Mr. Chairman and Members of this Committee:

Thank for this opportunity to review management controls with respect to the State Department’s budget and to discuss the Department’s efforts to use the resources entrusted to its care efficiently and effectively. I am pleased to note that the Department’s leadership has exhibited a strong commitment to establishing accountability so that the resources are given proper and careful oversight.

**Department Property**

The Department receives significant resources for acquisition, construction, and leasing of property to provide chanceries, consulates, and housing for U.S. government employees serving our country abroad. Under General Charles Williams’ leadership, OBO has established procedures and management controls to ensure that fraud does not occur when buying and selling real property. For example, whenever OBO buys or sells property, it gets two independent outside appraisals of value. In-house, professionally certified senior appraisers review these outside appraisals and produce a reconciled estimate of value that forms the basis for subsequent actions and decisions regarding property. All property decisions are formally reviewed by OBO’s director and properly documented. In sales and purchases overseas, the negotiating authority of the portfolio manager is established in writing in advance by a decision memorandum that includes the reconciled value and is cleared by appraisal offices and senior managers.
The Department actively seeks to identify vacant, excess, or underutilized properties. Each chief of mission, for example, is required annually to certify that he or she is not holding excess property. At every post it inspects, OIG independently validates whether there are excess or underutilized properties and determines what the Department and the post are doing to dispose of them. It is the Department’s policy to sell vacant, excess, and underutilized property. Currently, the Department reports that it has 39 vacant properties, valued at approximately $70 million. These are in various stages of disposition. In the last five years, the Department has sold 137 properties for almost $365 million.

The Department owns and leases property that is currently vacant. However, some of these vacancies represent the realities of transfers of employees from one post to another with resulting temporary vacancies in residential property inventories. These are the normal vacancies associated with managing a housing portfolio. OIG does not consider these vacancies as meeting the definition of excess or underutilized property.

For security reasons, the Department also acquires property to enhance the security of a chancery if doing so is economically viable and there is no other way to mitigate serious security risks for a post in a dangerous environment. The Department has leased or purchased nineteen buildings or residences for security reasons in Phnom Penh, Kampala, Kigali, Luanda, Ouagadougou, Pristina, Tbilisi, Tel Aviv, and Guatemala City. This approach provides missions in potentially dangerous environments much-needed setback until such time as a new chancery can be constructed. OIG supports this policy when there are no other alternatives and resources permit.

The Department also has a new vacant leased property in Malabo, a new post ready to open. The property was leased in anticipation of opening and is awaiting necessary approvals. However, the Department has the right to terminate this lease on short notice should it decide not to proceed with this property.
In the course of inspections over the last year, OIG has identified the following underutilized or excess property:

- In Kinshasa, as the security situation has deteriorated, a number of U.S. government-owned residences have not been occupied for many years. The location of these residences is unsafe. Both OBO and OIG have recommended selling or trading them in exchange for more suitable property in a safer location. In several of the cases, there are title and legal issues. In the case of one property, abandoned and for which payments have not been made for ten years, OBO has authorized the embassy to relinquish the property to the host government under a no-cost agreement, a decision OIG supports.

- In the Bahamas, the disposition of a vacant property should be resolved. The Great Inagua Aerostate site was purchased in 1993 for use in a now closed narcotics interdiction program. The property was purchased for about $100,000. Efforts to dispose of this property have been admittedly slow. OBO has advised OIG that although it has been difficult to place a value on the property, the post got an appraisal and has requested bids for brokers to market and sell the property. OIG has concluded that OBO and the post are proceeding in good faith.

- Disposing of U.S. government-owned property in Mandalay has been a topic of discussion for over a decade. The U.S. consulate in Mandalay was closed in 1980, and for a number of years the property has not been used. Despite recommendations from OIG beginning in 1993, Embassy Rangoon has still not agreed to dispose of the property. Reportedly, selling the property would not yield a fair market value because foreign entities are restricted to selling real property for the original purchase price.

