plans (training received in at least three of the five functional areas). • Three countries fully implemented technical assistance and training plans (training received in at least all five of the functional areas). • No countries have undergone comprehensive review of the effectiveness of technical assistance and training.
	Rating Below Target
	Impact Even though the results for the indicator are below target, continued yet slow progress has been made in the establishment and improvement of counterterrorist financing regimes, particularly with respect to the passage of new laws, regulations and reporting requirements.
	Reason for Shortfall <ul style="list-style-type: none"> • Two countries were not assessed due to serious security considerations. • Three countries that received training were unable to partially implement technical assistance and training plans. • Five countries did not fully implement technical assistance and training plans. • The interagency task force is in the process of developing criteria and a database to conduct comprehensive reviews for effectiveness of training.
	Steps to Improve <ul style="list-style-type: none"> • The Department will reinforce the necessity for countries to demonstrate political will and live up to their international commitments. • On a tactical level, depending on host nation sensitivity, the Department will encourage Resident Legal Advisors to engage with legislative drafting committees and experts and other stakeholders to explain international legal obligations and legal strategies for compliance with UN Security Council Resolutions, conventions, treaties, Financial Action Task Force (FATF) recommendations and other obligations.

STRATEGIC GOAL 3: HOMELAND SECURITY

Secure the Homeland by Strengthening Arrangements that Govern the Flows of People, Goods, and Services Between the United States and the Rest of the World

I. Public Benefit

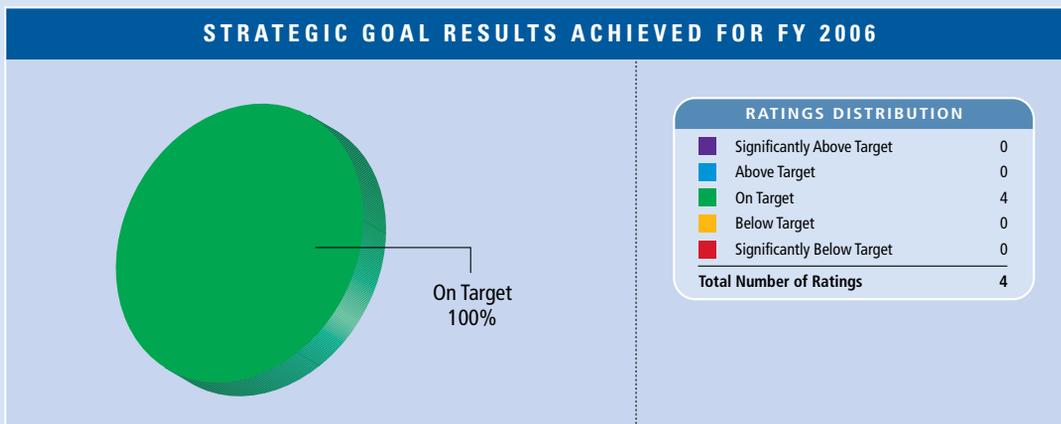
The Department is committed to protecting America’s homeland. Together with the Department of Homeland Security (DHS) and other government agencies, the Department is addressing U.S. vulnerabilities to terrorist attacks and other transnational threats. In 2006, the Department and DHS announced a joint vision for protecting U.S. borders and expanding the use of technology to ensure that strategies strike the most effective balance between stronger security and facilitating travel and exchange for the many legitimate visitors that contribute to America’s social and economic well-being. This shared vision includes: improved technology and efficiency at ports of entry and in visa processing; more secure travel documents for the 21st century; and smarter screening technology for government officials to use at home and abroad. Along with our international allies, the U.S. Government is bolstering the security of U.S. physical and cyber infrastructures, which are critical to the reliable functioning of global networks of commerce, travel, and communications upon which the free flow of travelers, goods, and information depends. With these programs, the Department is reducing risk to U.S. national security by combating the ability of terrorists to travel, plan and finance their activities, conduct attacks and train new recruits.



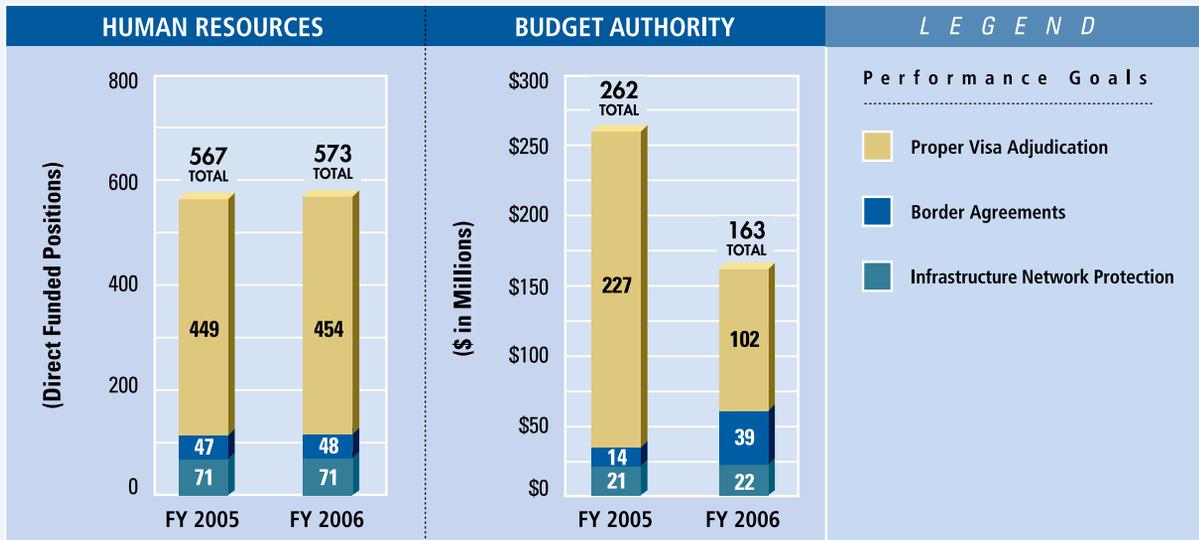
Secretary Rice and Homeland Security Secretary Michael Chertoff announce the Secure Borders and Open Doors in the Information Age Initiative, January 2006. Department of State photograph

II. Performance Summary

The chart below summarizes Department performance ratings for the Homeland Security strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. There have been a number of significant trends under the Department’s Homeland Security goal. One trend has been the significant increase of 19 ports under the Container Security Initiative in FY 2003 to 50 under the program in FY 2006. Additionally, the Department has made great strides since FY 2003 in the development of systems to capture and share biometric data for U.S. visas. The program has added in FY 2006 a facial recognition component for high fraud and high risk applicants.

KEY INITIATIVES AND PROGRAMS. The Department of State’s key programs in this strategic goal include the biometrics collection program for U.S. visas, the Security and Prosperity Partnership with Canada and Mexico, and the Container Security Initiative, implemented jointly with the Department of Homeland Security.

Biometric Visa Program

Under the Biometric Visa Program, fingerprints are collected from visa applicants at U.S. Embassies and Consulates abroad. The fingerprints are then cleared against a watchlist containing fingerprints of known or suspected terrorists and criminals, and the biometric data is stored in the Department of Homeland Security’s IDENT fingerprint system. Upon arrival at a port of entry in the United States, travelers have their fingerprints matched with those stored in the IDENT database to prevent terrorists or other inadmissible aliens from entering the United States using false identities. In FY 2006, State developed and tested new software to capture all ten fingerprints from visa applicants.

A passenger arriving at John F. Kennedy International Airport uses a machine that takes inkless fingerprints, which will be checked instantly against the national digital database for criminal backgrounds and any terrorist lists. AP/Wide World



V. FY 2006 Performance Results

	INDICATOR: Development of a Biometrics Collection Program for U.S. Visas	
	PART Outcome	
JUSTIFICATION: This indicator tracks whether systems related to the biometrics collection program work as intended and are successfully incorporating biometric data into visas using agreed upon technology standards.		
FY 2006 PERFORMANCE	Target	Facial recognition checks expanded to include all visa applicants, including applicants who have had a fingerprint biometric collected. Effectiveness will be measured by an increase in the number of mala fide applicants identified through the program and by a reduction in the number of false positives.
	Results	Phase II of facial recognition program launched in October 2005, expanding the program to high-fraud and high-risk applicants. Ad-hoc facial recognition checks deployed to posts. Photo quality and photo comparison training for posts developed in 2006. Facial recognition collaboration expanded to DHS and DoD.
	Rating	■ On Target
	Impact	The Biometric Visa Program is helping to prevent ineligible applicants from obtaining visas and ensure the integrity of the U.S. visa by verifying visa bearers at U.S. ports of entry through use of biometric data.

	INDICATOR: Implementation of the Security and Prosperity Partnership with Canada and Mexico	
	Output	
JUSTIFICATION: This indicator measures progress in implementing a key border security agreement with countries bordering the continental United States.		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> ● Complete pilot project of visa lookout information sharing with Canada by December 30, 2006. ● Complete operational testing of visa lookout information sharing with Mexico by March 30, 2006.
	Results	<p>Canada: Targets largely achieved, with Phase One of the Western Hemisphere Travel Initiative on track, announcement of Rice-Chertoff initiative and movement toward development of a border crossing card. Transit time for Detroit-Windsor reduced by more than 25%. No terrorist incidents or exploitation; counterterrorism cooperation continues at a high level. To increase security, USG and the Government of Canada (GOC) completed joint exercises on St. Clair and Detroit Rivers during Super Bowl in February. Completed Cyber storm exercise in February to prepare for potential incidents affecting critical infrastructure. Meeting and discussion are preparing Mutual Assistance Agreements to prepare for cross-border public health emergencies.</p> <p>Mexico: USG and the Government of Mexico (GOM) aligned regulations to require manifest data be reported 24-hours in advance of loading ship. USG and GOM signed an Action Plan to Combat Violence and Improve Public Safety.</p> <p>Canada and Mexico (trilateral): Representatives of three governments completed training related to the protection of aircraft from terrorist threats, basic and advanced marksmanship skills, and emergency aircraft procedures. The USG, GOC and GOM cooperated to tighten and verify the security of key nuclear and radiological facilities. The governments established the Avian and Human Pandemic Influenza Coordinating Body to ensure governments act in a coordinated manner to meet a pandemic threat. Representatives of the three countries inaugurated the North American Aviation Trilateral to promote civil aviation security.</p>
	Rating	■ On Target
	Impact	Results as of the end of FY 2006 have furthered Strategic Partnerships Program (SPP) implementation with Canada and Mexico and advanced border security initiatives.

 INDICATOR: Full Implementation and Expansion of Container Security Initiative (CSI)	
Outcome	
JUSTIFICATION: Security screening of containers at foreign ports before ships depart for the U.S. decreases both the appeal to terrorists and the vulnerability of the vital maritime transportation sector and, in the event of an incident, allows more expeditious resumption of maritime commerce.	
FY 2006 PERFORMANCE	Target <ul style="list-style-type: none"> ● Reduce opportunities for terrorist exploitation of containers traffic by refining the targeting mechanisms and risk management techniques developed as part of CSI; 90% of U.S.-bound container traffic covered. ● Best practices are promulgated through multilateral fora and other organizations.
	Results <ul style="list-style-type: none"> ● Eleven ports in nine countries joined the CSI in FY 2006. CSI is now operational at 50 ports, accounting for approximately 82% of all containerized merchandise imported into the United States. ● Upon the initiative of the United States, the World Customs Organization has established a Framework of Standards to Secure and Facilitate Global Trade that establishes tested U.S. procedures as international standards, including advanced electronic cargo information, common risk management criteria, inspection of high-risk containers at the outgoing port and business incentives for secure supply chains. The U.S. Government is providing technical assistance through the WCO for developing countries to implement the framework. As the next step in the Container Security Initiative, DHS is working with selected foreign ports to set up pilot integrated scanning systems combining radiation detection, non-intrusive inspection and optical imaging of the container exterior, to test for general use.
	Rating ■ On Target
	Impact Broader coverage of CSI has enhanced global port security and boosted industry and public confidence in the security of maritime container traffic.

A Look to History: Homeland Security

Prior to 1856, states, cities, and even notaries public in the U.S. could issue passports. However, an Act of Congress of August 18, 1856 gave the Secretary of State the exclusive authority to issue passports to U.S. citizens. Many countries, including the United States and those in Europe, did not require passports of all foreign travelers until the outbreak of World War I in 1914 when European governments began requiring U.S. nationals to bear passports. The spike in demands for passports during World War I compelled the U.S. government to tighten the rules governing passport applications. In December 1914, Secretary of State William Jennings Bryan circulated new regulations that explicitly required U.S. passport applicants to present birth certificates or documentation of naturalization as proof of citizenship. In order to enforce security during wartime, the United States also began demanding proof of citizenship and documentation of entry privileges from all foreign visitors.



AP/Wide World Photo

STRATEGIC GOAL 4: WEAPONS OF MASS DESTRUCTION

Reduce the Threat of Weapons of Mass Destruction to the United States, Our Allies, and Our Friends

I. Public Benefit

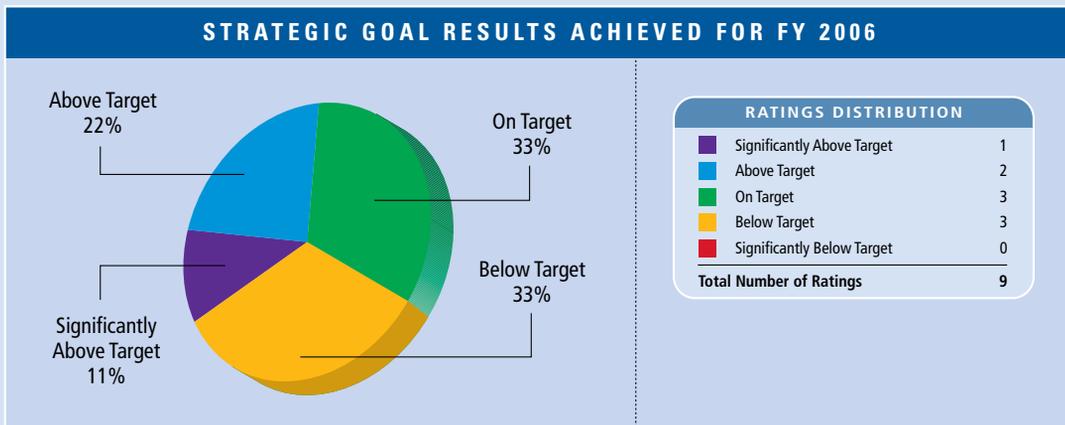
The proliferation of weapons of mass destruction, their means of delivery, and related materials, technologies, and expertise is the preeminent challenge to American national security. Combating this threat is one of the highest priorities of the Department of State. The Department has undertaken a number of efforts to reduce the threat of weapons of mass destruction including: preventing proliferators from gaining access to sensitive technologies and expertise that could provide a short cut to weapons of mass destruction; working with our international partners to eliminate in a verifiable manner WMD and missile programs in North Korea, and ending Iran’s nuclear enrichment and reprocessing activities; enhancing the ability of allied governments to detect, disrupt and respond to terrorist use of nuclear, radiological, chemical or biological weapons; and strengthening existing multilateral frameworks such as the Nuclear Non-Proliferation Treaty and the Chemical Weapons Convention. Supporting these efforts is a commitment to work with international partners to ensure that compliance is rigorous and enforced.



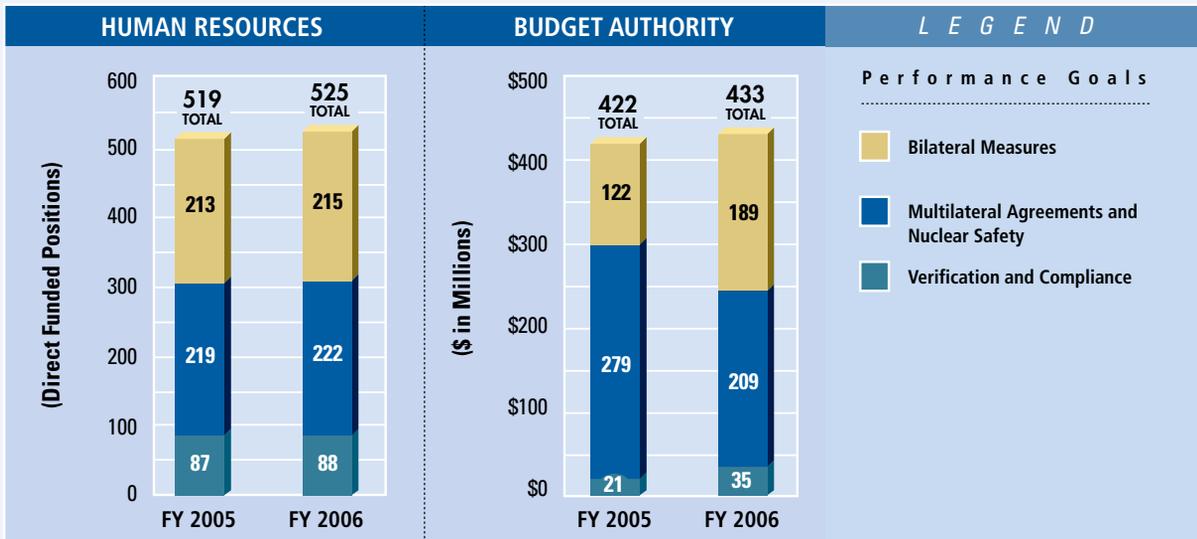
U.S. Ambassador to the United Nations John Bolton votes on a UN Security Council resolution on the North Korea missile crisis, July 2006 in New York. AP/Wide World

II. Performance Summary

The chart below summarizes Department performance ratings for the Weapons of Mass Destruction strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. For the past several years, the Department of State has demonstrated greater multilateral cooperation in the area of non-proliferation standards and treaties, and in addressing specific proliferation challenges. However, the continued development of nuclear weapons programs in Iran and North Korea provided a counterpoint to these positive multilateral developments.

