Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify before your Subcommittee to discuss the major management challenges facing the Department of State (the Department), including implementation of the Government Performance and Results Act and management of security programs.

Summary

The Department’s strategic planning efforts have improved over the past 2 years. However, the planning process still does not comply fully with the Government Performance and Results Act of 1993 (Results Act). Department goals are not prioritized, and consequently, there is no overall basis for allocating resources to priorities. OIG has also identified the need for improved performance information in the Department’s plans within bureaus and overseas missions. Without increased management attention to setting priorities and developing overall goals that can be used to assess its performance, the Department will be limited in its ability to make significant progress under the Results Act.

The protection of our people, information, and diplomatic facilities overseas continues to be one of the greatest challenges facing the Department. Since the August 1998 bombings of the Embassies in Nairobi and Dar es Salaam, the Office of Inspector General’s (OIG’s) security oversight has become an even more critical mission. I have created multidisciplinary teams in OIG to evaluate the implementation of physical security initiatives overseas, including the rebuilding of Embassies Dar es Salaam and Nairobi, and to assess the Department’s management of more than $2 billion appropriated for new embassy construction and security enhancements.
The Department has done many things well in administering the emergency supplemental funds. Senior level attention has been instrumental in the Department’s effective use of the funds. Considerable progress has been made in hiring, assigning, and training new security personnel. Our security assessments of 42 posts overseas, however, showed that a long-term effort is needed to address major deficiencies such as lack of adequate setback and need for antiram perimeter walls. Our assessments also found that most posts are not conducting required emergency drills. Nevertheless, we concluded that overseas our people are better protected today than they were 2 years ago. Although security overseas is improving, recent security lapses at Department of State headquarters (Main State) in Washington, DC, clearly demonstrate the need to enhance security awareness, strengthen disciplinary actions, and improve controls to prevent unauthorized access to information at home.

Other areas that I discussed before the Subcommittee last year remain challenges. In the area of financial management, the Department has a number of initiatives underway, including expanding electronic banking and standardizing overseas financial management systems. However, further improvements are needed in the timeliness of financial statements and management controls. Also, the Department expends more than $1 billion for programs carried out through grants, cooperative agreements, and transfers, but it does not use Departmentwide standardized systems, policies, or procedures to manage these programs. Finally, in the area of property management, the Department needs to refine management systems that identify the backlog to rehabilitate and maintain facilities and also provide a baseline that will address the costs to reduce the backlog to an acceptable level.

**Office of Inspector General Operations**

OIG’s mandate is to improve the efficiency and effectiveness of the Department and Broadcasting Board of Governors (BBG), and to detect and prevent waste, fraud, and mismanagement. In addition to the OIG functions of audit, inspection, and investigation, we have a multidisciplinary office that focuses exclusively on security and intelligence oversight. This office evaluates the ability of overseas posts to respond to threats from terrorism, mobs, physical intrusion, intelligence penetrations, and crime. Our security oversight inspection program supports the Secretary of State’s statutory responsibility for the security of all non-military U.S. personnel, property, and information overseas.

The foreign affairs community has established seven broad national interests and strategic goals for international affairs in the following areas: national security, economic prosperity, enhanced services to American citizens overseas and controlling U.S. borders, law enforcement, democracy, humanitarian response, and global issues. The BBG also has its own plan and strategic goal which is to promote the free flow of information around the world. These national interests provide the framework within which OIG conducts audits, inspections, and interdisciplinary reviews to evaluate the Department’s and BBG’s progress toward achieving these foreign policy goals.
OIG’s first strategic plan, covering the period 1996-2001, established the OIG-wide goals that have guided our work. OIG has striven to be proactive in addressing the Department’s efforts to effectively conduct U.S. foreign relations; clearly link resources to policy objectives; and maintain efficient, effective, and secure operations and infrastructures. We are committed to protecting the Secretary of State’s ability to pursue the foreign policy objectives of the United States free from the impediments of waste, fraud, and mismanagement. We are currently in the process of developing a new strategic plan that will guide our work into the 21st century.

I would like to turn now to a more detailed discussion of the major management challenges of most interest to this Subcommittee.