- In Laos, the U.S. government occupied a property called Silver City from 1955 to 1975. Originally, it was leased and then purchased from a private party in 1961 for $4 million. When Communist Pathet Laotian forces seized it in 1975, they declared the U.S. purchase void, which is a matter that the U.S. government has contested. However, Laotians now occupy it. Ten years ago, the Laotian government proposed trading the property, but the proposal could not be implemented because the two governments could not agree on a value nor a
property that could be exchanged for Silver City. In 1999, the government of Laos again proposed swapping the property for a large parcel of land and an additional $50,000. Negotiations broke down in March 2000. Recently the Laotian government again expressed interest in a deal, this time on more favorable terms. The vacant land proposed by the Laotian government would be suitable for a new chancery. OIG agrees with Embassy Vientiane that the U.S. government should fully explore this exchange offer. OBO is in the process of working with the post to get the action to closure.

It should be clear from these examples, however, that not infrequently despite the Department’s interest in disposing of excess and underutilized property, complicated title issues and even more complex host country laws make doing so difficult and less than timely.

**Information Technology and Security**

In the area of information technology, OIG has focused on the Department’s vulnerabilities with respect to new technology and its efforts to develop new strategies for dealing with the communications challenges facing foreign affairs agencies. For example, OIG recently reviewed the Department’s implementation of the Foreign Affairs System Integration (FASI) project. The Department was the lead agency in this global affairs initiative to acquire and test a standard system, featuring a web-based portal, applications, and tools for improved communications, information sharing, and knowledge management among U.S. foreign affairs agencies at overseas missions. In the past, each agency working at an embassy overseas had its own information systems, which could not communicate easily with those of other organizations within a diplomatic mission, despite the need to share information on a variety of issues. OIG reviewed the FASI project, which was being piloted in Mexico City, and determined that the project was not meeting its objectives. Specifically, OIG found that FASI did not prioritize or obtain user input to requirements sufficiently to ensure that only the most essential needs were met with the interagency system. In OIG’s view, the FASI project
did not adequately coordinate with or consider using existing systems as potentially less costly alternatives to eliminate duplication. Interagency commitment to the system also was uneven due to inadequate marketing to other organizations, whose support also would be critical to supporting global system deployment. Furthermore, OIG found that the overseas pilot test of the interagency systems was at risk due to poor timing, inadequate communications and coordination, ineffective content management, and system and technical difficulties. This was not a question of fraud, but a case of imperfect conceptualization and inadequate effort in the area of knowledge management, an admittedly new field for all of us. Because of its concerns, OIG recommended that, after completing the pilot test, the project should be streamlined and redirected. The Department responded immediately to OIG’s recommendations and discontinued the FASI project, thereby avoiding a cost of $200 to $235 million to deploy globally the interagency system. The Department has merged FASI objectives with those of a related messaging system replacement initiative, which will allow for reexamination of user requirements and consideration of alternative approaches for meeting the knowledge sharing requirements of the Department and the U.S. foreign affairs community.

**Financial Management Issues**

Financial management continues to be a major challenge facing the Department. The Department accounts for nearly $11 billion in annual appropriations and over $26 billion in assets. In recent years, the Department has made significant improvements in this area and is striving to fulfill the President’s management agenda related to financial performance. In FY 2002, the Department closed its remaining three material weaknesses reported in the annual Federal Managers’ Financial Integrity Act report. Moreover, the Department issued its FY 2002 Performance and Accountability report by the February 1 deadline with an unqualified (clean) opinion that means the statements were free of material misstatements. This was the Department’s sixth consecutive unqualified opinion.
While the Department has made significant progress, more needs to be done. For example, OIG identified significant weaknesses related to information system security that we believe could be exploited to have a detrimental effect on the information used to prepare the financial statements. The Department has initiated a program to assess its information system security on a comprehensive basis. However, the work was not sufficiently advanced to determine whether the condition had been corrected during OIG’s last audit of the Department’s financial statements. OIG will focus on this area during the audit of the FY 2003 financial statements.