KEY INITIATIVES AND PROGRAMS. The Department invested \$196 million in FY 2006 in the Nonproliferation and Disarmament Fund, export controls and border security assistance programs, the nonproliferation of WMD expertise, the U.S. voluntary contribution to the International Atomic Energy Agency, and an international monitoring system for the Comprehensive Nuclear Test Ban Treaty.

Bioterror Preparedness

The Department leads the U.S. Government's engagement with the G-8 Bioterrorism Experts Group to protect against deliberate releases of infectious disease and enhance surveillance and response capabilities in the event of natural disease outbreaks. In the spring of 2006, the Department facilitated the participation of G-8 experts in a workshop led by the U.S. Environmental Protection Agency on decontamination issues, leading to the dissemination of U.S. expertise on the matter. The Department is also facilitating a workshop for G-8 experts on forensic epidemiology – an emerging field that includes the coordination of public health and law enforcement expertise in responding to a real or potential threat of bioterrorism.



VaxGen lab technicians demonstrate the development of an anthrax vaccine, September 2006. AP/Wide World

V. FY 2006 Performance Results

	INDICATOR: Extent to Which Iran, Syria, DPRK and Other Countries of Concern Are Denied WMD/ Missiles and Related Technology, Materials, Equipment and Expertise From Other Countries	
	Input	
<p>JUSTIFICATION: The inability of target countries to acquire WMD is a direct measure of how well U.S nonproliferation policies and programs are working.</p>		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> ● International Atomic Energy Agency (IAEA) takes effective steps to redress Iranian safeguards concerns. Iran adopts and implements an Additional Protocol. No countries cooperate with Iran's nuclear program. International consensus that Iran should not possess enrichment or reprocessing facilities. ● Iraq completely and verifiably disarms. ● China fully implements and effectively enforces its nuclear and missile commitments, and effectively enforces WMD/ missile-related export controls. ● DPRK agrees to verifiably dismantle its nuclear weapons programs. ● DPRK missile-related exports decrease. ● 10% increase in interdictions of specific shipments involving programs of concern. ● Libya continues to cooperate in promoting international nonproliferation norms.
	Results	<ul style="list-style-type: none"> ● IAEA reported Iran's nuclear program to the UN Security Council (UNSC) February 2006. IAEA reported in August 2006 that Iran failed to comply with UNSCR 1696, which mandated Iranian suspension of enrichment-related and reprocessing activities. ● All concerns related to Iraq's past possession of WMD have been resolved. ● China's nonproliferation record has shown improvement over the past several years, but some Chinese entities continue to assist programs of proliferation concern, including in Iran and the DPRK. ● Since November 2005, the DPRK has refused to return to the Six-Party Talks to find peaceful resolution to security concerns raised by North Korea's nuclear weapons program. In October 2006, the DPRK conducted nuclear tests. With U.S. leadership, the UN Security Council adopted UNSCR 1718 mandating sanctions on the DPRK in response. ● DPRK continued to test ballistic missiles and export missile-related items. ● U.S. worked successfully with Proliferation Security Initiative partners on two dozen separate occasions to prevent transfers of equipment and material to WMD and missile programs in countries of concern. ● Libya continued its cooperation to promote nonproliferation norms.
	Rating	<div style="display: flex; align-items: center;"> <div style="width: 15px; height: 15px; background-color: #FFC000; margin-right: 5px;"></div> Below Target </div>
	Impact	<p>Failing to meet our targets increases the possibility that countries or terrorists could acquire WMD. Failing to end Iranian and North Korean nuclear weapons programs threatens global stability and security. U.S policies and programs have shown success in expanding the Proliferation Security Initiative, and on Iraq and Libya.</p>
	Reason for Shortfall	<p>Iran and North Korea continue to refuse to be constructive partners in multilateral negotiations about ending their nuclear weapons programs. China did not take adequate action to implement fully its nuclear and missile nonproliferation commitments.</p>
	Steps to Improve	<p>The Department will continue to work with the international community to get Iran to suspend all enrichment- and reprocessing-related activity, and is working on a UN Security Council resolution imposing sanctions on Iran. The U.S. will work with international partners to ensure UNSCR 1718 is effectively implemented and continue to encourage the DPRK to return to the Six-Party Talks. The U.S. continues to urge China to strengthen its export control enforcement.</p>

	INDICATOR: Number of Countries That Have Developed and Instituted Valid Export Control Systems Meeting International Standards	
	PART Output	
<p>JUSTIFICATION: A country's export, border, and strategic trade controls are the first line of defense in preventing proliferation of WMD materials, yet many countries do not have controls that meet international standards. The U.S. assists priority countries to control proliferation and meet international standards.</p>		
FY 2006 PERFORMANCE	Target	Cumulatively, seven countries develop and institute export control system and practices that meet international standards.
	Results	The Export Control and Related Border Security (EXBS) program graduated from U.S. assistance six more countries (Malta, Cyprus, Estonia, Latvia, Lithuania, and Slovenia) for a total of 11 countries.
	Rating	■ Significantly Above Target
	Impact	Continued success in 'graduating' states from U.S. assistance means that the global nonproliferation effort is strengthened and resources are made available to assist other countries.

A Look to History: Weapons of Mass Destruction

Negotiations between the United States and the Soviet Union in the 1970s resulted in agreements to limit strategic nuclear weapons. The Strategic Arms Limitation Talks, known as SALT I & II, took place in Helsinki, Vienna and Geneva. A delegation of officials from the Departments of State and Defense, the Intelligence Community, the Joint Chiefs of Staff, and the Arms Control and Disarmament Agency represented the United States. The 1972 Interim Agreement limited the number of offensive intercontinental missiles allowed in each super power's arsenal. The 1972 Anti-Ballistic Missile Treaty sharply limited missile defense systems in each country. President Jimmy Carter signed the SALT II agreement in 1979, but Congress never ratified SALT II. The arms negotiations continued in President Ronald Reagan's administration with the Strategic Arms Reduction Talks.



President Richard Nixon and Soviet Communist Party leader Leonid Brezhnev sign the Strategic Arms Limitation agreement at the Kremlin in May 1972.

AP/Wide World

STRATEGIC GOAL 5: INTERNATIONAL CRIME AND DRUGS

Minimize the Impact of International Crime and Illegal Drugs on the United States and its Citizens

I. Public Benefit

Americans and our global partners face growing security threats, both at home and abroad, from international terrorist networks and international criminal enterprises. International trafficking in persons or small arms, smuggling of migrants and contraband, money laundering, cyber crime, theft of intellectual property rights, and other offenses cost U.S. taxpayers and businesses billions of dollars each year and undermine rule of law in both developing and developed nations. The Department and USAID work with other U.S. Government agencies and foreign governments to break up drug trafficking and other international crime groups, disrupt their operations, and pursue legal prosecution of their leaders. On the diplomatic level, the Department works with international bodies such as the United Nations, the European Union, the Organization of American States and the Group of Eight Industrialized States to set international counter-drug, anti-crime and counter-terrorist standards, foster cross-border law enforcement cooperation, and deny safe havens to crime, drug and terrorist groups. Department and USAID efforts to strengthen judicial offices and create less corrupt and more transparent national and local government structures help strengthen law enforcement and establish political stability

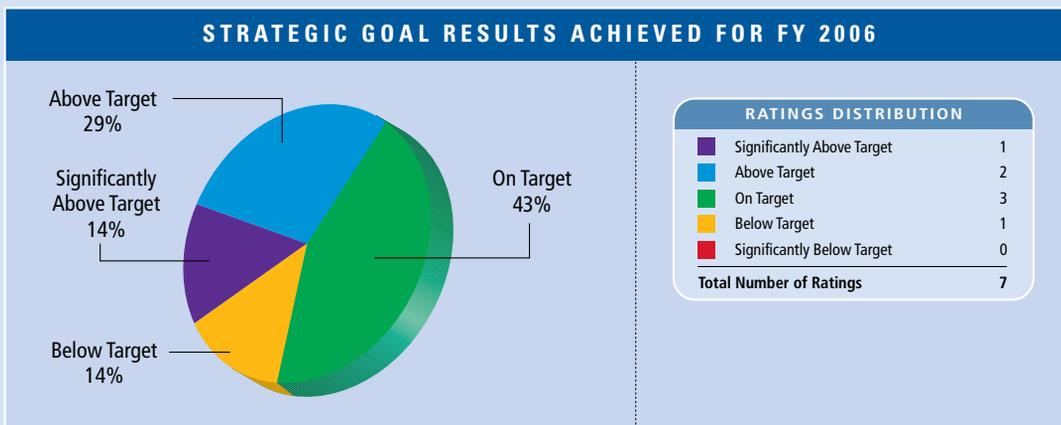
in countries struggling against narco-terrorists. Finally, the Department provides American civilian police and other police experts to UN, regional or other peacekeeping operations to establish or rebuild democratic and professional police forces and rule of law in those areas.



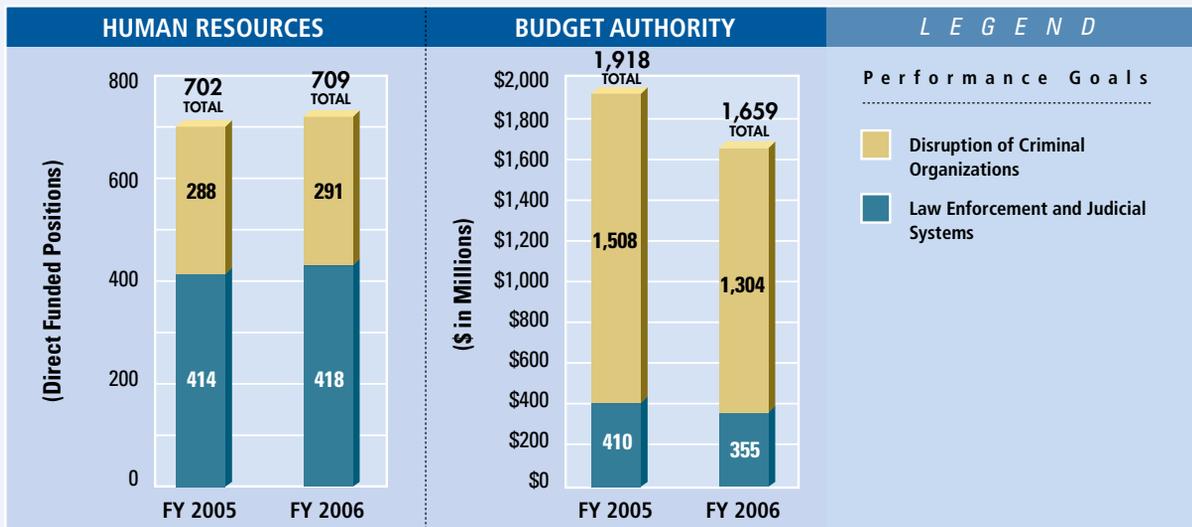
A female police officer chats about her experience as a member of the Afghan Police's Family Response and Domestic Violence Unit with Assistant Secretary for International Narcotics and Law Enforcement Affairs Anne Patterson, August 2006. Photo courtesy of DynCorp

II. Performance Summary

The chart below summarizes the performance ratings for Department of State and USAID results for the International Crime and Drugs strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. There were a number of positive trends under the Andean Counterdrug Initiative: hectares sprayed, shipments seized, and licit crop production increased. In addition, host government law enforcement partners have become stronger and more effective, capturing an increasing share of the cocaine produced in the Andean region. Unfortunately, the four-year trend in Afghanistan shows an increase in illicit opium poppy cultivation, despite U.S. Government efforts to discourage planting, eradicate the crop and promote alternative development.

KEY INITIATIVES AND PROGRAMS. In FY 2006, Congress appropriated \$734.5 million to the Department of State to carry out the Andean Counterdrug Initiative, of which approximately \$229 million was earmarked to USAID for alternative development and institution building, including \$131 million for assistance to Colombia. An additional \$477 million was appropriated in FY 2006 to fund international narcotics and law enforcement activities, including \$16 million to fund International Law Enforcement Academies.

U.S. Andean Counterdrug Initiative

The U.S. multi-year investment in the Andean Counterdrug Initiative to combat narco-terrorism in the Andean Region of 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, civil violence such as terrorist attacks, kidnappings, and homicides have dropped dramatically. Virtually all 30,000 members of a local terrorist organization have been demobilized with U.S. help. Drug seizures in 2006 reached a record high for the third consecutive year and the Colombian Government continues to extradite record numbers of traffickers to the United States. Despite these gains, the fight against narco-terrorism continues; Colombia continues to supply approximately 90% percent of the cocaine and heroin entering the United States.

Police officers escort Eduardo Restrepo Victoria at the National Police headquarters in Bogota, Colombia, July 2006. Restrepo was arrested on charges of smuggling cocaine to the United States. AP/Wide World



V. FY 2006 Performance Results

	INDICATOR: Ratio of Total Metric Tons Seized in Colombia, Peru, and Bolivia to Estimated Production of Cocaine	
	PART Outcome	
JUSTIFICATION: Statistics on seizures complement estimates on cultivation and production. They are an indication of law enforcement effectiveness but much less reliable as a snapshot of drug trafficking.		
FY 2006 PERFORMANCE	Target	Seizure Rate: at least 28% of total net production.
	Results	Although actual data for metric tons produced or actual metric tons seized is not expected to be distributed until April 2007, based on results for 2005 and past experience, it is reasonable to forecast that the seizure rate will remain on target.
	Rating	 On Target
	Impact	The seizure rate measures the effectiveness of U.S. Government assistance to law enforcement capacity building in Colombia, Peru, and Bolivia. The upward trend from 2003 to 2005 indicates that the host government law enforcement, working together with the U.S. Government, continue to capture an increasing share of the cocaine produced in the Andean region.

	INDICATOR: Number of Countries Strengthening and Enforcing New or Existing Anti-Trafficking Laws to Come Into Compliance with International Standards	
	Outcome	
JUSTIFICATION: Strengthened laws requiring strong penalties for traffickers and comprehensive assistance for victims indicate concrete efforts to prosecute and convict traffickers and to protect victims.		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> • Ten countries move up a tier or off the Tier 2 Watch List classification based on fulfillment of country strategies. • Two additional countries receiving USG assistance successfully adopt comprehensive anti-trafficking law(s).
	Results	<ul style="list-style-type: none"> • In the past year, 16 countries moved up a tier or off the Tier 2 Watch List. Of these 16 countries, eight moved up from Tier 3 to Tier 2 Watch List or Tier 2. Eight additional countries moved from the Tier 2 Watch List to Tier 2. • Forty-one countries adopted new legislation or amended existing legislation to combat trafficking in persons.
	Rating	 Significantly Above Target
	Impact	Concrete actions taken by governments to fight trafficking result in more prosecutions, convictions, and prison sentences for traffickers and comprehensive assistance for victims.

 INDICATOR: Viability of Iraqi Justice and Law Enforcement Sectors	
Outcome	
JUSTIFICATION: Given the uncertain political and security environment, a measure of the capacity and professionalization of the police force is extremely relevant and useful to program planning and decision-making.	
FY 2006 PERFORMANCE	Target <ul style="list-style-type: none"> • Large-scale basic police training ramps down to accommodate normal personnel management. • New phase of training focuses on organizational development leadership. • Training increasingly emphasizes transparency, accountability, anti-corruption, and respect for human rights. • Specialized training intensifies. • Special anti-corruption units created within Justice Ministry and police internal accountability units (i.e., internal affairs) created. • Revision of criminal code completed and enacted by National Assembly. • Personal and operational equipment and infrastructure provided to supplement similar support provided by Coalition military forces.
	Results <ul style="list-style-type: none"> • The Coalition Police Advisory Training Team plans to conclude large-scale basic police training by December 31, 2006. To date, 39,826 Iraqi students have graduated from the Jordan International Police Training Center. • Police Transition Teams that include over 600 International Police Liaison Officers are assessing and mentoring Iraqi police. • Advanced and specialized police training includes basic criminal investigations (3,400 total graduates to date), advanced criminal investigations (240 graduates), interviews and interrogation (1,313 graduates), violent crimes investigation (1,151 graduates), criminal intelligence (596 graduates). • An internal affairs unit has been established at the Ministry of Interior, over 285 internal affairs investigators have been trained, and the Ministry is providing mentoring. Internal controls training has been provided to 837 Iraqi Police Service graduates.
	Rating ■ On Target
	Impact Strengthening the law enforcement and justice sectors in Iraq is essential to restoring public confidence in the Iraqi government. Improvements in the accountability and transparency of the police, courts, and prisons systems are critical to the success of the U.S. mission in Iraq.