**Strengthening Strategic and Performance Planning**

The Department has developed strategic and annual performance plans built around a framework of 16 strategic and 3 diplomatic readiness goals in response to the Results Act. The 16 strategic goals cover the universe of the United States’ foreign policy goals throughout the world and are arrayed under 7 broad national interests I discussed above. The three diplomatic readiness goals define the Department's general responsibilities for managing human resources, information resources, and infrastructure and operations necessary to support the 16 strategic goals.

The Department’s strategic planning process has improved, but does not fully comply with the Results Act. For instance, the Department has not developed overall priorities for its strategic goals, and consequently has no overall basis for allocating resources to priorities. OIG's work has also identified the need for improved performance information in the Department's bureau- and mission-level plans. Our ongoing review of mission-level planning also uncovered other weaknesses in the process for developing plans at our overseas posts.

**The Department's Annual Performance Plan**

Last year I reported that the Department's FY 1999-2000 performance plan was an improvement over the previous plan. The FY 1999-2000 plan contained a comprehensive set of performance goals, baselines, and targets for the Department's diplomatic readiness goals. However, the plan still did not comply with the Results Act. Sections that related to the 16 strategic goals were incomplete, with only one illustrative goal paper listed under each strategic goal. For example, under its regional security strategic goal, the plan listed only a performance goal for its efforts to help implement the peace agreement in Northern Ireland.

The General Accounting Office (GAO) noted the same shortcomings in the Department’s FY 1999-2000 plan and also described other problems. For instance, the plan did not sufficiently describe how resources would help achieve goals or any efforts to verify and validate performance information. Consequently, GAO reported that 21 of
the other 23 CFO agencies’ plans were better at providing the key elements of informative performance plans.

Although more comprehensive, the Department’s FY 2001 Performance Plan falls short of adequately addressing the shortcomings found in the FY 1999-2000 Performance Plan and Report. The FY 2001 plan provides more detail and uses a new format that attempts to capture more of the performance goals and measures. It also provides a clear division of responsibility among the Department’s various geographic and functional bureaus. Unfortunately, the FY 2001 plan lists performance goals and measures by bureau, which does not lend itself to assessing the agency’s performance as a whole. To address this issue, the Department intends to form strategic goal teams to formulate its FY 2002 Performance Plan.

The revised format includes a more detailed description of the Department’s activities towards achieving of its goals, but there is minimal discussion of interagency coordination, resource allocation, data limitations, and whether the data can be verified and validated. Also, the 2001 plan does not include some of the performance goals, indicators, and management challenges that were identified previously with no explanation of why they were excluded. For example, the performance goal, "Employee Health," from the FY 1999 Performance Report was not discussed in the FY 2001 Performance Plan. Additionally, the indicators discussed under the performance goal related to maintenance and repair-"the percentage of posts receiving annual global condition surveys"--were not included in the FY 2001 Performance Plan. These problems limit the usefulness of the performance evaluation process.

Bureau Planning

Beginning in 1998, the Department required that all bureaus submit annual bureau performance plans (BPP’s) organized around the Department's 16 strategic and 3 diplomatic readiness goals. OIG, in its audits and inspections of specific programs and bureaus, has made recommendations to the Department on how it could improve its plans. For example, our report on Trade Barriers provided recommendations on how strategic planning could be used to better report the results of the Department's work in reducing trade barriers in the telecommunications area. We found that many Department activities produced tangible results, but that the Bureau of Economic and Business Affairs (EB) performance indicators did not provide well-defined statements of its expected performance or accurately capture the Department's contributions to reducing trade barriers. Consequently, we recommended that EB provide a measurable, targeted level of performance for each of its telecommunications' indicators. In the same report, we also recommended that EB, in coordination with the Department's strategic planning team, develop specific priorities for the national interest of economic prosperity and align its plans accordingly. EB has agreed to address these issues.