Weaknesses in the Department’s financial management systems are a long-standing problem. The audit of the FY 2002 financial statements identified that the Department’s financial and accounting systems were not adequate. The Department has made substantial compliance with the Federal Financial Management Improvement Act (FFMIA) a top priority and improvement initiatives to achieve that goal are underway. For instance, the Department is in the process of implementing a new global financial and accounting system at its overseas posts. As required by FFMIA, the Department submitted a remediation plan in March 2000 that calls for the Department to achieve substantial compliance by the end of FY 2003. OIG is tracking the Department’s progress in implementing the plan.

In reviewing the Department’s financial management systems, OIG noted significant internal control weaknesses related to the management of undelivered orders. While the Department has made improvements in managing undelivered orders, including developing a database to track them, the balance is extremely high and has grown from $3.2 billion in FY 2001 to $5 billion in FY 2002. During its FY 2002 audit, OIG estimated that at least $230 million of this amount should have been deobligated. The Department is planning to deobligate automatically certain types of obligations during FY 2003, which it hopes will lower the amount of this category on the FY 2003 financial statements.
In addition, OIG identified weaknesses related to managerial cost accounting. The Department is developing a Central Financial Planning System that it believes will address many of the concerns related to managerial cost accounting.

**Management Controls**

OIG reviewed internal controls for several Department programs to reduce vulnerabilities for fraud, waste, and mismanagement, among them domestic travel card program and the government purchase cards. In its review of the Department’s domestic travel card program, OIG examined the policies and procedures that were in place for managing the program. OIG found that the Department had not addressed the 60-day past due category of delinquencies, which may cause the commercial credit card provider to reduce the volume-based refund it gives the Department and can lead to account suspensions. Consequently, an employee’s ability to travel on Department business may be hindered. Moreover, OIG concluded that the Department had not done enough to prevent and detect misuse of the cards. OIG also concluded that the Department’s Bureau of Resource Management was working with the Bureau of Human Resources, the Bureau of Diplomatic Security, and OIG to develop an acceptable notification process when employees misuse the cards or become delinquent with repayment. However, the Department did not have adequate internal controls for providing administrative oversight of the program. For example, the Department did not ensure that program coordinators were managing an appropriate number of accounts; that accounts were transferred or canceled as needed, when, for example, an employee transferred or left the Department; and that multiple accounts for an individual employee were identified and cancelled. OIG recommended that the Department develop guidelines to address travel card delinquencies in the 60-day past due category, provide program coordinators with clear written guidance on an Intranet site and through formal training, and improve the oversight of the travel card program by checking for multiple accounts and transferring or canceling travel cards when an employee leaves a bureau within the Department.
OIG’s review of the Department’s purchase card program was designed to evaluate the effectiveness of domestic operations for the program and determine whether the Department was achieving cost savings. In 2001, OIG reported that the program had experienced rapid growth in the number of cardholders since its inception and that the Department’s customers were receiving goods and services more quickly under the program. However, OIG also found that part of the rapid growth in cardholders was attributable to purchase card users making infrequent or no transactions, and therefore, may not actually need the cards. In its audit, OIG reviewed in detail about $1.5 million in domestic purchases. The review found that about 81 percent of the transactions, or about $1.2 million, lacked some of the required documentation, although the transactions appeared to be legitimate and justified. However, about 12 percent, or about $180,000 in transactions, lacked sufficient documentation for OIG to verify independently that the purchases were properly made for legitimate purposes and reconciled by supervisors in a timely manner. In addition, not all the responsible officials interviewed by OIG had conducted required annual reviews of their offices’ purchase card operations. OIG also found that the Department’s method for determining cost savings - - the reduction in the number of paper purchase orders processed - - does not necessarily capture the actual administrative cost reductions that have occurred. Finally, OIG found inappropriate procurement practices that, if changed, could yield additional cost or time savings for the Department. For example, some cards had a self-imposed limit of $1,000 and opportunities to use the cards were often missed. As a result of OIG’s report, the Department has addressed the documentation and annual review issues. Additionally, the Department has taken steps to examine low purchase card use and withdraw unneeded cards, clarify reporting on cost savings from the program, and explore additional cost avoidance measures. Finally, OIG suggested and the Department agreed to identify cardholder best practices that can be used throughout the program for improving the economy and efficiency of operations. Shortly, OIG will closely review ways for optimizing the overseas use of purchase cards and for preventing waste, fraud, and mismanagement.
Improper payments are a longstanding, widespread, and significant problem in the federal government. The Department does not have an adequate process in place to estimate regularly the amount of improper payments. Currently, the Department approximates the amount of improper payments at $2 million per year. This consists of known overpayments, mostly of Foreign Service retirement benefits. However, the Department has an initiative underway to have an accounting firm develop a process to measure and report on the extent of improper payments. The initiative fits in with new OMB guidance and is intended to establish a baseline of the extent of improper payments in selected programs and activities and determine the causes. The Department piloted the new process on grants/financial assistance payments in one bureau and was generally pleased with how the process worked. The Department now plans to expand the process to other areas. OIG is completing three audits that reviewed different aspects of improper payments. They are:

- a review of all of the Department’s FY 2002 payment transactions in order to identify any duplicate payments;
- a review of the Department’s process for establishing and maintaining vendors in CFMS; and
- a review of the Department’s practice of making payments without having an established obligation.

The Department annually reports on its debt collection efforts in its annual Performance and Accountability Report. Outstanding debt from nonfederal sources increased from $42.1 million in FY 2001 to $45.3 million in FY 2002. Nonfederal debt consists of money owed to the International Boundary and Water Commission, and amounts owed for repatriation loans to American citizens, medical costs, travel advances, proceeds from the sale of property, and some other miscellaneous receivables.

Of the delinquent accounts receivable — over 365 days — the majority, $3.8 million, were for repatriation loans. These are loans given to destitute American citizens stranded overseas to allow them to return to the United States. Due to economic problems, many of these individuals are unable to repay their loans on time.
The Department uses installment agreements, salary offset, and restrictions on passports as tools to collect its receivables. It also receives collections through its cross-servicing agreement with the Department of the Treasury. In accordance with this agreement and the Debt Collection Improvement Act of 1996, the Department referred $194,000 to Treasury for cross-servicing in FY 2002. Anthrax-related mail disruptions in late 2001 affected the Department’s ability to receive payments and to provide debtors a proper due process notification. Of the current and past debts referred to Treasury, $206,460 was collected in FY 2002.

In its review of the Broadcasting Board of Governors (BBG) Controls on Domestic Personal Property, OIG examined whether the International Broadcasting Bureau (IBB) had established effective policies for inventory controls at six of its property management units. OIG found that the IBB did not have fully functioning property management policies and procedures to ensure that government property was properly used and safeguarded. Furthermore, there was no evidence that a complete property inventory had ever been conducted by the IBB. Therefore, OIG made several recommendations, including conducting an agency-wide inventory to provide an accurate property baseline implementing a plan for bringing the agency into compliance with applicable accounting and reporting requirements, and establishing a single, centralized receiving operation for all international headquarters’ offices to ensure better accountability. The IBB generally agreed with OIG’s report and is taking steps to implement its recommendations.

**Preventing Fraud**

Central to OIG’s portfolio for preventing fraud, waste, and mismanagement is its investigative work. Since FY 1994, OIG has conducted a number of embezzlement cases, domestically and overseas, involving Department employees, contractors, grantees, and Foreign Service Nationals. Some of these cases have resulted in successful criminal prosecutions with sentences requiring restitution, the Department’s termination of employment, or referrals to host country authorities. Over the last ten years, the amount
reported to OIG as embezzled from the Department is over $5 million. Restitution of over $3.8 million has been either made or ordered.

Mr. Chairman, the Office of Inspector General works closely and collaboratively with the Department and BBG to ensure accountability in programs and operations. We believe that this proactive partnership has resulted in a more efficient and effective use of appropriated funds. More needs to be done, of course, but I am confident that the Department is moving forward with alacrity in the interests of good government.

Thank you.