Combating Trafficking in Persons & Migrant Smuggling

Trafficking in persons is a crime that particularly targets the most vulnerable members of society, women and children, who are subjected to economic, sexual and other forms of exploitation and abuse. Although trafficking in persons has increased in tandem with economic globalization, many governments have only recently begun to recognize it as a crime and to begin taking steps to prevent and break up trafficking operations and to punish those involved. The Department uses its annual *Trafficking in Persons Report*, which assesses the anti-trafficking efforts of nearly 150 countries, to spur governments to take action by threat of sanctions and through offers of anti-trafficking assistance.



An elementary school student reads a brochure about the dangers of trafficking.
USAID Photo

STRATEGIC GOAL 6: AMERICAN CITIZENS

Assist American Citizens to Travel, Conduct Business, and Live Abroad Securely

I. Public Benefit

The Department of State has no more vital responsibility than the protection of U.S. citizens while they are overseas. Approximately four million Americans reside abroad, and Americans make about 60 million trips outside the United States each year. The Department continues to enhance the integrity of the U.S. passport, while maintaining the highest standards for excellence in customer service. Improvements such as the e-passport, which contains a chip on which biometric and biographic information is recorded, will help strengthen international border security by ensuring both the document is authentic and that the person carrying the e-passport is the American citizen to whom that document was issued. To alert Americans to conditions that may affect safety and travel abroad, the Department disseminates threat assessments to posts abroad and announcements to the public as quickly as possible using

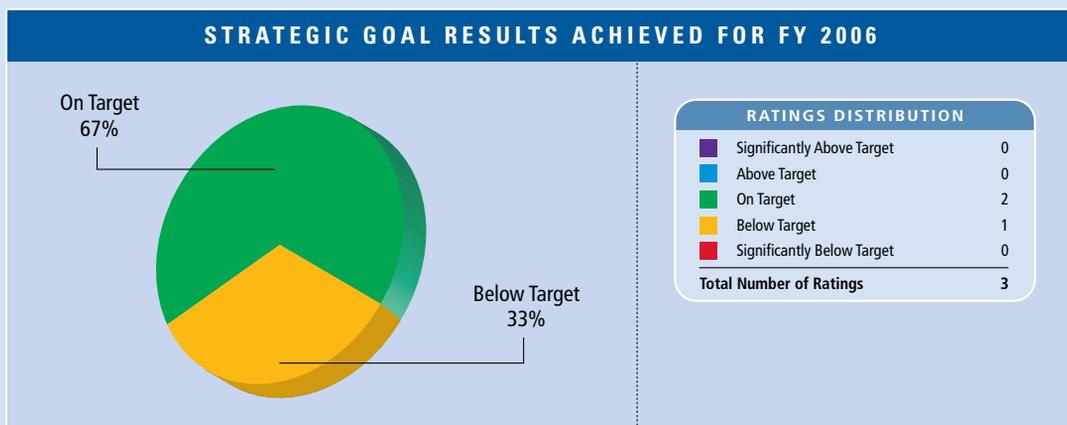


all available means. U.S. embassies and consulates offer a broad range of services to U.S. citizens abroad in cases of illness, death, and other crises such as falling victim to a crime, political unrest or natural disaster. The Department also works with other USG agencies, foreign governments and international organizations on transportation security initiatives and encourages countries to implement intercountry adoption system.

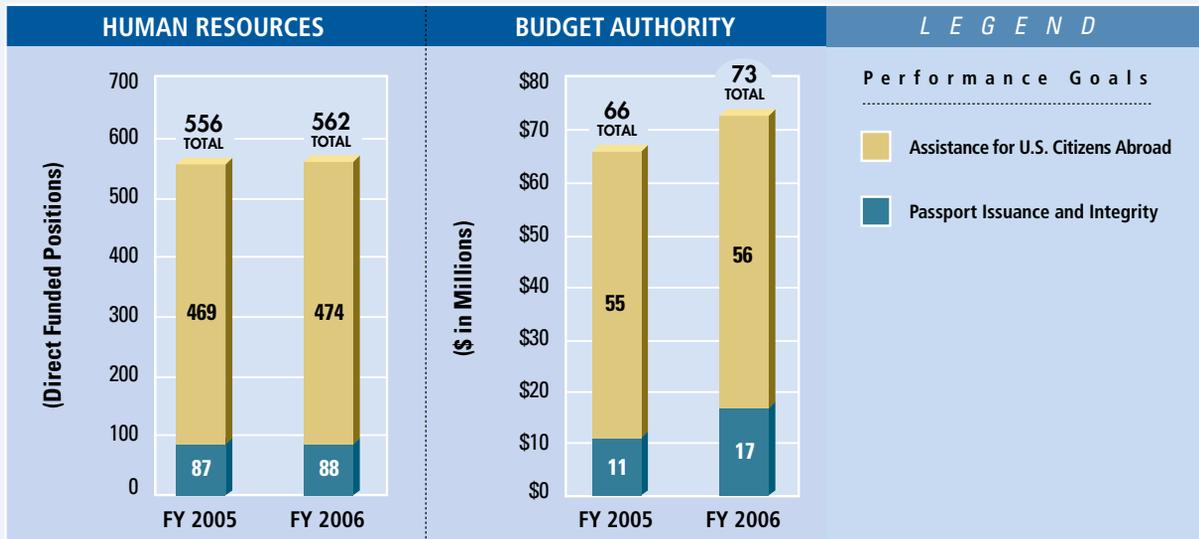
An American citizen with his luggage on top of his head waits with hundreds of fellow Americans to enter the processing center in order to be evacuated from a beach north of the capital Beirut, Lebanon, July 2006. AP/Wide World

II. Performance Summary

The chart below summarizes Department performance ratings for the American Citizens strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. The clear trend is toward a more sophisticated, automated system to support and protect Americans living and traveling abroad. For example, over the past four years, the Department has designed, developed, tested, and deployed an online database that contains the names of more than 500,000 U.S. citizens living abroad.

KEY INITIATIVES AND PROGRAMS. The Department of State appropriation act provides the critical operating resources and support necessary to fulfill the Department's range of mandates. For example, FY 2006 appropriations includes funding for the repatriation loan program available to U.S. citizens abroad. This program – together with other initiatives such as machine readable visas, expedited passport issuance, enhanced border security and intercountry adoption systems that protect the interests of children, birth parents, and U.S. adoptive parents – support the people, platform, and processes required to achieve the objectives of transformational diplomacy.

V. FY 2006 Performance Results

 INDICATOR: Status of Hague Convention on Intercountry Adoption	
Output	
JUSTIFICATION: Demonstrates essential tasks that must be completed prior to U.S. ratification of the Convention in order for the United States to meet the Convention’s responsibilities.	
FY 2006 PERFORMANCE	Target <ul style="list-style-type: none"> • Authorize designated accrediting entities with signed agreements to accredit/approve all adoption service providers. • Draft, publish for comment, and promulgate regulations governing how the Hague Convention on Intercountry Adoption and the Intercountry Adoption Act of 2000 will be implemented. • U.S. instrument of ratification to be deposited at The Hague in 2007.
	Results <ul style="list-style-type: none"> • Final regulations on accreditation of adoption service providers and preservation of Convention records were published in the Federal Register on February 15, 2006. • The proposed rule on issuance of Hague certificates and declarations in Convention adoption cases was published in the Federal Register on June 16, 2006. • The proposed rule on orphan visa processing was published in the Federal Register on June 22, 2006. Proposed rule jointly with the Department of Homeland Security on reporting requirements for both Convention and non-Convention emigrating adoption cases. • On June 29, 2006, the Department signed a Memorandum of Agreement (MOA) with the State of Colorado regarding performance of duties as an accrediting entity for adoption service providers seeking Hague Convention accreditation. The Department also signed a separate MOA with the Council on Accreditation.
	Rating ■ On Target
	Impact Performance directly supports and advances the Department’s ability to ratify the Hague Convention on Intercountry Adoption, with its stated goal “to establish safeguards to ensure that intercountry adoptions take place in the best interests of the child and with respect for his or her fundamental rights as recognized in international law.”

Children waiting for adoption play in Guatemala City, Guatemala, June 2006. AP/Wide World



STRATEGIC GOAL 7: DEMOCRACY AND HUMAN RIGHTS

Advance the Growth of Democracy and Good Governance, Including Civil Society, the Rule of Law, Respect for Human Rights, and Religious Freedom

I. Public Benefit

Protecting human rights and building democracy are cornerstones of a U.S. foreign policy focused on combating terrorism, championing human dignity and supporting nations that respect human rights and govern by the rule of law. Together with our partners in the international community, including human rights advocates and non-governmental organizations, the U.S. seeks opportunities to end tyranny and enhance homeland security through strategies, policies and programs that promote democracy and human rights.

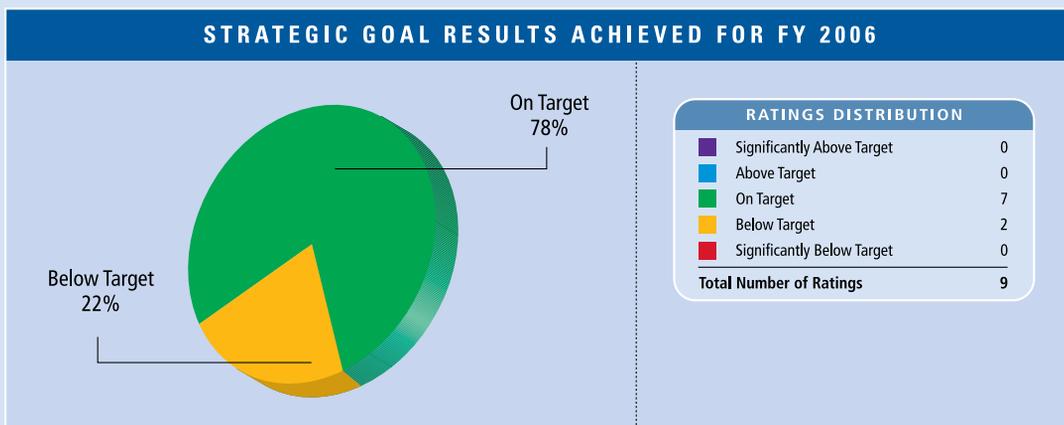


In order for democratization to be successful and sustainable, the process must be driven by the people. While the U.S. plays a leading role to promote democracy and human rights, the Department and USAID take a holistic approach to democracy promotion, engaging both governments and civil society to ensure that democratic reforms reflect a representative political process. This philosophy underscores the goal of transformational diplomacy, which is to promote democracy by helping foreign citizens better their own lives and build their own futures.

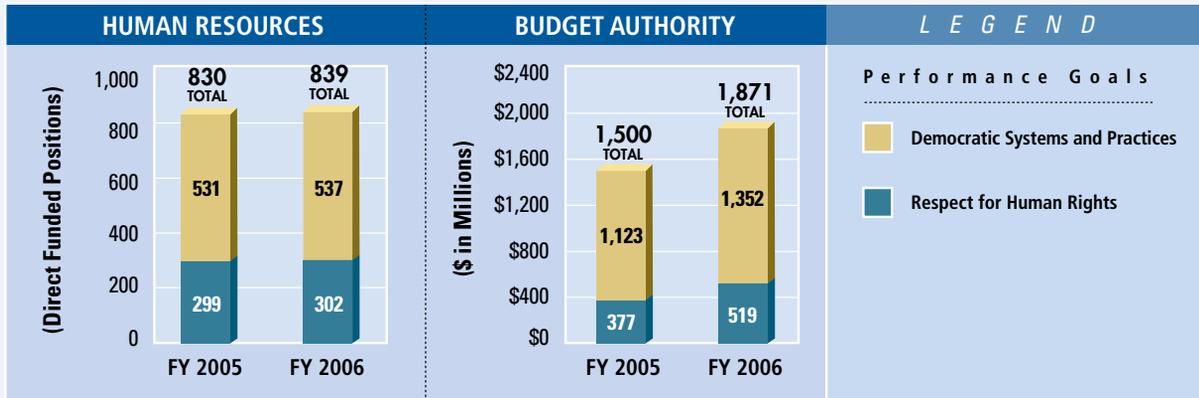
Indian Foreign Secretary Shyam Saran greets Under Secretary Paula Dobriansky at the Indian Ministry of External Affairs before the opening session of the Global Issues Forum, February 2006. AP/Wide World

II. Performance Summary

The chart below summarizes the performance ratings for Department of State and USAID results for the Democracy and Human Rights strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. The Department and USAID have been able to demonstrate progress in developing democratic institutions, supporting free and fair elections, upholding religious freedom, and increasing women’s participation in the economy and politics, particularly in Afghanistan and the countries of the Middle East.

KEY INITIATIVES AND PROGRAMS. The Department and USAID invested significant resources to promote democracy and human rights in FY 2006. For example, a new Human Rights and Democracy Fund was established with an appropriation of \$94 million, of which \$15 million was earmarked for the National Endowment for Democracy (NED) and \$6.5 million was set aside for the advancement of democracy in Iran and Syria. Under a separate appropriation, an additional \$74 million was earmarked to NED for democracy grants. Using Economic Support Funds, the Department invested \$50 million for democracy, human rights and governance programs in Egypt; and \$20 million for labor and environmental capacity building activities in support of the free trade agreement with the countries of Central America and the Dominican Republic. In FY 2006, USAID received \$15 million for programs to improve women’s leadership capacity in developing countries and \$40 million to support the transition to democracy and long-term development of countries in crisis.

Labor Rights in China

In southern China, many migrant workers facing poor workplace conditions and unjust compensation are unaware of their basic labor rights. As part of its overall efforts to improve labor conditions in China, the Department of State has funded information booklets and training seminars so that workers can learn how to defend their rights. In one instance, two workers directly applied what they learned in the trainings to take action against wage and hour violations affecting thousands of their co-workers. They successfully used their knowledge of the law to negotiate better working conditions with their employer, who was illegally allowing only one day off per month. The company agreed to the legal four days off per month and reduced work shifts from nine to eight hours, adjustments that were made without a reduction in pay.

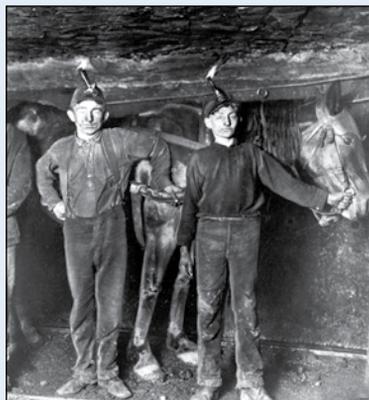
Chinese female construction workers applaud as they attend the groundbreaking ceremony for the Beijing 2008 Olympics, December 2005. AP/Wide World



V. FY 2006 Performance Results

 INDICATOR: Progress Toward Constitutional Democracy in Afghanistan	
Outcome	
JUSTIFICATION: Achieving progress towards meeting political objectives laid out in the Afghanistan Compact will effectively establish democratic rule in Afghanistan.	
FY 2006 PERFORMANCE	Target <ul style="list-style-type: none"> ● Parliament produces constructive legislation, approves responsible budgets, and oversees appropriate government operations, such as combating corruption and narcotics activity. ● Civil liberties provisions remain intact and receive strong support from legal and executive institutions. ● Citizens throughout the country have access to the Afghan Independent Human Rights Commission for resolution of human rights complaints. Human rights education becomes part of primary school education curriculum. ● Courts in Kabul begin to hold trials in criminal cases. ● Women are active political participants and hold public positions in Kabul and the central, regional and provincial government levels.
	Results <ul style="list-style-type: none"> ● Parliament adopted a law on the duties and responsibilities of the Provincial Councils; adopted the budget; and confirmed the President's cabinet and the members of the Supreme Court. ● Provisions on civil liberties are intact and the Afghan Independent Human Rights Council remains active. Religious freedom became an issue due to an apostasy case that was eventually dismissed. Afghan Independent Human Rights Commission continues to expand to the provinces and is more accessible and active. In most schools human rights are a primary part of the curriculum, but the extent to which this is true varies by class. ● There are 68 female members in the National Assembly, one female cabinet member and one female provincial governor. Approximately 35% students attending school are female. Approximately 60% of primary age girls are in school. For the lower secondary level (grades 7-9) it is about 9% and for the upper secondary level (10-12) approximately 3% of girls attend school.
	Rating ■ On Target
	Impact A democratically elected president and government are essential to ensuring Afghanistan's progress toward democracy.

A Look to History: Democracy and Human Rights



In 1919, parties to the Paris Peace Conference established the International Labor Organization (ILO), and in 1946, it became part of the United Nations. Although the United States was an original ILO member, and Samuel Gompers of the American Federation of Labor its first chairman, the United States withdrew from the ILO in 1978 under protest that the organization's agenda focused too heavily on labor issues pertaining to the Arab-Israeli conflict and not on labor issues in communist countries. The United States rejoined in 1980.