OIG’s report on recruiting of foreign service specialists also addressed the need for better performance data to assess its initiatives in that area. We found that the Department had made substantial progress in meeting its hiring goals. However,
although the Bureau of Personnel’s Performance Plan contained initiatives that could improve recruiting, it did not establish specific goals for reducing the lengthy hiring process. OIG identified the need to establish benchmarks to make the hiring process more timely and to incorporate these benchmarks into the Bureau of Personnel’s annual plan.

Mission Planning

OIG’s work has also focused on the planning efforts at our embassies. As with the bureaus, each embassy is asked to submit, annually, a mission performance plan (MPP) organized around the Department’s 16 strategic and 3 diplomatic readiness goals. Our post inspections have found that in some places, the MPP process has fostered communication among the various agencies at posts. For example, OIG’s Manila inspection found the MPP to be a useful exercise pulling together all mission elements in its development of a comprehensive plan.

Despite its usefulness in improving communication at posts, the process of developing the embassy-level plans has generally not met the objectives set by the Department’s planners. For example, MPPs were supposed to help the Department establish a defined process for setting priorities. Although the Department instructed posts to “focus on only the most important goals and objectives rather than produce full mission activity inventories,” lengthy MPPs generally catalog each post’s activities rather than prioritizing them. Furthermore, feedback cables from bureaus generally tend to add more issues and overall length to the final documents.

Lengthy MPPs are partially a reflection of the Department’s lack of prioritization of its overall strategic goals, which provide the general framework for the MPPs. The Department stated that it cannot prioritize its work because U.S. interests in any one part of the world at any one time may reflect a different order from other parts of the world. In the absence of top-level priorities and with competing interests from regional and functional bureaus, posts have little incentive to prioritize their own goals and objectives. Additionally, the unwillingness to prioritize is tied to a cultural resistance to planning in the Department. In its own assessment of the MPP process, the Department’s Strategic Planning Management Group reported that there was an “...ingrained resistance to planning...” in the Department. The Results Act aims for a closer link between the process of allocating resources and the expected results to be achieved with those resources. In accordance with the Results Act, the Department set a goal of allocating resources to its policy priorities. Without a clear statement of those priorities, the Department cannot meet the Act’s intent or its own goal to align resources with priorities.

In addition to not using MPP’s to realign Department resources, MPPs have not provided the Department with an effective means to evaluate posts’ progress in achieving Department goals. Our MPP analysis found that, generally, performance indicators could not be used to gauge progress against the missions’ goals. For example, MPPs at several posts set forth a goal of protecting American citizens traveling to and living in those countries. However, associated performance indicators, such as ”the number of U.S.
citizen arrests reported to the Department" do not allow an assessment of progress against the goal. The Department's own assessment indicated that only 10 percent of posts' indicators were done correctly in the MPPs submitted in 1999. We will report the complete results of our overall MPP effort later this year.

The Department’s First Annual Performance Report

The Department’s first annual Performance Report for FY 1999 reflects the weaknesses of its performance plan. Without annual performance goals, the performance report generally provides a narrative list of accomplishments under each of the 16 strategic goals and an annex of information on the measures for its illustrative goals. Consequently, the report does not provide decisionmakers in the executive branch or Congress with a clear assessment of the Department’s progress against these goals. Additionally, it is unclear how much the Department contributed to some of the outcomes it discusses. For example, under the regional stability strategic goal, the performance report states that "U.S. access to Persian Gulf oil resources continued uninterrupted," but lacks a discussion of how much the Department contributed to that positive outcome.

Although the Department did establish overall annual performance goals in the diplomatic readiness area, the performance report does not provide a clear assessment of how it did against those annual goals. For example, in the human resources area, the FY 1999-2000 Performance Plan provided three annual performance goals, but there is no bottom line in the report on the Department’s success in achieving those goals. One of the human resource performance goals was to develop a Departmentwide, integrated workforce plan through 2010 including the former United States Information Agency and the Arms Control and Disarmament Agency. The Report's annex describes the Department’s performance under this goal as successful even though it has not yet developed a comprehensive workforce plan. The Report states that the workforce plan was not completed because of the complexities of integration and Y2K preparations. However, the Report does not explain why it considers its performance successful against that goal or when it intends to complete the workforce plan.