Two young boys work as drivers in a West Virginia underground coal mine in 1908. AP/Wide World

	INDICATOR: Status of Democracy in the Near East	
	Outcome	
<p>JUSTIFICATION: Successful elections (held as scheduled and free and fair) indicate fundamental movement toward democratic, representative government. A free and independent media is an imperative for democratic, transparent governance. It provides essential information to the people, both informing their voting decisions and acting as a means for the people to express dissent between elections.</p>		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> ● Municipal elections in Yemen are held as scheduled and are free and fair. ● Elections in Bahrain held as scheduled and are free and fair. ● Media Freedom: Two additional Near Eastern Affairs (NEA) countries move into the "Partly Free" category and no other states lower their rankings.
	Results	<ul style="list-style-type: none"> ● Free, fair and competitive elections took place in Yemen (municipal and Presidential); Egypt (Parliamentary); Qatar (legislative); Bahrain (municipal council). ● No countries saw a decline in their Media Freedom scores. No countries moved from "Not Free" to "Partly Free". ● In Iraq, a draft permanent Constitution was successfully adopted in October 2005. Political parties formed coalitions, registered and campaigned for December 2005 elections.
	Rating	■ On Target
	Impact	Holding free, fair, competitive elections and adopting a Constitution are first steps in achieving participatory democracy and open opportunities for increased democracy programming including political party and civil society strengthening.

	INDICATOR: Status of Religious Freedom	
	Outcome	
<p>JUSTIFICATION: Congress established the broad policy goals and reporting requirements in the International Religious Freedom Act. The performance indicators chosen follow from the mandates of the law. Meetings, agreements and documented movement by countries toward greater religious freedom are concrete examples of progress toward International Religious Freedom goals.</p>		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> ● Undertake at least two additional bilateral or regional International Religious Freedom initiatives, laying the groundwork for significant policy changes in those countries or regions. ● Establish a working coalition of allies focused on problem countries, working bilaterally and multilaterally to improve or establish religious freedom laws, practices and accountability in problem countries. ● Revise and streamline the format of the Annual Country Reports and the <i>International Religious Freedom Report</i>, maintaining high standards and making the reports more user friendly.
	Results	<ul style="list-style-type: none"> ● Focused intensive diplomatic efforts on consolidating religious freedom improvements in Saudi Arabia and Vietnam. As a result, Saudi Arabia confirmed policies to revise school textbooks to eliminate intolerant language, to protect the right to private worship and to import religious materials for private use, and to enforce controls over the actions of the religious police. Vietnam released all remaining religious prisoners, speeded registration of churches, and took action against officials who violated the right to worship. ● Worked with international partners to successfully press for countries not to establish anti-conversion laws (e.g., India and Sri Lanka) and to release religious prisoners (e.g., Saudi Arabia, China, and Indonesia). ● Began revising and streamlining the format of the <i>International Religious Freedom Report</i>.
	Rating	■ On Target
	Impact	Advanced Department's objectives of promoting religious freedom and human rights, strengthening civil society.

STRATEGIC GOAL 8: ECONOMIC PROSPERITY AND SECURITY

Strengthen World Economic Growth, Development, and Stability, While Expanding Opportunities for U.S. Businesses and Ensuring Economic Security for the Nation

I. Public Benefit

Continued economic prosperity for the U.S. depends on the expansion of prosperity, freedom, and economic opportunity worldwide. The Department and USAID have increased U.S. economic security by reducing terrorist financing, increasing energy security, improving the security of transportation and information networks, and building international coalitions to deny financial support to terrorists and their supporters. The U.S. promotes prosperity at home and abroad by opening markets through ambitious trade and investment agendas, strengthening development efforts through private sector participation and recipient country accountability, and supporting U.S. businesses through outreach and advocacy. Working with private and public sectors and labor, the Department and USAID contribute to a stronger, more dynamic international economic system that creates new opportunities for American business, workers,

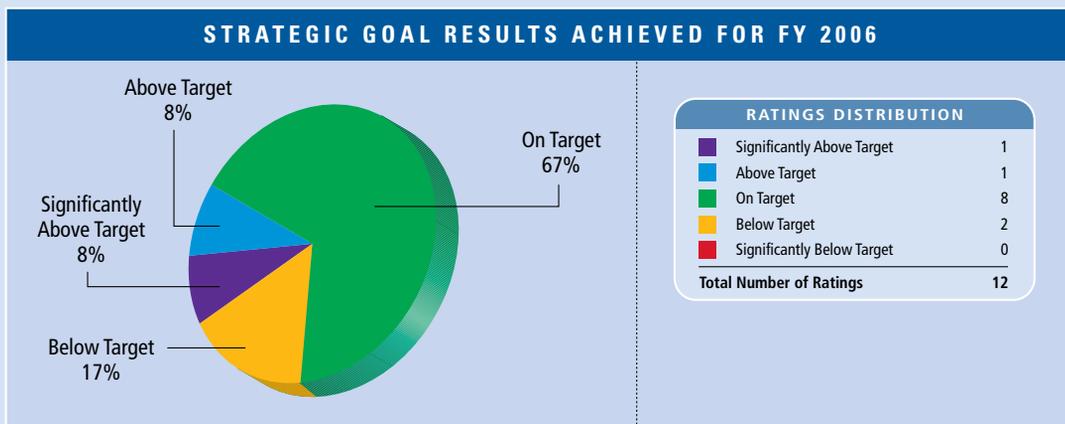
and farmers. In addition, the Department leads the U.S. representation at the International Atomic Energy Agency, the primary mechanism for maintaining oil market stability in times of crisis. The Department was able to secure the release of up to 60 million barrels of emergency petroleum stockpiles when prices increased due to Hurricane Katrina, saving American taxpayers hundreds of millions of dollars per day.



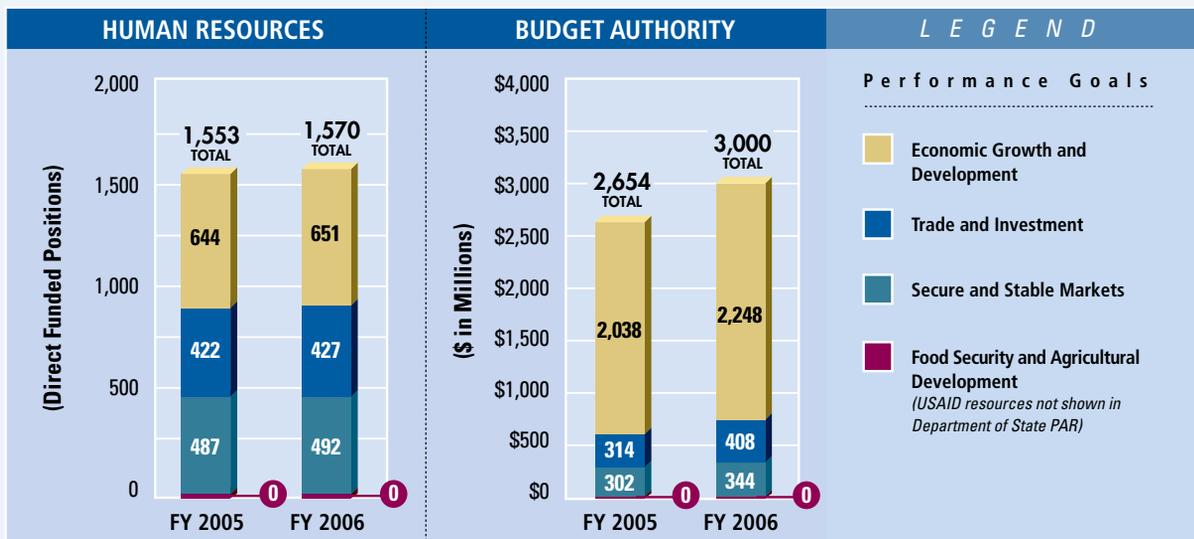
Under Secretary Josette Sheeran pumps a well during a March 2006 visit to Capotille, Haiti as part of a United Nation Development Programme sponsored project. AP/Wide World

II. Performance Summary

The chart below summarizes the performance ratings for Department of State and USAID results for the Economic Prosperity and Security strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. There are a number of positive trends in this strategic goal area. For example, USAID extension assistance has reached more than one million farmers, a tenfold increase over the 2003 baseline, and USAID programs disbursed more than six million microfinance loans, a fivefold increase over the 2003 baseline.

KEY INITIATIVES AND PROGRAMS. The Department and USAID received more than \$2.6 billion in Economic Support Funds. More than \$200 million in FY 2006 funds was earmarked to USAID for trade capacity building and Congress also authorized USAID to spend up to \$21 million for loan guarantees in support of micro and small enterprise programs.

Business Advocacy and Commercial Diplomacy

The Department of State regularly advocates for U.S. companies to ensure fair play, assist with regulatory and investment problems, and maximize commercial opportunities. U.S. Diplomatic Missions are prepared and equipped to assist U.S. companies by partnering with the Commerce Department and managing the commercial diplomacy programs at 140 overseas posts without a Commerce Department presence. In FY 2006, the Department provided support for 300 commercial advocacy cases, including a recent \$2 billion contract win for a U.S. company. Business outreach efforts also target opportunities tied to U.S. foreign policy.

Assistant Secretary for Economic, Energy and Business Affairs Daniel Sullivan, right, speaks to senior business executives and government officials during the 13th Annual U.S.-APEC (Asia-Pacific Economic Cooperation) Roundtable in Washington, D.C., June 2006. State Department Photo



V. FY 2006 Performance Results

 INDICATOR: Status of Negotiations on Open Markets for Services, Trade, and Investment	
Outcome	
<p>JUSTIFICATION: These agreements expand the international framework to create a dynamic, free and open trade system, which contributes directly to the prosperity of the United States.</p>	
FY 2006 PERFORMANCE	<p>Target</p> <ul style="list-style-type: none"> World Trade Organization (WTO) Doha round and Free Trade of the Americas negotiations completed. Andean Countries Free Trade Agreement (FTA) and South African Customs Union (SACU) implemented. Two FTAs concluded. Central American Free Trade Agreement (CAFTA), Dominican Republic, Morocco and Australia FTAs enter into force. Three new Bilateral Investment Treaties (BITs) concluded.
	<p>Results</p> <ul style="list-style-type: none"> WTO and FTAA negotiations were not completed. Implementation of Andean Countries Free Trade Agreement progressing; South African Customs Union postponed. Two FTAs concluded. Oman FTA ratified. Korea and Malaysia FTAs launched. CAFTA, Bahrain and Morocco FTAs entered into force. The Australia FTA went into force in January 2005 (see below). Three new BITs concluded.
	<p>Rating</p> <p> Below Target</p>
	<p>Impact</p> <p>Although the suspension of the Doha Round will hinder U.S. efforts to open markets, excellent progress was achieved on liberalizing trade and opening markets through free trade agreements and bilateral investment treaties. Trade Promotion Authority is scheduled to expire in mid-2007, so the Department will make every effort to restart the Doha Round in FY 2007.</p>
	<p>Reason for Shortfall</p> <p>The WTO Doha Round was suspended due to lack of agreement on major issues. The United States prioritized expanded agricultural market access, the EU tried to link agricultural subsidy and tariff reductions to cross-sector reciprocal improvements in market access for manufactured goods and services, and developing countries sought the elimination of agricultural subsidies and industrial tariffs.</p>
	<p>Steps to Improve</p> <p>At the December 2005 WTO ministerial in Hong Kong, WTO members were able to set 2013 as the date to end agricultural export subsidies and agree to a number of important development initiatives. Expanded market access, particularly in agriculture, is key to a final agreement. In Hong Kong, the U.S. announced a doubling of annual trade-related assistance from \$1.34 billion in 2005 to \$2.7 billion by 2010. The U.S. is the largest single-country donor of trade capacity building assistance, which helps countries build the necessary legal, administrative, and physical infrastructure to participate fully in the market openings that will be created by a successful conclusion of the Doha Round.</p>

	INDICATOR: World Emergency Oil Stocks	
	Output	
JUSTIFICATION: Oil is the major energy import for the U.S. and an adequate supply is key for the U.S. and global economies. Increasing world oil stocks increases ability to withstand possible oil shocks.		
FY 2006 PERFORMANCE	Target	International Energy Agency (IEA) and non-IEA Emergency oil stocks at or above FY 2005 stock levels equivalent to 114 days of imports.
	Results	115 days of import coverage.
	Rating	■ On Target
	Impact	Healthy oil stock allowed for a robust response to oil supply disruptions caused by Hurricane Katrina, calming markets ensuring continued supplies of oil.

	INDICATOR: Percentage of Debt Crisis Countries on International Monetary Fund (IMF) Programs Successfully Reforming	
	Outcome	
JUSTIFICATION: Successful completion of reform programs is key to nations achieving long-term financial stability.		
FY 2006 PERFORMANCE	Target	60% of countries facing financial crisis that have sought and received Paris Club sponsored debt relief are successfully implementing economic reforms that will promote long-term financial stability.
	Results	A total of 84% of countries receiving help from the United States and the international community to overcome financial crises are successfully implementing economic reforms that promote long-term financial stability. As of September 30, 2006, 69 countries facing financial crises had active Paris Club agreements. Of these, 36 countries were successfully implementing an IMF-sponsored reform program and an additional 22 countries had completed their reform programs. A total of 11 countries had abandoned their IMF program and were not pursuing sound macroeconomic policies. This result can be explained, in part, by the benign global economic environment that has helped to improve macroeconomic performance, reducing the risk of financial crises and generally making it easier to comply with IMF program goals.
	Rating	■ On Target
	Impact	U.S. Government debt relief program has provided effective leverage to encourage countries in financial crisis to adopt solid fiscal and monetary policies that have resulted in individual country and international financial stability.

STRATEGIC GOAL 9: SOCIAL AND ENVIRONMENTAL ISSUES

Improve Health, Education, Environment, and Other Conditions for the Global Population

I. Public Benefit

By supporting over ten Presidential Initiatives and numerous programs that integrate economic growth with social development and environmental stewardship, the Department and USAID are extending the basic values American citizens hold dear: prosperity, sustainable management of natural resources, good health, and knowledge-based society. U.S. investments have expanded access to skilled childbirth care, immunizations and effective prevention and treatment for diseases like HIV/AIDS, malaria, tuberculosis, polio and more recently Avian influenza. Through regional dialogues and protection and assistance to vulnerable migrants, the Department and USAID promote effective and humane international migration policies and systems. Investments in basic education are critical to promote a stable, skilled work force, economic growth, and an informed society that demands and participates constructively in

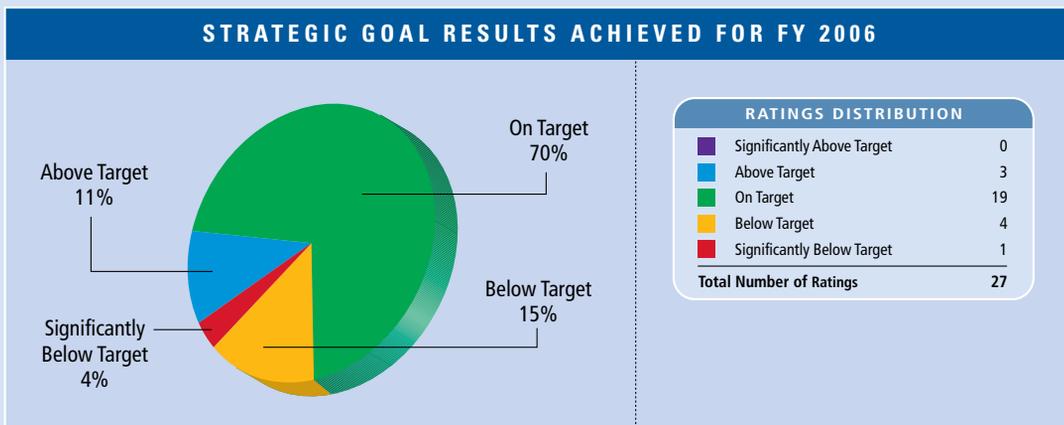


democratic institutions. Finally, sound governance and conservation of biodiverse ecosystems provide income, sustainable livelihoods and a healthy foundation for human well-being. U.S. and foreign government agencies, international organizations and the private sector are building broad partnerships to ensure that all of these initiatives reduce the strains on society that lead to conflict and even terrorism, while inculcating democratic values of participatory decision-making, rule of law, and transparency.

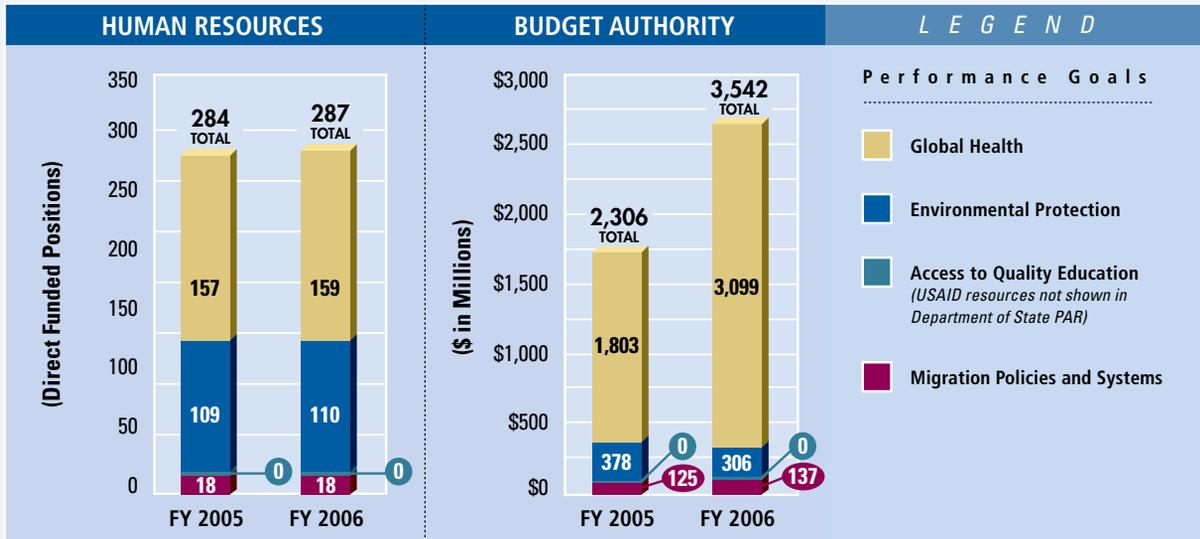
Chad Country Manager for Ambassadors Girls' Scholarship Program, Alexandra Zekas, talks to girls in a school in Chad, February 2006. AP/Wide World

II. Performance Summary

The chart below summarizes the performance ratings for Department of State and USAID results for the Social and Environmental Issues strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. Performance under the President’s Emergency Program for AIDS Relief (PEPFAR) continued the favorable trend to prevent the spread of AIDS in particularly vulnerable countries and treat those afflicted with the illness. The percentage of the world’s population with access to tuberculosis care and treatment continued its steady multiyear upward trend. There was also sustained progress toward more effective implementation of treaties and agreements on natural resources management.

KEY INITIATIVES AND PROGRAMS. In FY 2006, the Department and USAID continued to demonstrate leadership and commitment to the U.S. Government’s social and environmental goals. For example, \$1.58 billion was programmed for child survival and health initiatives, \$2.5 billion was set aside for HIV/AIDS prevention and treatment programs, \$365 million was allocated for basic education activities, and \$200 million was made available for drinking water supply projects, including \$50 million for programs in Africa.

V. FY 2006 Performance Results

 INDICATOR: Implementation of Measures to Conserve and Protect Vulnerable Marine Species	
Output	
<p>JUSTIFICATION: U.S. interest in promoting sound management of living marine resources requires the development and verifiable enforcement of agreed international standards. Oceans and fisheries are critical for global food security and for sustaining economic prosperity, particularly in developing countries. Effective conservation of living marine resources must be broader than single-stock management and reflect the complexity of the ecosystem as a whole.</p>	
FY 2006 PERFORMANCE	<p>Target</p> <ul style="list-style-type: none"> Western and Central Pacific Fisheries Commission adopts initial set of conservation and management measures. With science-based input from the United Nations Food and Agriculture Organization, the Convention on International Trade in Endangered Species continues to list marine fish species that meet its criteria. International Whaling Commission scientific committee reviews status of bowhead and gray whale stocks to set new catch limit recommendations.
	<p>Results</p> <ul style="list-style-type: none"> First conservation and management measures for Pacific tuna fisheries adopted in December 2005. Proposals prepared to list additional marine species for the next Conference of the Parties in June 2007. Strengthening current co-operation with other relevant organizations to ensure conservation and management of marine living resources in the Convention area in a manner consistent with international law. The Scientific Committee work on status review for bowhead and gray whales will deliver catch limit recommendations in 2007.
	<p>Rating ■ On Target</p>
	<p>Impact</p> <ul style="list-style-type: none"> Measures adopted form a basis for management of valuable Pacific yellowfin and bigeye tuna fisheries and slow the decline of these stocks. Controls allow better tracking of non-commercially traded marine species, particularly vulnerable sharks. Global implementation of simple changes to fishing gear or fishing patterns, largely developed in the United States, result in significant reductions in the number of endangered sea turtles killed in longline fisheries. Estimated illegal taking of toothfish decreased and seabird bycatch within the convention area also continued to decrease. The scientific integrity and diligence in bowhead and gray whale stock assessments should eliminate any credible scientific arguments against approving the 2008-2012 aboriginal subsistence quotas in 2007.

Coral in the Aleutians Gardens in Alaska's Aleutian Islands.
AP/Wide World



	INDICATOR: Multilateral Climate Change Science and Clean Energy Technology Partnerships and Initiatives	
	Outcome	
<p>JUSTIFICATION: Project execution and cooperation will help reduce the costs of low-carbon technologies, improve understanding of global climate change, and encourage adaptation, thus moving the international community toward greenhouse gas concentration stabilization at a level that would prevent dangerous interference with the climate system.</p>		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> ● Implement the Ten-Year Plan for the Global Earth Observation System of Systems, designed to enhance and sustain environmental observation capabilities. ● Advance multilateral climate change science and technology partnership project-based activities through the Methane-to-Markets Partnership, the International Partnership for the Hydrogen Economy, the Earth Observation initiative, the Carbon Sequestration Leadership Forum, and development assistance programs, in cooperation with developed and developing countries.
	Results	Ten-Year Plan established and under implementation. Global environmental observation capabilities strengthened. A number of innovative projects were launched in FY 2006, including those under the Methane-to-Markets Partnership and the International Partnership for the Hydrogen Economy.
	Rating	■ On Target
	Impact	Mitigation of greenhouse gas emissions, strengthened relations with key developing country partners, and advancement of climate change science and technology.

Tsunami Warning System

United States leadership in natural hazard detection is fostering regional collaboration in tsunami mitigation, building relationships among countries through science partnerships and contributing to the productivity and sustainable development of coastal nations. Since the devastating Indian Ocean tsunami in 2004, the Department of State has coordinated U.S. engagement to build capacity for natural hazard warning systems, building political momentum on a regional basis while addressing the unique needs of individual countries. As a result, countries in the Indian Ocean and the Caribbean are collaborating to create an enabling environment for long-term investment in regional warning infrastructure and community preparedness. While protecting people from disaster, these activities nurture goodwill toward the U.S. in the predominantly Muslim Indian Ocean region, and enhance government resilience and control in the wake of natural disasters.



An Indonesian man salvages wood among wreckage of homes destroyed by the Indian Ocean tsunami, July 2006. AP/Wide World Photo

STRATEGIC GOAL 10: HUMANITARIAN RESPONSE

Minimize the Human Costs of Displacement, Conflicts, and Natural Disasters

I. Public Benefit

The United States' commitment to humanitarian response demonstrates America's compassion for victims of armed conflict, natural disasters, landmines, forced migration, human rights violations, widespread health and food insecurity, and other threats. Humanitarian programs support the objectives of the U.S. National Security Strategy by addressing crises with potential regional or global implications, fostering peace and stability, and promoting sustainable development. Through the Department and USAID, the U.S. provides substantial resources and guidance to international and nongovernmental organizations for worldwide humanitarian programs, with objectives

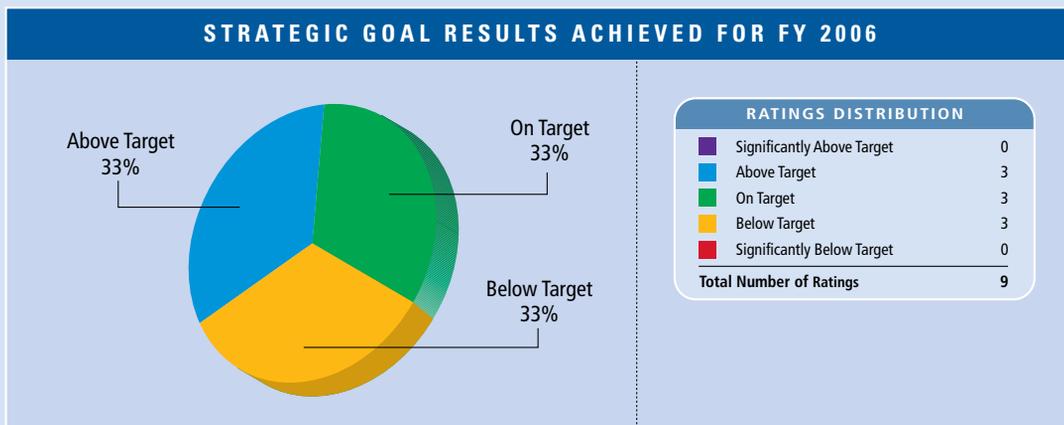


to increase access to protection, promote burden-sharing, and coordinate funding and implementation strategies. Further, the Department and USAID prioritize the regular monitoring and evaluation of humanitarian programs to ensure that the needs of refugees, internally displaced persons (IDPs), and victims of conflict and natural disasters are met. The Department's management and support of overseas refugee admissions programs provide an important durable solution for refugees and serves as the leading model for other resettlement countries.

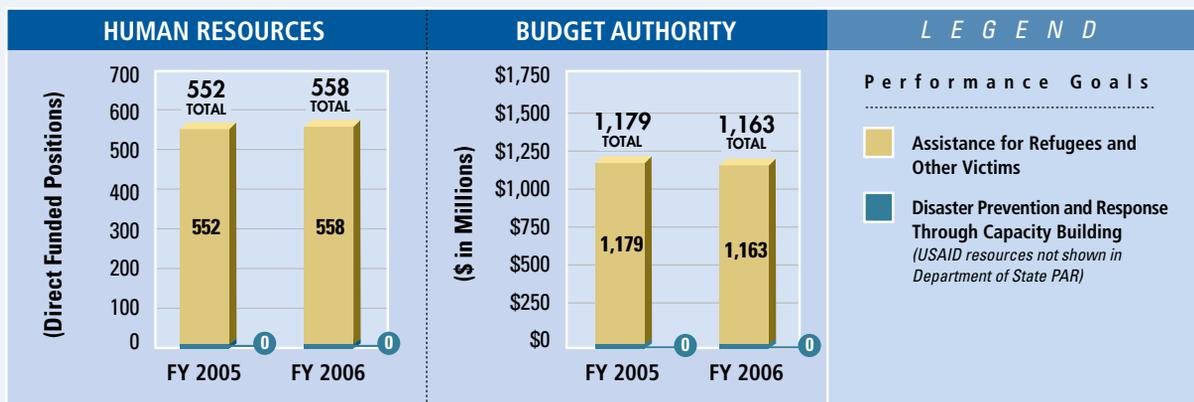
During an August 2006 visit to Thailand, refugee youth in Tham Him present Ellen Sauerbrey, Assistant Secretary for the Bureau of Population, Refugees and Migration, with their artwork. Approximately 10,000 Burmese refugees live in this camp. Department of State

II. Performance Summary

The chart below summarizes the performance ratings for Department of State and USAID results for the Humanitarian Response strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. Three significant trends under the Humanitarian Response Strategic Goal are worthy of note. First, U.S. humanitarian assistance programs are achieving and sustaining progress on protecting the nutritional status and humanitarian needs of refugees, victims of conflict and Internally Displaced Persons, especially young children. Second, the international donor community is taking on a larger share of total contributions to the World Food Program as a result of USG efforts to promote burden sharing among our international partners. Third, U.S. mine action programs are providing the training and assistance countries need to become self-sufficient in carrying out demining activities that clear land of dangerous mines, alleviate suffering and restore confidence in public safety.

KEY INITIATIVES AND PROGRAMS. Significant FY 2006 investments to address the human costs of displacement, conflict, and natural disasters include \$791 million for migration and refugee protection and assistance programs, and \$356 million for international disaster relief, rehabilitation, and reconstruction assistance. The core focus of refugee program resources is to provide protection, assistance and durable solutions, including refugee resettlement, and to promote sound migration management. International disaster and famine assistance provides support and relief to victims of natural and man-made disasters, as well as funds famine and prevention relief activities.

V. FY 2006 Performance Results

	INDICATOR: Nutritional Status of Children Under 5 Years of Age – Threshold	
	Outcome	
JUSTIFICATION: Nutritional status is a basic indicator for assessing the severity of crisis, together with Crude Mortality Rate. In emergencies, weight loss among children 6-59 months is used as a proxy indicator for the general health and well-being of the entire community. This indicator is used to measure emergency assistance among controlled populations, such as refugee camps.		
FY 2006 PERFORMANCE	Target	In targeted sites, less than 10% of children under five suffer from global acute malnutrition.
	Results	<p>Global Acute Malnutrition (GAM) is the term used to include all malnourished children whether they have moderate wasting, severe wasting or edema, or some combination of these conditions. It is defined as weight-for-height ratios that are less than or equal to two standard deviations below the mean (Z score of less than -2) or less than 80% median weight-for-height, and the presence of nutritional edema.</p> <ul style="list-style-type: none"> • In 98% of refugee camps and settlements (221 of at least 225 worldwide), less than 10% of children under five suffered from global acute malnutrition. • GAM rates exceeded 10% in two camps in Bangladesh (Nayapara, Kutupalong), one in Uganda (Kyaka II), and one in Nigeria (Oru). In two camps in Chad (Oure Cassoni, Am Nabak), GAM rates temporarily rose above acceptable levels, but were quickly reduced with appropriate interventions. • Recognizing that refugee camps in Bangladesh do not meet international standards, PRM Assistant Secretary Sauerbrey traveled to Bangladesh in August 2006. Following her visit, the Government of Burma signed a long-delayed agreement with UNHCR on improvement of the camps. The Department also provided the World Food Program with an additional \$250,000 in FY 2006 to provide much needed food assistance to refugees in Bangladesh. • The Department is working with UNHCR and other international and nongovernmental organizations to ensure that less than 10% of children under age five suffer from global acute malnutrition in refugee camps in Nigeria and Uganda.
	Rating	■ On Target
	Impact	Elevated rates of GAM directly contribute to increased rates of morbidity and mortality in children under five years of age. Malnutrition may also threaten refugee protection in terms of camp security, vulnerability to exploitation, and in extreme cases, involuntary return.

	INDICATOR: Crude Mortality Rates (CMR) – Threshold	
	Outcome	
JUSTIFICATION: The crude mortality rate is the mortality rate from all causes of death for a population. The CMR is an accepted indicator of the extent to which the international community is meeting minimum standards of care and the overall effectiveness and performance of the international relief system. This indicator is used to measure emergency assistance among controlled populations, such as refugee camps.		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> • In complex humanitarian crises, CMR does not exceed regional emergency thresholds in 95% of targeted sites. • Support efforts to improve data collection, e.g., expand pilot data collection effort to other countries and partner organizations, and to take other measures to address any problems of excess mortality.
	Results	<ul style="list-style-type: none"> • Criteria developed by Sphere established regional CMR thresholds for emergency response based on long-term CMR data in these areas. CMR did not exceed regional emergency thresholds in targeted refugee sites where data were available. • The online interface of the Complex Emergencies Database (CE-DAT) has been greatly improved and data on mortality, nutritional status, and vaccination coverage has been expanded, benefiting both the USG and the international humanitarian community.
	Rating	■ Above Target
	Impact	The Department's contributions to international humanitarian efforts save refugee lives.

	INDICATOR: Percentage of Non-USG Contributions to UN World Food Program	
	Output	
<p>JUSTIFICATION: The UN World Food Program (WFP) is a generally well-run organization, but its effectiveness can be compromised by over-reliance on USG contributions. More contributors and greater contributions from existing contributors are needed to keep WFP's crisis response capacity at its current level.</p>		
FY 2006 PERFORMANCE	Target	WFP has sufficient funds to meet priority needs, with contributions from many donor countries and the private sector. Non-USG contributions are 55% of total contributions.
	Results	WFP continues to actively solicit contributions from new donors including from the private sector. WFP works on a calendar year basis. As of September 15, 2006, WFP had received \$1.9 billion in contributions for CY 2006, of which \$793 million was from the United States. Non-U.S. Government contributions amounted to 59% of total contributions.
	Rating	■ Above Target
	Impact	Contributions to WFP enable it to provide both emergency and development food aid to people in need.

Multilateral Response to the Lebanon Crisis

Nearly 975,000 Lebanese fled their homes at the peak of the July 2006 crisis and more than 394,000 registered Palestinian refugees living in Lebanon were affected, including 20,000 internally displaced people who sought protection and assistance during the conflict. Both in Washington and overseas, the State Department's Bureau of Population, Refugees, and Migration (PRM) facilitated close coordination between UN agencies, the International Committee of the Red Cross, and the International Organization for Migration with key USG partners such as USAID, DOD, and Non-Governmental Organizations responding to humanitarian needs. PRM staff participated



in the USG Disaster Assistance Response Team (DART) which determined priorities for humanitarian assistance, as well as the USG Response Management Team that provided support to the DART from Washington. PRM provided \$23 million for protection and assistance activities in Lebanon, Syria, and other countries of asylum in the region. USAID provided an additional \$50 million for humanitarian relief through various international and non-governmental partners.