One major challenge for the Department is to develop good, outcome-oriented annual performance goals and associated measures for the work it is singularly responsible for. For example, for work related to the goal to support American citizens, the Department does have business processes and customers, and therefore, its efforts can more easily translate to the requirements of the Results Act. However, the performance report generally focuses on outputs—in contrast to outcomes—where it does provide data. The Performance Report notes that the Department issued 7 million passports in 1999 as compared to 6.5 million in the prior year. Although that is a noteworthy accomplishment, the report does not provide any information on customer satisfaction or the timelines of its processing of passports.

Additional Management Attention Needed
Without increased management attention to setting priorities and developing overall performance goals that can be used to assess its performance, the Department will be unable to make significant progress with its efforts under the Results Act. To date, we have seen little evidence that goals and measures are used in the agency’s decisionmaking processes at any level. Until that happens, bureau and post officials will continue to be frustrated with what they consider to be a "paper exercise" and decisionmakers will be limited in their ability to determine the effectiveness of their programs. OIG plans to continue to identify areas where the Department can improve its strategic planning efforts and looks forward to assisting the Department in its efforts to fully comply with the Results Act.

**Improved Worldwide Security**

Ensuring the safety and security of U.S. personnel and facilities overseas continues to be a paramount concern for the Department. Security lapses at Department of State headquarters facility (Main State) clearly demonstrate that the Department must address vulnerabilities in protecting vital information on the domestic front as well.

By the end of FY 2000, OIG will have evaluated the physical security and emergency preparedness of 68 embassies since the August 1998 bombings of the U.S. Embassies in Nairobi and Dar es Salaam. In addition, we are finishing the final report in a 6-year series of reviews of the new secure chancery facility in Moscow, and we are monitoring progress in the construction of an annex to our Embassy in China.

Throughout the past year, OIG has assessed the Department’s financial management systems that account for the emergency security funds used to hire and train security and administrative personnel, and procure goods and services. Our review found the Department has done many things well. The direct involvement of the Under Secretary for Management and the Security Oversight Board has been instrumental in the Department’s effective use of emergency security funds. This senior level attention has provided focus for the overseas security enhancements and fostered coordination among the different bureaus.

**Improving Physical Security Overseas**

In 1999, my office evaluated the Department’s efforts to protect staff at 42 embassies. None of the 42 embassies met all security standards. The lack of a 30-meter setback was the most prevalent deficiency. Addressing inadequate setback, combined with the lack of antiram perimeter walls and adequately protected windows, will require a major, long-term construction effort. Actions have been taken or are underway to correct those items that the Department can quickly fix, such as improving the local guard force, lighting, or alarms at a chancery.

Although a program of sustained capital investment is essential to ensure the security of the diplomatic infrastructure in the future, such a program will not immediately alter the circumstances of personnel overseas. Even a major construction
program will leave the majority of missions vulnerable to some threats. My office has attempted to focus on measures that can be taken in the near term to reduce those vulnerabilities.

The current interim facilities for Embassies Dar es Salaam and Nairobi are more secure than at the time of the August 7, 1998, bombings, but both Embassies still faced problems at the time of our security evaluation. Embassy Dar es Salaam lacked sufficient emergency electrical power for security systems such as exterior security lights, alarms, and vehicle barriers. My office identified the need at Embassy Nairobi to reduce the risk of exposure presented by the large glass windows in the front of the interim chancery building and to provide a secondary exit point from the compound. After our inspections, the Department corrected the emergency power problem at Embassy Dar Es Salaam and replaced the windows at Embassy Nairobi. The interim facilities are a temporary solution and too small to house all official Americans at post. Money has been appropriated and contracts have been signed for the new chanceries planned for Nairobi and Dar Es Salaam.

Enhancing Emergency Preparedness

Last year, I discussed emergency preparedness and the importance of conducting crisis management exercises and emergency drills at posts. Despite their importance, OIG has found that most posts are not routinely conducting missionwide exercises of all required drills in all facilities. In response, the Department has recently issued instructions to all Chiefs of Mission to conduct all required drills. The FY 2000 Omnibus Appropriation Act mandates that a program of appropriate instruction in crisis management be provided to personnel at diplomatic facilities at least annually.

I have also raised the issue of OIG’s September 1998 recommendation for a new imminent danger notification system providing warning for embassy employees to "duck and cover" in the event of a vehicle bomb attack threat. The Department has accepted the recommendation.1 OIG’s embassy inspections contributed to more effective and rapid installation of the notifications systems while also stressing the need for timely, frequent duck and cover drills, especially at missions lacking setback. The Department also implemented dozens of other OIG recommendations to correct security vulnerabilities.

Increasing Staff for Overseas Security

The Department is making considerable progress in hiring, assigning, and training new security personnel. The FY 1999 emergency security appropriation authorized and funded 391 new positions to help address staffing shortages in support of overseas security, of which 337 were in DS. DS has established a new position, security technician, to maintain and repair technical security systems overseas. All DS positions have been filled, and 105 of the security personnel have been deployed overseas. Others

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are in training or have domestic assignments supporting the overseas positions. Training for regional security officers has been lengthened to include bomb detection, the use of the new equipment purchased with the emergency security funds, and new security programs such as surveillance detection.

### Protecting Classified Information

Following several security incidents at Main State, my office was requested by the Senate Select Committee on Intelligence to evaluate the effectiveness of Department policies and procedures for protecting classified documents at Main State. Our report\(^2\) found that the Department had programs in place to evaluate individuals’ need to handle classified information, but improvements to enhance security awareness and controls to prevent unauthorized access were required. Highly classified documents relating to intelligence reporting were not safeguarded in accordance with government regulations. Significant numbers of uncleared visitors were permitted unescorted access to Main State, and were not always escorted in areas where classified information was handled, processed and discussed. Finally, unit security officers were not well informed about, and did not have the authority to enforce, security requirements. Administrative actions taken to discipline employees have been ineffective in correcting poor security practices.

In OIG’s report, we recommended that the Bureau of Diplomatic Security (DS) be designated as the organization responsible for protecting sensitive compartmented information and that DS enhance physical and procedural measures required to safeguard such information. The Secretary’s April 24, 2000 decision, to transfer authority for protection of sensitive intelligence-related material from the Bureau of Intelligence and Research to DS implements critical corrective actions that we recommended as essential to ensure proper safeguards for the most sensitive intelligence-related information.

In August 1998 when we began our review, Department policy allowed visitors to move about unescorted once they demonstrated to a guard at one of the perimeter entrances that they had valid business in the building. These visitors were unaccompanied even when proceeding to areas where classified information was handled, processed, and discussed. OIG concluded that such access posed an unnecessary security risk and that greater control over the movement of all visitors was needed.

In August 1999, the Department instituted a new escort policy that requires all visitors who do not possess a valid U.S. Government identification card to be escorted at all times while in Main State. This is an excellent first step, and we will report back at a later date on the implementation of and compliance with the policy.

OIG also found that the Department's security incident program has not been effective because security awareness and administrative and disciplinary actions have not

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\(^2\) Protecting Classified Documents at State Department Headquarters (SIO/A-99-46), September 1999.
been sufficient. Repeat offenders receive letters of warning and, depending on the gravity of the situation, they can continue to retain their security clearances for access to classified information and retain their SCI access. We recommended that the Department increase the frequency of security briefings and related training, and the Department has begun to do so. We also recommended that the Department strengthen the disciplinary actions associated with security incidents. The Director General and DS are looking into options for implementing this recommendation.

Information Security

Some of the most difficult security issues to correct, both domestically and overseas, deal with information security. In many ways, improving information security may be a bigger challenge than improving physical security, because many of the corrections involve personal behavior rather than technical equipment. Correcting identified vulnerabilities requires sustained senior management leadership, technically qualified people, money, and a desire to do things differently.

My office has recently consolidated its information technology and its longstanding information security efforts and created a single Information Resources and Security Management Division in the Office of Audits. The division will address emerging issues in five areas: information management, telecommunications, information security, information technology human resources, and information warfare. Our plan is to focus on strategic objectives to ensure that:

- Potential cost efficiencies and opportunities for streamlining information management activities are identified and best practices shared;

- U.S. personnel, facilities, information, and material are more secure through the identification and correction of security weaknesses and deficiencies; and

- Systemic weaknesses in information systems and security management are reduced.