State Department volunteers work the Lebanon Task Force, July 2006. State Department photo

STRATEGIC GOAL 11: PUBLIC DIPLOMACY AND PUBLIC AFFAIRS

Increase Understanding For American Values, Policies, and Initiatives to Create a Receptive International Environment

I. Public Benefit

The international exchange of information, persons, and ideas is fundamental to the security of the United States. Public Diplomacy and Public Affairs functions are premised on the knowledge that public opinion, the development of future leaders, and the benefits of education programs influence societies and affect official decision-making almost everywhere in the world. The need for public understanding continues to be critically important, both domestically and internationally. The Department’s public diplomacy

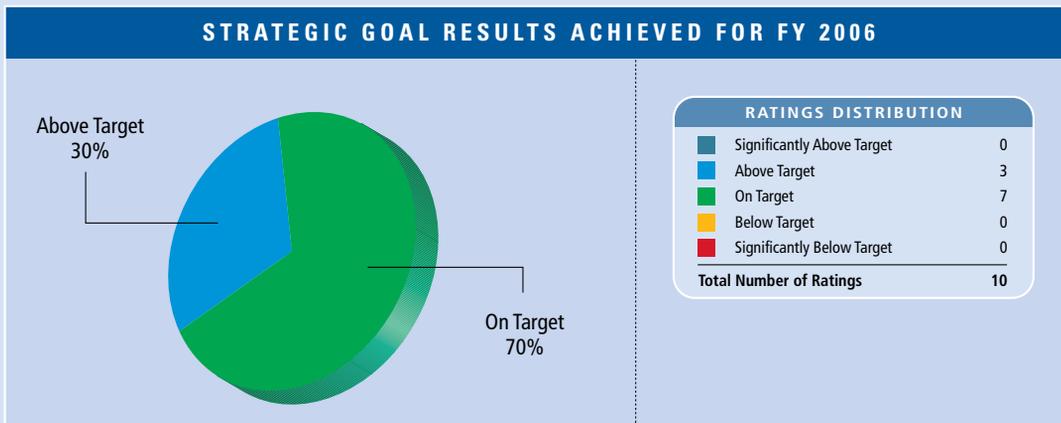


activities seek to counter anti-American sentiment, promote better appreciation and understanding for the U.S. abroad and foster greater receptivity for U.S. policies among international publics, as well as greater knowledge among Americans around the world. Public diplomacy programs encourage and empower individuals with a positive vision of hope and isolate those who preach violence and extremism. Over the long term, public diplomacy programs foster a sense of common interests and common values between Americans and people of different countries, cultures and faiths.

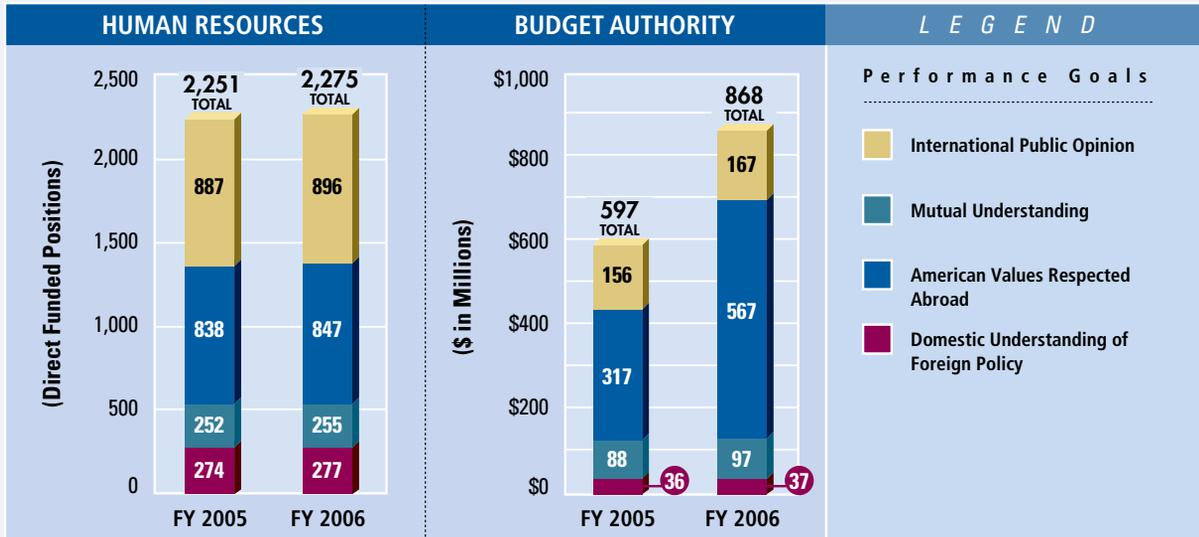
Under Secretary Karen Hughes speaks on religious issues facing the world at the International Prayer for Peace Summit in Washington, April 2006. AP/Wide World Photo

II. Performance Summary

The chart below summarizes Department performance ratings for the Public Diplomacy and Public Affairs strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. There have been a number of significant trends under the Department’s Public Diplomacy Strategic Goal. The Department has continued public diplomacy outreach to Arab and Muslim publics. There has been an increase in exchange students from the Middle East compared to FY 2005. Additionally, the Department is working to target younger segments of society around the world. Additionally, the Secretary of State and the Secretary of Education are working together to engage leaders of U.S. higher education in a renewed partnership to strengthen international education and emphasize its importance to the national interest. Moreover, President Bush has announced the National Security Language Initiative to increase the number of Americans learning critical need foreign languages such as Arabic, Chinese, Hindi, and Farsi, as well as others.

KEY INITIATIVES AND PROGRAMS. The Department invested approximately \$334 million in public diplomacy international information programs and an additional \$432 million in educational and cultural exchange programs, including the flagship Fulbright program.

V. FY 2006 Performance Results

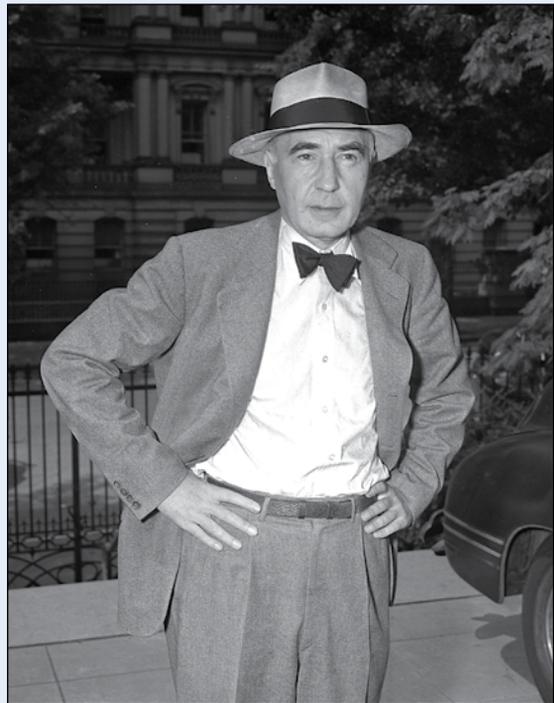
	INDICATOR: Number of Foreign Youth Participants in Regions With Significant Muslim and Arab Populations Reached by the Youth Exchange Scholarship Program	
	Outcome	
JUSTIFICATION: Quantitative measures based on increases in numbers of participants are reliable and help measure potential increased impact of Education Cultural Affairs activities.		
FY 2006 PERFORMANCE	Target	NEA: 270. EAP: 150. SA: 130. AF: 50. EUR: 40. TOTAL: 640.
	Results	NEA: 325. EAP: 190. SA: 115. AF: 55. EUR: 40. TOTAL: 725.
	Rating	 Above Target
	Impact	By providing opportunities for foreign youth to participate in exchange programs, the USG's Youth Scholarship Program is expanding public diplomacy outreach to a new sector of foreign societies and exposing more foreign youth to U.S. values and culture.

	INDICATOR: Percentage of Program Participants Who Espouse Democratic Principles at Least One Year After Their Program	
	PART Outcome	
JUSTIFICATION: This indicator gauges the long-term impact of U.S. cultural exchange programs on shaping participants' values and ideals related to democratic principles as a vehicle for social democratic change.		
FY 2006 PERFORMANCE	Target	70%.
	Results	80.17%.
	Rating	 Above Target
	Impact	Educational and cultural exchange participants begin or continue to espouse democratic values as a result of their exchange experience.

	INDICATOR: Extent to Which Youth Programs/Products Reach Young People in Other Countries with Information About the U.S.	
	Output	
<p>JUSTIFICATION: This indicator helps track the Department's effectiveness in reaching foreign youth through the American Corners program, a critical audience for U.S. public diplomacy.</p>		
FY 2006 PERFORMANCE	Target	Establish FY 2006 baseline.
	Results	Baseline: 53% of visitors surveyed indicate high increase in understanding of U.S. policy, society and values as a result of visiting American Corners.
	Rating	■ On Target
	Impact	In reaching a youth audience with information about the United States, the Department has increased the understanding of U.S. policy, society and values among the successor generation.

A Look to History: Public Diplomacy and Public Affairs

The U.S. Government launched its first major effort of what later would be called public diplomacy in April 1917 during World War I when it created the Committee on Public Information. Though the Secretaries of War, State, and the Navy were members, the committee was led by George Creel and became known as the Creel Committee. The Committee's goal was to engender support for American war aims and President Woodrow Wilson's international, democratic ideals. Congress abolished the Creel Committee at the end of the war in June 1919. President Harry Truman established the Office of War Information to do similar work during World War II. In January 1948, Congress passed the Smith-Mundt Act which prohibited all future agencies charged with international public diplomacy efforts from operating domestically.



Elmer Davis, director of the U.S. Office of War Information, poses after conferring with the President at the White House in Washington, D.C., August 1943. AP/Wide World

STRATEGIC GOAL 12: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Ensure a High Quality Workforce Supported by Modern and Secure Infrastructure and Operational Capacities

I. Public Benefit

The Department of State and USAID pursue human resource initiatives aimed at building, deploying, and sustaining a knowledgeable, diverse, and high-performing workforce. In support of the Secretary’s vision for Transformational Diplomacy, the Department has identified six priority crosscutting areas for which it has developed an action plan with measurable milestones and metrics for tracking progress: 1) Build on our success under the President’s Management Agenda by getting to green and staying there; 2) Remove some support functions from danger posts to regional and central support centers at medium and large posts; 3) Strengthen open yet secure U.S. borders by maximizing legitimate travel to the U.S. while denying entry to those who would do the United States harm; 4) Improve training opportunities and curricula for employees; 5) Improve the quality of life for employees whether domestic or abroad and 6) Use

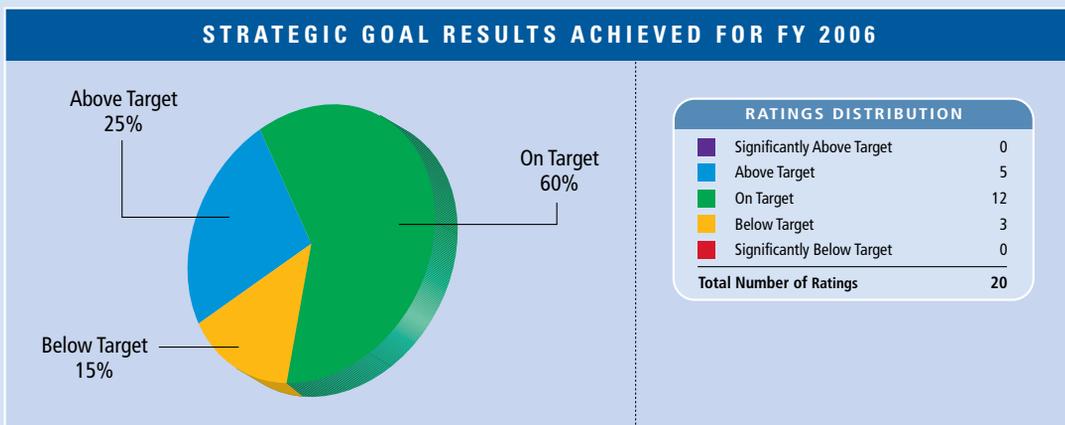


technology to produce accurate information that supports decision makers and make that information available anytime, anywhere. The Department and USAID continue to maintain and develop skills that can help achieve transformational diplomacy and development, such as advanced foreign language proficiency, public diplomacy, and leadership and management preparedness.

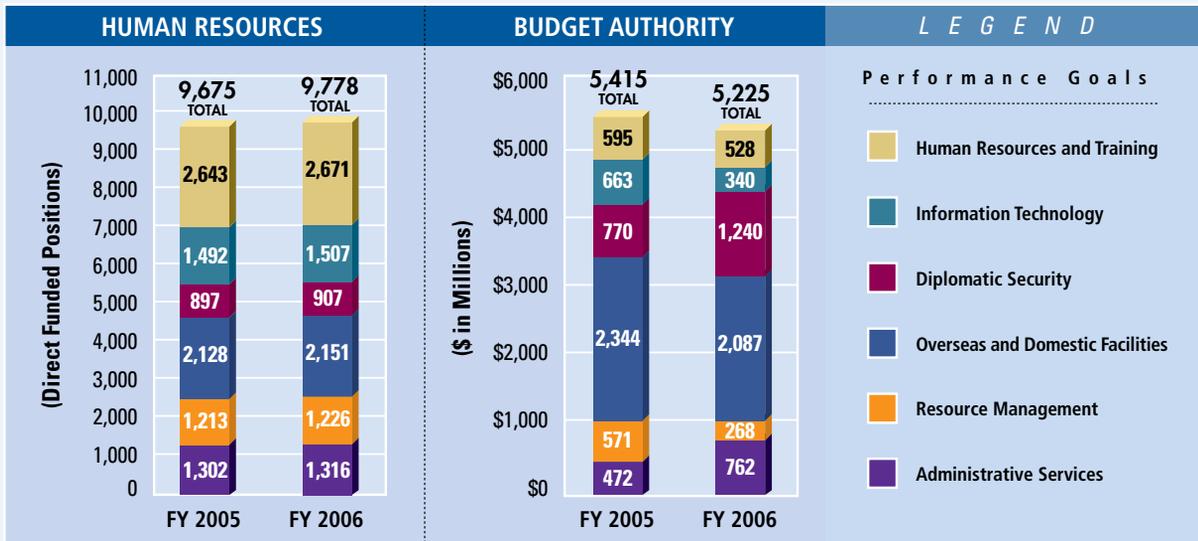
Under Secretary Henrietta Fore visits the Salaam Baalak Trust outreach center and shelter in New Delhi, India, April 2006. USAID supports a comprehensive HIV/AIDS awareness and prevention project through the center to meet the special needs of street and vulnerable children. State Department Photo

II. Performance Summary

The chart below summarizes the performance ratings for Department of State and USAID results for the Management and Organizational Excellence strategic goal.



III. Resources Invested



IV. Performance Analysis

PERFORMANCE TRENDS. Both agencies have made continuous improvements in human capital management, operational readiness, and information technology management. The Foreign Service Institute met or exceeded its goals for leadership training enrollment and the effectiveness of its language training programs and the Department continued to meet its goals for deploying Foreign Service generalists with the right language skills and slightly improved the diversity of new Foreign Service generalists hired in 2006.

KEY INITIATIVES AND PROGRAMS. Major FY 2006 investments in the people who manage foreign affairs, the facilities in which they work, and the systems that support diplomacy worldwide included: \$598 million to preserve, maintain, repair, and plan for buildings owned or directly leased by the Department of State; \$910 million for security-related construction and physical security and rehabilitation of U.S. embassies and consulates; \$9.4 million for the protection of foreign missions and officials; and \$128 million for the capital investment fund and the modernization of information technology systems and networks.

V. FY 2006 Performance Results

	INDICATOR: Percent of Language Students Attaining Skill Objectives From Training	
	Output	
JUSTIFICATION: The data are screened and provide the most accurate measure for tracking performance: the time spent in language training and resulting end-of-training test results.		
FY 2006 PERFORMANCE	Target	75% or better.
	Results	84%.
	Rating	■ On Target
	Impact	The Department will deploy staff with the right language skills and improve the effectiveness of programs and policies.

	INDICATOR: Progress Toward Centralized, Secure, and Modern Global IT Infrastructure	
	Input	
JUSTIFICATION: The indicator directly measures the reliability, accessibility, and security of the Department's information technology infrastructure.		
FY 2006 PERFORMANCE	Target	<ul style="list-style-type: none"> ● Continue with the aggressive four-year life-cycle modernization program for OpenNet Plus and ClassNet. ● Improve network availability to 99.6% and add 40 additional virtual private networks at embassies for a total of 300. ● Develop implementation plan for consolidation initiative. ● Deploy 5,000 OpenNet Everywhere devices.
	Results	<ul style="list-style-type: none"> ● 174 additional domestic and overseas local area networks are modernized (101 OpenNet and 73 ClassNet). ● Network availability is at an average rate of 99.6% or better achieved as result of exceeding the target total of 300 virtual private networks installed for embassy circuits. ● Implementation plan for consolidation initiative completed. ● 4,669 OpenNet Everywhere devices deployed for core and occasional teleworkers.
	Rating	■ On Target
	Impact	The elements (GITM, consolidation, mobile computing, and maintaining the secure global network) are critical to the Department's ability to provide a modernized, secure, and high quality infrastructure. Success of these elements will enable production of accurate information for decision makers and will make that information available anytime, anywhere in support of the foreign affairs mission.