Over the past few years, OIG audits of the Department’s classified and unclassified computer systems have identified numerous vulnerabilities that we have worked with the Department to correct. For example, in November 1999, OIG issued an audit report, *Overseas Telephone Systems Security Management*, that raised concerns about widespread access by Foreign Service national employees to our sensitive but unclassified networks and our telephone switches.

OIG also assessed the security controls within the automated Paris Regional Accounting and Disbursement System as part of our audit of the Department’s financial statements. The four main servers at the Paris Financial Service Center were highly vulnerable to penetration by unauthorized internal system users. In addition, that passwords governing access to the Paris Accounting and Disbursement System were

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3 *Overseas Telephone Systems Security Management (SIO/A-00-01), November 1999.*
easily compromised because of weak password administration procedures. In response, the Department has upgraded all of its servers and clients at the Paris Financial Service Center to a more secure configuration, and has installed a filter that requires passwords to be at least eight characters long and contain a mix of letters, numerals, and special characters. Among other actions taken in the information security area, the Department has assigned the Chief Information Officer the responsibility and authority for ensuring that the Department’s information security policies, procedures, and practices are adequate.

OIG is currently reviewing the Department’s critical infrastructure protection plan to determine the extent to which it meets the requirements of Presidential Decision Directive Number - 63. As part of our assessment, we are evaluating information assurance and critical infrastructure protection issues affecting the Department domestically and overseas, and those affecting host countries and governments. Further, we plan to determine whether the Department is adequately balancing Departmentwide security risks--here and abroad--against the estimated cost of its critical infrastructure requirements. In related work, the OIG recently completed an inspection of the Beltsville, Maryland, Information Messaging Center. Recommendations in the report called for an upgraded information systems security program and trained information system security officers. The Department agreed with OIG’s findings and is taking actions to address the security concerns.

**Improving Financial Management**

As was the case last year, financial management continues to be a major management challenge. The Department accounts for over $5 billion in annual appropriations and over $17 billion in assets. The Department’s preparation of agencywide financial statements continues to improve. After a difficult initial period, FY 1996 marked the first year the Department prepared an agencywide financial statement. For the third consecutive year, the Department received an unqualified opinion on its FY 1999 Principal Financial Statements -- a significant achievement. In addition, the Department has a number of initiatives under way that should improve financial management. For example, it is striving to expand electronic banking by using industry standard technologies and methodologies, working to standardize overseas financial management systems, and placing a greater emphasis on performance measurement to define success and evaluate performance. The Department, with OIG assistance, has improved its remediation plan for financial management systems required under the Federal Financial Management Improvement Act.

Although the Department has made significant progress, much work remains to be done. Further improvement is needed in the timeliness of the Department’s financial statements. For example, the FY 1999 audited financial statements were issued in June 2000, more than 3 months after the required due date of March 1. However, the FY 1999 audited statements were more timely than FY 1998 statements because of the Department’s earlier preparation of the draft statements and improved responsiveness to
audit requests. In addition, although the Department was not able to meet the Department of Treasury’s timelines for submitting data for the FY 1999 governmentwide statements, the due date was missed by only a few days. Although we have seen much improvement, the Department still needs to place more emphasis on meeting the required deadlines so that timely and useful financial information is available.

Although recent audits of the financial statements have not identified any material misstatements related to the information in the financial statements, some deficiencies related to internal controls and instances of noncompliance with laws and regulations have been identified. One of the areas that has been highlighted in the financial statement opinions is inadequate information management security over some of the Department’s financial systems. For instance, our FY 1998 audit brought to management’s attention significant concerns with the security of the overseas regional accounting and disbursing system in Paris. GAO independently identified a number of similar security issues related to the Department systems. We continue to work with the Department to address these issues.

In the audit of the Department’s FY 1999 financial statements, we noted significant improvements in overseas financial system security. We reviewed the security of another overseas regional accounting system in Bangkok as well as updated our findings from the previous year's work. The Department has made much progress in correcting deficiencies that we had reported in past years, which has led to improved information security. For example, the Department’s Financial Service Center in Bangkok used our draft report on the Paris accounting system to make changes to secure its local area network and identify intrusions. As a result, during the most recent audit, our contractors attempted but were unable to compromise the security over Bangkok's regional accounting system and concluded that the overall physical security was excellent. However, we still have concerns with security over domestic financial systems especially in light of a recent virus attack that caused severe disruption to the preparation of the FY 1999 financial statements.

Like FY 1997 and FY 1998, the financial statement audit report for FY 1999 also discussed the inadequacy of internal controls over the management of unliquidated obligations and the inadequacy of the Department’s financial and accounting systems. In addition to internal control weaknesses, the financial and accounting systems also do not comply with several laws and regulations, including the Budget and Accounting Act of 1950, the Federal Managers’ Financial Integrity Act, the Chief Financial Officers Act, and the Federal Financial Management Improvement Act. In accordance with a determination that the Department's systems do not substantially comply with Federal financial systems regulations, the Department issued a remediation plan with a targeted completion date of FY 2003. We will continue to monitor the implementation of this plan.

Security Funding

Over the past year, my office has assessed the Department's controls and systems
that account for and manage the emergency security funds. Given the purpose for which these funds were provided and the large amount of funds involved (over $2 billion received in FYs 1999 and 2000, with more to come in later years), it is critical that the Department has controls in place to ensure its financial management systems can provide complete and accurate information on transactions involving security funds.

Overall, we found that the systems and processes in place were sufficient to ensure that the Department can account for and properly manage the FY 1999 emergency security funds, with the exception of some funds provided to overseas posts. However, the financial controls over funds that were allotted to posts were not sufficient to provide the information the Department needed for reporting or that program managers needed to manage the funds. A significant amount of the funds, approximately $82 million, were allotted to posts for bureau-funded expenses ($6 million) and services provided through the International Cooperative Administrative Support Services (ICASS) system ($76 million). We found that while these amounts were merely internal transfers to posts, they were captured as obligations in the Department’s accounting system. Thus, amounts reported to Congress as obligated were overstated. Since our status report was issued, the Department took steps to correct reporting for expenses related to the bureau-funded expenses. However, the Department does not plan to take action on correcting reports for the majority of funds allotted to posts under ICASS until September 2000, at the earliest.

In addition to the issues raised in the status report, we have identified other areas of concern related to the Department’s systems and processes for tracking and monitoring emergency security funds. Information was not captured on post emergency fund transactions in sufficient detail to meet the Department’s reporting and managing needs. Specifically, local guard program component costs could not be identified in the Department's accounting system and specific costs for each component were not properly segregated to meet management needs. Also, OIG identified discrepancies in accounting records and found that the flow of emergency fund management information at posts could be improved. Inaccurate accounting records and the lack of complete, readily available information adversely affected posts’ ability to properly manage these funds.

**Federal Financial Assistance Management**

In my previous testimony, I noted weaknesses in the Department’s management of grants and other Federal financial assistance programs. The Department annually expends more than a billion dollars for a variety of programs carried out through assistance instruments such as grants, cooperative agreements, and transfers; however, it does not use standardized systems, policies, or procedures to manage these programs.

Currently, OIG is participating in a joint effort with the Grants Management Review Committee, chaired by the Department’s Chief Financial Officer. One of the goals of the committee is to identify the scope and magnitude of programs carried out Department-wide. OIG recently began a review of Department bureaus with the overall objective of evaluating the Department’s management of grants and other forms of Federal financial assistance to nonprofits and state and local governments. This review
will also assist the Department in establishing uniform policies and procedures for issuing and managing such awards. This work is particularly critical because many of these programs fall below the Office of Management and Budget’s threshold for audits, or are not covered by the OMB circulars.

Previous OIG audits identified insufficient monitoring and oversight of grantees; unauthorized, unallowable, and unsupported costs; internal control weaknesses; or noncompliance with applicable regulations associated with these awards. For example, OIG found that the sale and immediate rental of a building by a grantee did not comply with Office of Management and Budget requirements, resulting in about $4 million in questioned rental costs over the life of the lease. In other cases, we questioned about $3 million when grantees did not properly document or use Federal funds for authorized purposes.