	INDICATOR: Number of New Sites Acquired for Capital Security Construction Projects in Accordance With the Long-Range Overseas Building Plan Schedule	
	PART Output	
JUSTIFICATION: The indicator was chosen as the most comprehensive in determining the actual acquisition of a building site that is essential before constructing a new embassy compound.		
FY 2006 PERFORMANCE	Target	Acquire seven new sites for capital security construction projects.
	Results	Eight new embassy compound sites were acquired in the fiscal year.
	Rating	 Above Target
	Impact	Capital security construction programs proceeding on schedule and as planned provide secure, safe, and functional facilities to U.S. Government employees overseas.

	INDICATOR: Installation of Technical Security Upgrade Equipment	
	PART Output	
JUSTIFICATION: Technical security upgrade projects provide critical security countermeasures for U.S. diplomatic missions abroad. These upgrades include facility power and conduit infrastructure, as well as technical security equipment.		
FY 2006 PERFORMANCE	Target	Complete 35 upgrades as part of a cyclical replacement program.
	Results	35 upgrades were completed in FY 2006.
	Rating	 On Target
	Impact	Improving technical security at overseas posts through on-time completion of projects contributes directly to the Department's goal of providing a safe and secure environment for U.S. personnel and property.

Mobile Computing

The Mobile Computing initiative, known as OpenNet Everywhere, allows an authorized user “anywhere/anytime remote access to the Department’s sensitive-but-unclassified network (OpenNet) from any Internet-connected computer that meets system specifications. The system provides a user with access to the Microsoft Office suite (including Outlook e-mail); Adobe Acrobat Reader; Internet Explorer; Windows Explorer; and WinZip. A user can also map to shared network drives, access the OpenNet Intranet home page and most of the linked websites from that page. Most importantly, access to the network is accomplished securely, and data are maintained centrally on servers, not on users’ personal computers, thus allowing the Department to avoid potential security violations and compromise of information. At the end of FY 2006, the Department had over 4,600 core and occasional teleworkers using this system against the goal of 5,000 users by the end of FY 2006. The core teleworkers fulfill the Congressionally mandated requirement for a Department telework program.



State Department Photo

MILESTONES OF AMERICAN DIPLOMACY

1778: Treaty of Alliance with France, engineered by Benjamin Franklin, enabled the fledgling republic to continue its struggle for independence.

1783: Treaty of Paris-Great Britain recognized American independence and control over western lands as far as the Mississippi.

1795: Jay's Treaty required Great Britain to remove troops from northwestern frontier; Pinckney's Treaty with Spain opened mouth of Mississippi River to U.S. navigation.

1803: Louisiana Purchase removed foreign control of Mississippi's mouth and doubled U.S. territory.

1819: Adams-Onis Treaty with Spain, transferring Florida, extended the U.S. to present boundaries in southeast.

1823: Monroe Doctrine established U.S. policy of opposing European intervention or new colonization in Western Hemisphere.

1842: Webster-Ashburton Treaty with Great Britain delimited northeastern U.S. (Maine) boundary.

1846: Oregon Treaty with Great Britain extended U.S. sole dominion to the Pacific.

1848: Treaty of Guadalupe-Hidalgo, ending 1846-48 war with Mexico, confirmed U.S. claim to Texas and completed U.S. expansion to Pacific.

1867: Alaska purchase ended Russian territorial presence and completed U.S. expansion on North American mainland.

1898: Treaty of Paris, at end of Spanish-American War, transferred to the United States Puerto Rico, Guam, and the Philippines, expanding U.S. power into the Pacific.

1918: Allies and Germany accepted Wilson's 14 points as basis for just and lasting peace ending World War I.

1945: U.S. and 50 other countries founded the United Nations.

1947: Truman Doctrine asserted U.S. policy of containing Soviet expansion through economic and military aid to threatened countries.

1947: Marshall plan of aid to Europe set foundation for economic cooperation among industrial democracies.

1948: Ninth International Conference of American States created the Organization of American States (OAS) to intensify U.S. and Latin American collaboration in all fields.

1948: NATO, first U.S. alliance concluded in peacetime, provided integrated force for defense of Western Europe and North America.

1963: Limited Nuclear Test Ban Treaty, first major-power agreement regulating atomic weapons testing, banned explosions in the atmosphere, in outer space and under water.

1967: Nonproliferation Treaty, now signed by 110 governments, banned the spread of atomic weapons.

1972: Strategic Arms Limitation Talks (SALT) agreements with U.S.S.R. prescribed mutual limitations on defensive and offensive weapons and established SALT as a continuing process.

1972: President Nixon's February visit to China followed Secretary Kissinger's earlier negotiations in Peking, marking first important step in the process of normalizing relations with the People's Republic of China.

1979: U.S. established diplomatic relations with the People's Republic of China ending 30 years of nonrecognition.

1979: Israel-Egypt Peace Treaty (Camp David Accords) ended 30 years of conflict between the two countries and provided possible framework for comprehensive peace in the Middle East.

1986: The U.S. Congress implemented strong economic sanctions against South Africa, which helped to bring an end to apartheid in 1991.

1989-1991: As President George H.W. Bush stated a desire to integrate the Soviet Union into the community of nations, the Cold War ended when communist regimes collapsed across Eastern Europe and the Soviet Union disintegrated.

1990-1991: In response to the Iraqi invasion of Kuwait, the United States built an international coalition to defend Saudi Arabia and, after United Nations approval, to eject Iraq from Kuwait through Operation Desert Storm.

1992: Representatives of more than 175 nations, including the United States, met at the Earth Summit in Rio de Janeiro, which produced a treaty on climate change and was the largest international meeting on the environment ever convened.

1994: The North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico took effect and the United States joined another structure that promoted global free trade, the World Trade Organization.

1995: The General Framework Agreement for Peace in Bosnia and Herzegovina ended the Bosnian civil war by providing for NATO troops to serve as peacekeepers.

2001: The United States led a global coalition that fought a war against terrorism in the wake of the September 11 terrorist attacks in New York and Washington D.C.

2003: After Iraq's repeated refusals to comply with UN resolutions, the United States led a coalition to depose the regime of Saddam Hussein.

2005: General elections held in Iraq to form a new government. Iraqis vote to elect a 275-member National Assembly, provincial councils and a Kurdish regional assembly.

Financial Section



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

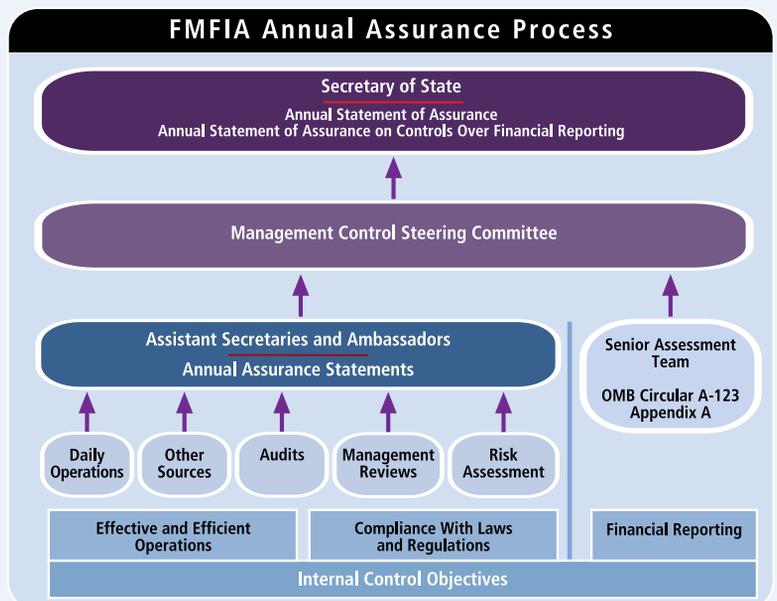
DEPARTMENTAL GOVERNANCE

Management Control Program

The Federal Managers' Financial Integrity Act (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 provide an annual Statement of Assurance on whether the agency has met this requirement.

The Department's Management Control Steering Committee (MCSC) oversees the Department's management (i.e., internal) controls 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.

It is the Department's policy that any organization with a material weakness or reportable condition is required to submit a plan to correct the weakness to the MCSC or the senior assessment team (SAT) for review and approval (see description of the SAT's role in the Internal Control Over Financial Reporting section). The plan, combined with the individual assurance statements, provide the framework for monitoring and improving the Department's management controls on a continuous basis.



The Department evaluated its management controls and financial management systems for the fiscal year ending September 30, 2006. This evaluation provided reasonable assurance that as of September 30, 2006, the objectives of the FMFIA were achieved. As a result, the Secretary has provided an unqualified Statement of Assurance. 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.

Management Assurances

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 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, 2006.

In addition, the Department of State's 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 of State conducted its assessment of the effectiveness of the Department's internal control over financial reporting in accordance with Appendix A of OMB Circular A-123. Based on the results of this assessment, the Department of State is reporting material weaknesses concerning the accounting for personal property and real property in its internal control over financial reporting as of June 30, 2006. Deficiencies existed in the controls over accounting for contractor-held property, aircraft and vehicles and controls over accounting for real property – specifically Construction-in-Progress. However, corrective actions were taken, and the material weaknesses have been resolved as of September 30, 2006. Other than the exceptions 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, 2006

Internal Control Over Financial Reporting

In December 2004, OMB Circular A-123, *Management's Responsibility for Internal Control*, was revised in light of the internal control requirements for publicly-traded companies contained in the Sarbanes-Oxley Act of 2002. The Department's management control program expanded during 2006 to implement the new requirement for management's assessment of the effectiveness of internal control over financial reporting, contained in Appendix A of the revised OMB Circular A-123. A senior assessment team (SAT) was established in FY 2006 to oversee the implementation of Appendix A, as recommended in the revised Circular. The SAT reports to the Management Control Steering Committee and is comprised of 11 senior executives from bureaus that have significant responsibility over the Department's financial resources.

The Department performed the Appendix A implementation in three phases: planning, assessment and testing, and conclusion and reporting. The Department defined the scope of financial reporting as the Department-wide financial statements, identified thirteen significant financial processes, and determined the materiality threshold. The Department documented the key financial processes and controls as well as evaluated and tested the controls. The principal results from the Appendix A implementation are provided in the table below.

APPENDIX A MATERIAL WEAKNESSES RESOLVED AS OF SEPTEMBER 30, 2006*	
Material Weaknesses Resolved as of September 30, 2006	Corrective Actions Taken
<p>Accounting for Personal Property As of June 30, 2006, deficiencies existed in the controls over accounting for personal property. Specifically, the Department did not have a system to identify and record property in the hands of contractors. The controls over accounting for aircraft, vehicles, and other personal property were not fully effective.</p>	<p>The Department implemented procedures to provide for the reporting of contractor-held property. It also tightened controls over the existing processes for accounting for aircraft, vehicles and other personal property.</p>
<p>Accounting for Real Property – Construction-in-Progress As of June 30, 2006, controls over accounting for real property – construction in progress were ineffective. Not all projects that should have been capitalized were capitalized, and there was a failure to report project completions on a timely basis.</p>	<p>Controls were implemented and/or strengthened to ensure the proper identification of capitalized projects in the accounting system and timely reporting of project completion.</p>
<p><i>* The material weaknesses were downgraded to reportable conditions as of September 30, 2006. In accordance with Appendix A to OMB Circular A-123, a material weakness in internal control over financial reporting, is a reportable condition, or combination of reportable conditions, that results in a reasonable possibility that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected. A reportable condition for financial reporting is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with Generally Accepted Accounting Principles such that there is a reasonable possibility that a misstatement of the entity's financial statements, or other significant financial reports, that is more than inconsequential will not be prevented or detected.</i></p>	

FINANCIAL SYSTEMS COMPLIANCE

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.

The Department has made it a priority to meet the objectives of the FFMA. 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 FFMA 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 affirmed its determination of substantial compliance with FFMA in its FY 2005 Management Representation Letter provided to the Independent Auditor. Further reinforcing FFMA 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 reportable condition or material non-conformance). Since the financial management systems substantially comply with the requirements of the FFMA, the Department has provided an unqualified assurance with regard to Section 4 of the Federal Manager's Financial Integrity Act.

INFORMATION ASSURANCE PROGRAM

The Department of State 2006 Federal Information Security Management Act (FISMA) and Privacy Management Report presented continued improvement in IT security, as well as a road map for 2007 initiatives. The Department is dedicated to protecting information and information systems with a comprehensive Information Security Program that continues to integrate operational security and information assurance programs monitored by performance metrics that are continually improving.

Over the past year, the Department streamlined processes, eliminated duplicative initiatives, focusing on its Agency-wide Information Security Program, Configuration Management, Risk Management, and Plans of Actions & Milestones (POA&Ms). To further accelerate the integration of IT security within the Department, the Under Secretary of Management officially established the Information Systems Security Committee (ISSC). This past year, the CIO reassigned governance of the Department's IT systems and applications inventory (Information Technology Asset Baseline - ITAB) to the Enterprise Architecture and Planning office that is charged with responsibility for eGovernment and Capital Planning, thus strengthening the connections between these essential business processes.

The recategorization of the unclassified systems in the Department's inventory was completed bringing the Department into full compliance with the FIPS 199 / NIST SP 800-60 standard. Furthermore, a comprehensive strategy to establish a methodology for compliance with FIPS Pub 200 by March 2007 will be instituted to ensure sustained compliance.

The Department, issued "The Plan to Capture Contractor Systems in the Department of State's Inventory of Information Systems" to the OIG and OMB with an implementation plan for ensuring the appropriate level of security of all contractor connections, extensions and systems. A Procurement Information Bulletin (PIB) concerning information security imposed upon contractor services and products was also finalized and issued.

There are no significant deficiencies under FISMA. In the 2006 audit of the Department's financial statements the Independent Auditor concluded that the information system security material weakness identified in the FY 2005 audit was considered resolved and downgraded to a reportable condition.

IMPROPER PAYMENTS

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. OMB Circular A-123, Appendix C, defines significant improper payments 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 requirement.

In early FY 2005, based on the results of prior reviews, the Department performed a reassessment of programs and determined that the only category of payments considered susceptible to significant improper payments was payments for Federal Financial Assistance. Accordingly, the Department sampled and tested three of its largest Federal Financial Assistance Programs (the Fullbright, Contributions to International Organizations and Peacekeeping, and Refugee Assistance Programs). In FY 2005, these programs had outlays of \$2.7 billion out of the Department’s total outlays of \$4.9 billion for all Federal Financial Assistance programs. No improper payments were identified in these programs.

In FY 2006, a random sample of the detailed payment transaction data was selected for Federal Financial Assistance related to the International Narcotics and Law Enforcement (INL) - Law Enforcement, Eradication, Aviation and Support to the Military, and the International Information Program-U.S. Speaker and Specialist Program (IIP). In the table below, the FY 2006 test results found improper payments in both programs. In both cases, the projected values of improper payments fall well below the threshold described above.

Program	Number of Transactions		Total Dollars		Projected	
	Population	Sample	Population	Sample	Error Rate	Improper Payments
International Narcotics and Law Enforcement	4,315	126	\$313,078,592	\$2,366,056	3.97%	\$180,340
International Information Program- U.S. Speaker and Specialist Program	741	126	\$28,822,489	\$288,548	23.81%	\$348,567

Calculation of error rate and payment amounts based on sample results.

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.

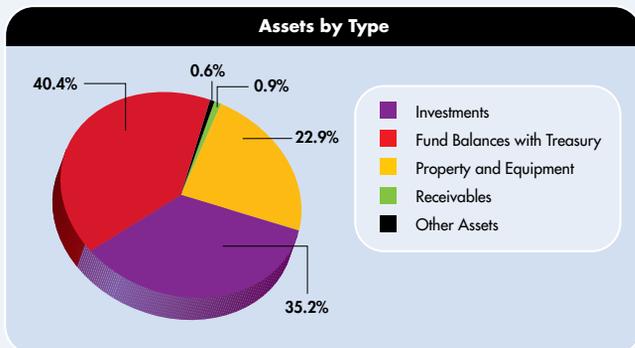
FINANCIAL HIGHLIGHTS

The Department's financial statements, which appear in the Financial Section of the *FY 2006 Performance and Accountability Report (PAR)*, are audited by an independent accounting firm. 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 the FY 2006 PAR have been prepared from the accounting records of the Department of State which, as a Federal entity, must be in conformity with generally accepted accounting principles (GAAP). For Federal entities, GAAP are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

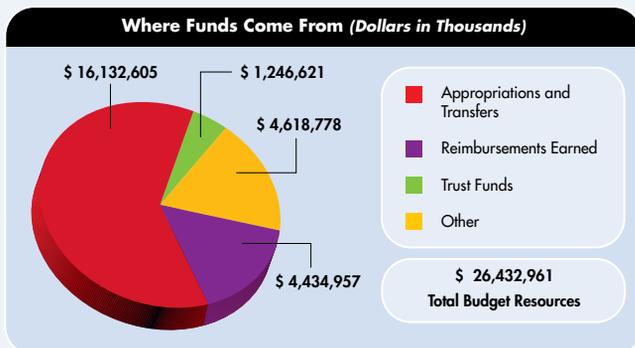
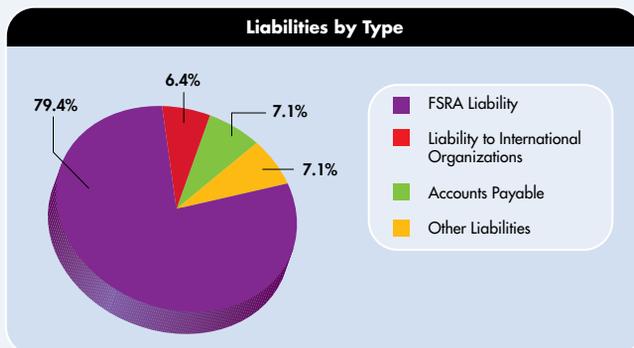
(Dollars in Thousands)	% Change 2006 over 2005	2006 Restated	2005 Restated
At End of Year:			
Condensed Balance Sheet Data:			
Fund Balances With Treasury	+15%	\$ 16,170,761	\$ 14,023,542
Investments, Net	+5%	\$ 14,101,765	\$ 13,389,090
Property and Equipment, Net	+17%	9,175,917	7,862,612
Other	-53%	509,511	1,079,749
Total Assets	+10%	\$ 39,957,954	\$ 36,354,993
Foreign Service Retirement Actuarial ¹	+6%	\$ 14,215,300	\$ 13,429,300
Liability to International Organizations	-2%	1,155,344	1,178,130
Other	+2%	2,522,403	2,472,568
Total Liabilities	+5%	17,893,047	17,079,998
Unexpended Appropriations	+15%	13,095,268	11,430,639
Cumulative Results of Operations	+14%	8,969,639	7,844,356
Total Net Position	+15%	22,064,907	19,274,995
Total Liabilities and Net Position	+10%	\$ 39,957,954	\$ 36,354,993
Full-time Personnel:			
Civil Service	+2%	8,270	8,092
Foreign Service	+1%	11,397	11,238
Foreign Service National	-9%	8,189	8,964
Total Full-time Personnel	-2%	27,856	28,294
Foreign Service Annuitants¹	+6%	15,759	14,842
For the Year:			
Total Cost	+7%	\$ 17,082,939	\$ 15,953,921
Total Earned Revenue	+11%	(4,590,276)	(4,131,816)
Total Net Cost of Operations	+6%	\$ 12,492,663	\$ 11,822,105
On-Time Payments (%)	-2%	94%	96%
Electronic Funds Transfer Payments (%)	+2%	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).			

OVERVIEW OF FINANCIAL POSITION



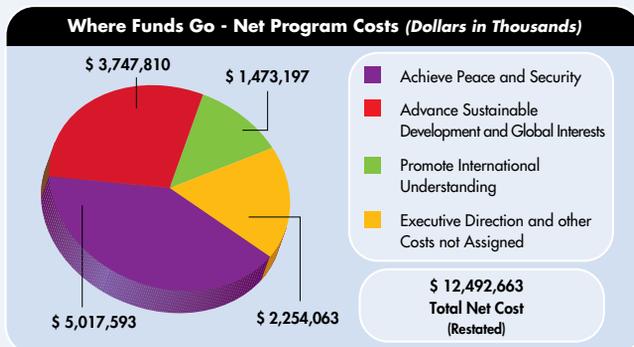
Total assets were \$40.0 billion at the end of FY 2006, an increase of \$3.6 billion (10%) over the previous year's total assets of \$36.4 billion. Investments, Funds Balance with Treasury, and Property, Plant and Equipment comprise 98% of total assets for both FY 2006 and FY 2005. Investments consist almost entirely of U.S. Government Securities.

Total liabilities were \$17.9 billion at the end of FY 2006. The Foreign Service Retirement Actuarial Liability and the Liability to International Organizations comprise 86% of the Department's total liabilities. Of the total liabilities of \$17.9 billion, \$2.1 billion were unfunded, of which \$1.2 billion was the liability to International Organizations.



The Department's total budgetary resources of \$26.4 billion represents an increase of 5.9% from FY 2005 levels. Budget authority of \$21.8 billion, consisting of \$16.1 billion for appropriations and transfers and \$1.3 billion from the trust funds, comprise 65.9% of total budgetary resources. The Department incurred obligations of \$21.1 billion for the year, a 1.9% increase over FY 2005 obligations of \$20.7 billion.

The total net cost of operations for, FY 2006, after intradepartmental eliminations, was \$12.5 billion. The strategic objective to "Achieve Peace and Security" represents the Department's largest investment at 40.2% of the Net Cost of Operations. The remaining strategic objectives varies from 11.7% to 30.0%.



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 a decade. In our efforts to further strengthen internal controls in 2006, the Department committed to resolving the material weaknesses reported by the Independent Auditors in the FY 2005 Independent Auditor's Report, and fully implement the requirements of Appendix A, *Internal Control Over Financial Reporting*, of OMB Circular A-123. During implementation of Appendix A, Department management identified a material weakness related to accounting for real property construction-in-progress. As a result of corrective actions taken during FY 2006, including the development of more detailed procedural guidance, this material weakness was resolved. However, due to the complexity of the matters discussed above, and the accelerated financial reporting requirements established by OMB, the Department was unable to provide timely financial statements or documentation on the appropriateness of the restatement for real property to satisfy our independent auditors by OMB's November 15, 2006 submission date.

As a result, and as more fully explained in the *Independent Auditor's Report* included in the FY 2006 PAR, the independent auditors issued a disclaimer opinion on our FY 2006 and FY 2005 financial statements released on November 15, 2006. Since then, the independent auditors satisfied themselves about the amounts presented as real property and related depreciation expense and accumulated depreciation in the Department's FY 2006 and FY 2005 financial statements, and issued an unqualified opinion thereon, dated December 12, 2006, which has cleared the way for updating the FY 2006 PAR. The auditor's opinion and agency comments are contained in the FY 2006 PAR's Financial Section.

In relation to internal control, the Independent Auditor's Report cites as reportable conditions the recording and related depreciation of personal property and Department's security of information systems networks, an improvement over what was previously reported in the FY 2005 PAR as material weaknesses. The report also cites as reportable conditions: (1) the inadequacy of the Department's financial management systems, (2) the management of unliquidated obligations, (3) the implementation of Managerial Cost Accounting Standards, and (4) the recording and related depreciation for real property. 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 Department is committed to resolving these reportable conditions and has corrective action plans underway to resolve many of these reportable conditions in 2007. During FY 2007, the MCSC and Senior Assessment Team will continue to monitor these issues and test the controls to ensure they are operating effectively.

RESTATEMENTS

The FY 2006 and FY 2005 financial statements, included in the FY 2006 PAR, have been restated as follows:

- The Department was notified of changes to amounts previously reported by agencies who are recipients of portions of the Department's budget authority to conduct activities in support of the Department's mission after the financial statements were issued on November 15, 2006. The FY 2006 financial statements were restated accordingly.
- The FY 2005 financial statements have been restated to correct errors with respect to the accounting for certain real property transactions.

The effect of these restatements on the Department's financial statements is provided in the FY 2006 PAR.

BUDGETARY POSITION

The FY 2006 budget for the Department of State totaled \$10.468 billion. It included appropriations for the Administration of Foreign Affairs (\$7.985 billion), contributions to international organizations and international peacekeeping activities (\$2.303 billion), international commissions (\$67 million), and related programs (\$113 million). These amounts do not include foreign assistance funding.

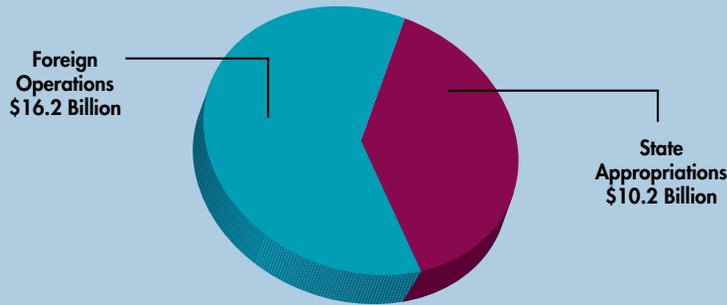
In addition to appropriated funds, the Department continued to rely on revenue from user fees – Machine Readable Visa fees, Enhanced Border Security Program fees, the Western Hemisphere Travel Surcharge, and other fees – for the Border Security Program. The fee revenue supported program requirements to protect American citizens and safeguard the nation's borders. These requirements included increased consular workloads and 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 foreign policy and advance U.S. national security, political, and economic interests at more than 260 posts around the world. They also build, maintain, and secure the infrastructure of the diplomatic platform from which most U.S. Government agencies operate overseas.

For FY 2007, the Department's budget request (at this date still pending before Congress) totals \$9.504 billion. It includes resources to address ongoing foreign policy priorities, particularly to support the global war on terror and advance transformational diplomacy. The request for Diplomatic and Consular Programs is \$4.652 billion, including \$795 million for upgrades of physical security equipment and technical support, information and systems security, perimeter security, and security training.

RESOURCE HIGHLIGHTS

FY 2006 Funding Total Allocated to Strategic Goals: \$26.4 Billion



FY 2006 State Appropriations: \$10.2 billion

Appropriations for the Department of State fund the key components of the Department’s operations and infrastructure, as well as U.S. engagement abroad through public diplomacy and international organizations.

FY 2006 Foreign Operations: \$16.2 billion

Foreign Operations programs promote U.S. foreign policy interests that advance the global fight against terrorism; provide economic, military, and democracy assistance to key foreign partners and allies; promote international peace and prosperity; curb the spread of weapons of mass destruction; interdict drugs; and provide health and humanitarian assistance. Some Foreign Operations resources are administered by the Department and others by other agencies. In addition, the Department provides foreign policy guidance to certain other agencies whose resources are part of international affairs resources (Function 150).

FISCAL YEAR 2006 (\$ IN THOUSANDS)		
STRATEGIC GOAL	STATE APPROPRIATIONS	FOREIGN OPERATIONS
Regional Stability	\$ 2,277,365	\$ 4,483,749
Counterterrorism	\$ 441,717	\$ 1,217,315
Homeland Security	\$ 143,225	\$ 19,894
Weapons of Mass Destruction	\$ 168,006	\$ 264,380
International Crime and Drugs	\$ 94,030	\$ 1,565,195
American Citizens	\$ 73,107	\$ —
Democracy & Human Rights	\$ 272,600	\$ 1,598,825
Economic Prosperity and Security	\$ 467,634	\$ 2,532,330
Social & Environmental Issues	\$ 210,054	\$ 3,331,894
Humanitarian Response	\$ 37,573	\$ 1,125,464
Public Diplomacy and Public Affairs	\$ 853,213	\$ 15,190
Management and Organizational Excellence	\$ 5,200,268	\$ 23,813
Strategic Goal Sub Total	\$ 10,238,792	\$ 16,178,049

U.S. DEPARTMENT OF STATE FY 2006 SIGNIFICANT RESULTS

Canada, Mexico and U.S. establish the Avian and Pandemic Influenza Coordinating Body to ensure governments act in a coordinated manner to meet a potential pandemic threat.

Haiti: Haiti holds transparent national elections and U.S. assistance efforts concentrate in the areas of health, democracy, education and economic growth.

Colombia: Colombian security forces continue to have a strong presence, drug seizures reach a record high and advances are made in the areas of democracy, human rights, development, justice sector reform and humanitarian assistance.

Lebanon: The Lebanon crisis receives a multilateral response.

Israel/Palestine: The U.S., U.N., EU and the Russian Federation (the Quartet) reaffirm their commitment to achieve lasting peace and security for Israel and Palestine.

Ghana: Ghana's strong record of good governance and pro-growth policies leads to signing of the largest MCC compact to date on August 1, 2006.

DRC: In July 2006, the Democratic Republic of the Congo holds its first competitive national elections since 1960.

Malta, Cyprus, Estonia, Latvia, Lithuania and Slovenia graduate from the Export Control and Related Border Security (EXBS) program and U.S. assistance for a total of 11 countries.

Afghanistan: Major improvements are made in the effort to rehabilitate Afghanistan's education system and related infrastructure by increasing student enrollment and number of teachers trained.

Iraq: International recognition and exchange increases, including through the opening of embassies in Iraq.

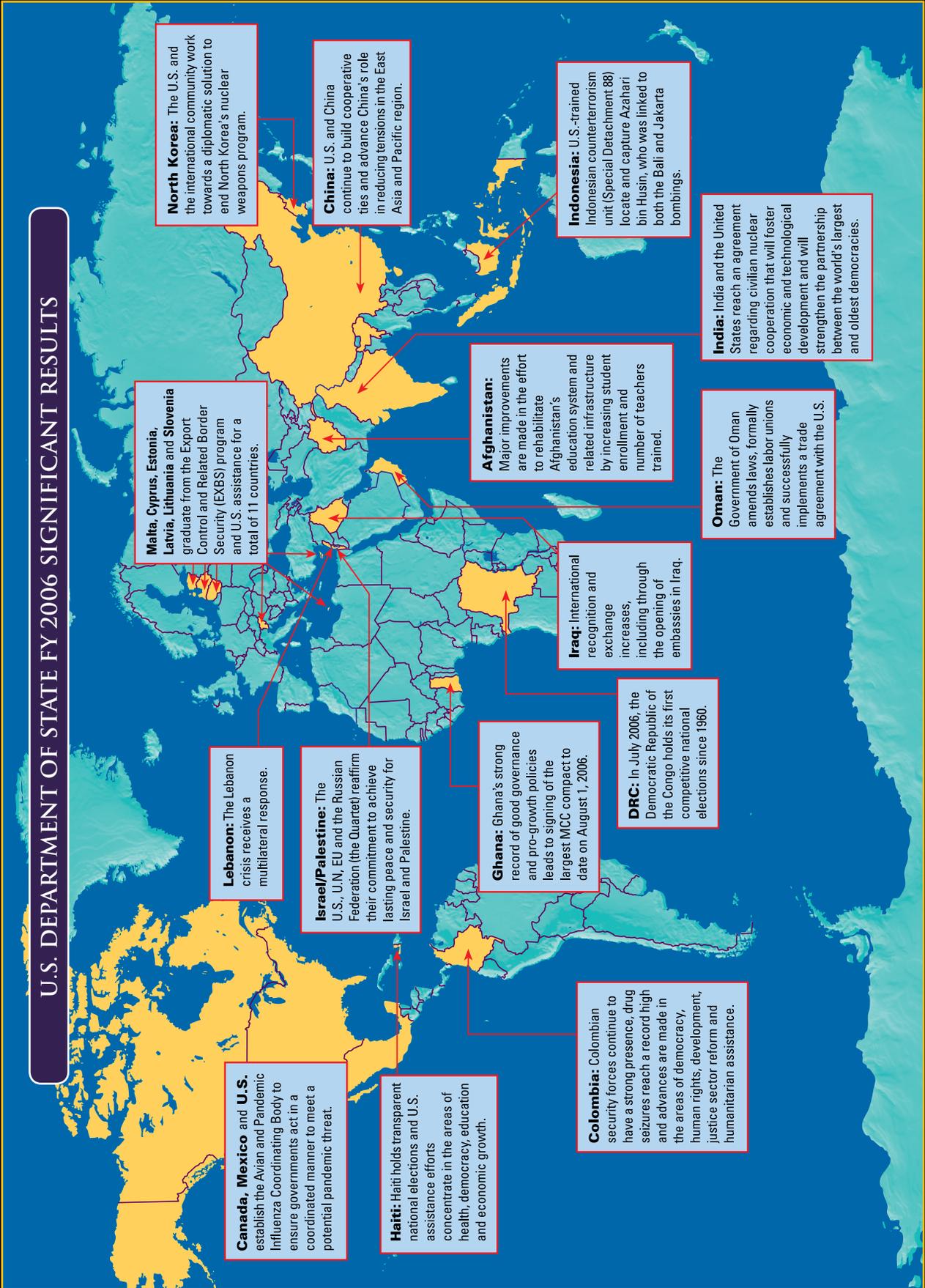
Oman: The Government of Oman amends laws, formally establishes labor unions and successfully implements a trade agreement with the U.S.

India: India and the United States reach an agreement regarding civilian nuclear cooperation that will foster economic and technological development and will strengthen the partnership between the world's largest and oldest democracies.

North Korea: The U.S. and the international community work towards a diplomatic solution to end North Korea's nuclear weapons program.

China: U.S. and China continue to build cooperative ties and advance China's role in reducing tensions in the East Asia and Pacific region.

Indonesia: U.S.-trained Indonesian counterterrorism unit (Special Detachment 88) locate and capture Azahari bin Husin, who was linked to both the Bali and Jakarta bombings.



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In memory of our friend and colleague Rob Gabriel (1965-2006), who inspired us with his lifelong passion to make this world a better place.



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