In this era of diminishing resources and increased emphasis on performance results, the managing and monitoring of the recipients of these funds has become more critical. Furthermore, legislative requirements will affect how the Department manages grants and monitors nongovernmental organizations in the future. On November 20, 1999, for example, the President signed Public Law 106-107, the Federal Financial Assistance Management Improvement Act, which requires the Department to streamline and simplify the application, administration, and reporting procedures for Federal financial assistance programs. OIG is working with the Department to establish common systems and controls. In addition, OIG is coordinating with the U.S. Agency for International Development OIG on potential cooperative audit efforts.

**Improving Real Property Management and Maintenance**

The Department holds 12,000 properties with an estimated historical cost of about $4 billion. The management and maintenance of these properties remains a significant challenge facing the Department. The Under Secretary for Management testified last year that cost-cutting over the past several years has resulted in poorly maintained properties, and described the state of disrepair of many Department-owned buildings overseas as shocking. The Department reports that its unfunded maintenance and repair requirements as about $130 million for 686 buildings overseas. Although the Department has reported that a building with significant requirements for maintenance may still be able to carry out and support its mission, it is not without costs in terms of morale and efficiency.

The Department had identified rehabilitation and maintenance of real property overseas as a material weakness in the Federal Managers’ Financial Integrity Act Report since 1988. The Department’s Management Control Steering Committee closed this weakness in 1999 over OIG’s objection. The Department believes that all conditions had been met with the exception of the establishing an acceptable threshold of backlog for maintenance and repair needs. Although significant improvements have been made in correcting this weakness, OIG believes that the Department needs to refine management
systems that identify the backlog to rehabilitate and maintain facilities and also provide a baseline against which the cost and progress in reducing the backlog to an acceptable level can be measured.

As I reported in my statement to the Subcommittee last year, my office has continued to advise the Department of excess, underutilized, or obsolete real properties identified in our inspections and audits at overseas posts. The Department evaluated 172 properties that OIG categorized as excess, underutilized, or obsolete at the time of the inspection or audit. Of these, the Department plans to dispose of 65, an additional 17 warrant further study, and the remaining 90 will be the subject of dialogue between the Bureau of Administration’s Office of Foreign Buildings Operations and the regional bureaus. Since the OIG reviews began, the Department has given one property to the city of Bonn and sold 12 properties. The total sales of the properties as of March 31, 2000 amounted to $20,276,451. These reviews will be used by the Department to better manage its real property assets.

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Mr. Chairman, in your invitation to testify this morning you asked that I address the Department’s implementation of the Results Act and its management of security programs. I have, therefore, focused my remarks on these issues. In the area of security, the tragedies in Africa have captured the attention of the Department of State, the Congress and the American public. Meanwhile, recent security lapses at home have been a wake up call that other aspects of security, just as vital to the defense of American interests as physical security, also need attention.

The Department has responded well to the need to move quickly in the aftermath of the bombings and to use the emergency funding. The Department’s success is dependent on how well and for how long it exercises disciplined attention to effective security practices and remains committed to funding the construction, maintenance and continual improvement of that infrastructure.

As the Department and the Congress embark on this expensive commitment, the requirement for the Office of the Inspector General to provide specialized oversight of the use of those funds for security enhancements also increases. The Department is now moving from an emergency response to a more strategic approach for the rebuilding of our foreign affairs infrastructure, and so must the OIG with a sustained program of expertise in the oversight of these new initiatives.

With the exception of a small one-time emergency supplemental appropriation in FY99, funding for the Office of the Inspector General has been straightlined since FY96. Increased funding for security and for those charged with overseeing security improvements for you and for the Department is only one of the ingredients necessary for rebuilding infrastructure and changing attitudes toward security, but it is a vital ingredient for all of us. Your continued support for OIG in this regard is appreciated.
That concludes my summary, Mr. Chairman. I will be glad to answer any questions you or members of the Subcommittee may have.