United States Department of State
Agency Financial Report

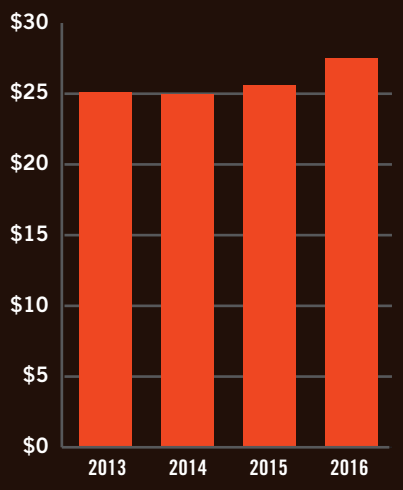
FISCAL YEAR
2016

Addressing Global Challenges Through
Engagement and Partnership

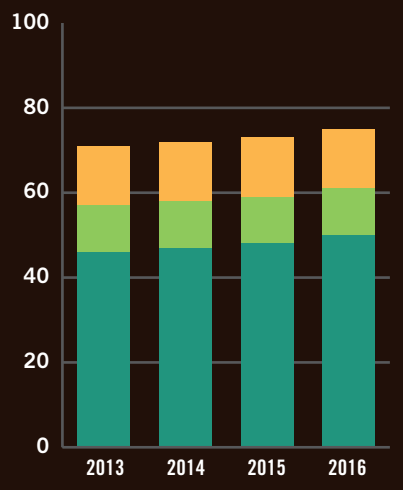
2016* Highlights *(dollars in billions)*	Percent Change 2016 over 2015	2016	2015	2014	2013
Balance Sheet Totals as of September 30					
Total Assets	4%	$ 93.8	$ 90.6	$ 86.8	$ 84.8
Total Liabilities	1%	25.7	25.4	25.1	26.4
Total Net Position	4%	68.1	65.2	61.7	58.4
Results of Operations for the Year Ended September 30					
Total Net Cost of Operations	7%	$ 27.4	$ 25.6	$ 25.0	$ 25.1
Budgetary Resources for the Year Ended September 30					
Total Budgetary Resources	5%	$ 69.3	$ 65.9	$ 64.5	$ 60.6
Visas Issued at Foreign Posts		10.4 million	10.9 million	9.9 million	9.2 million

* Throughout this report all use of year indicates fiscal year.

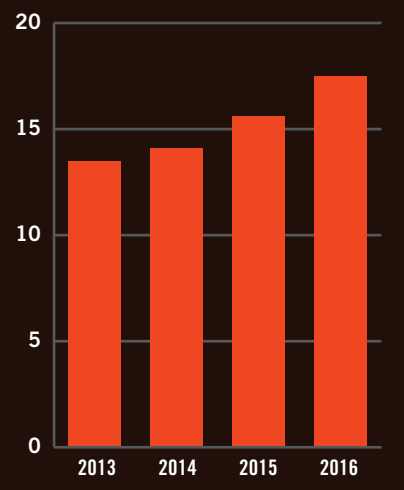
Total Net Cost of Operations
(dollars in billions)



State Department Employees
(in thousands)



Number of Passports Issued (books and cards)
(in millions)



Foreign Service Civil Service Locally Employed Staff*

** Locally Employed Staff includes Foreign Service Nationals and Personal Services Agreements.*

ABOUT THE COVER

The cover is a photo montage that presents the Department's commitment to addressing global challenges through engagement and partnership. The images include (top) Secretary Kerry poses with members of Team USA as he and his fellow U.S. Presidential Delegation members visit the Brazilian Naval Academy in Rio de Janiero, Brazil, August 5, 2016; (middle) Secretary Kerry and foreign leaders vote during the UN Security Council meeting on Syria in New York City, N.Y., December 18, 2015; and (bottom) almost 200 delegates to the COP21 Climate Change Conference assemble in the Plenary Hall in Paris, France, December 12, 2015.

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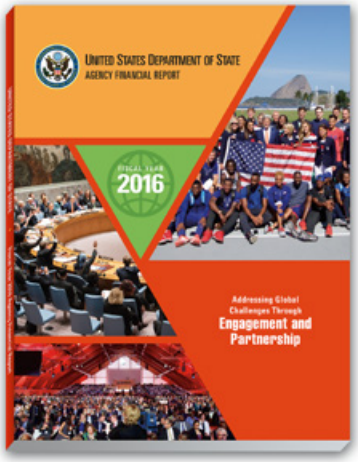
About This Report

The U.S. Department of State's *Agency Financial Report* (AFR) for Fiscal Year (FY) 2016 provides an overview of the Department's financial and performance data to help Congress, the President, and the public assess our stewardship over the resources entrusted to us. This report is available at the Department's website (*www.state.gov/s/d/rm/rls/perfrpt/2016/index.htm*) and includes sidebars, videos, links, and information that satisfies the reporting requirements contained in the following legislation:

- Federal Managers' Financial Integrity Act of 1982,
- Chief Financial Officers Act of 1990,
- Government Performance and Results Act (GPRA) of 1993,
- Government Management Reform Act of 1994,
- Federal Financial Management Improvement Act of 1996,
- Reports Consolidation Act of 2000,
- Improper Payments Information Act of 2002, and
- GPRA Modernization Act of 2010.

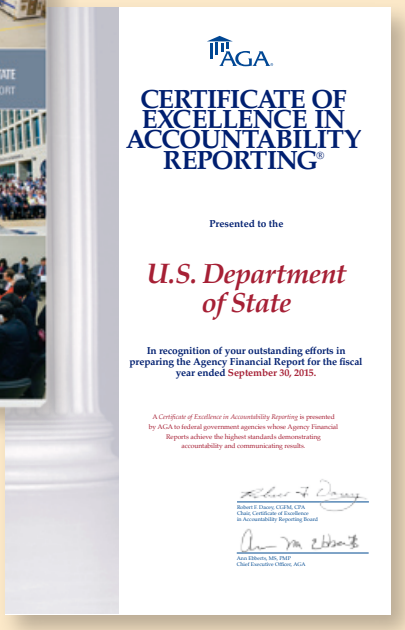


The AFR is the first of a series of two annual financial and performance reports the Department will issue. The reporting schedule includes: (1) an *Agency Financial Report* issued in November 2016; and (2) an agency *Annual Performance Plan and Annual Performance Report* scheduled for release in April 2017. These reports will be available online at *http://www.state.gov/s/d/rm/c6113.htm*.

Note: Throughout this report all use of year indicates fiscal year.

Certificate of Excellence in Accountability Reporting

In May 2016, the U.S. Department of State received the *Certificate of Excellence in Accountability Reporting* (CEAR) from the Association of Government Accountants (AGA) for its Fiscal Year 2015 Agency Financial Report. The CEAR is the highest form of recognition in Federal Government management reporting. The CEAR Program was established by the AGA, in conjunction with the Chief Financial Officers Council, to further performance and accountability reporting. This represents the ninth time the Department has won the CEAR award. In addition, the Department's AFR was awarded the Platinum Award (1st Place) by the League of American Communications Professionals (LACP) for excellence within its industry. The LACP also ranked the AFR in their Top 50 Annual Reports Worldwide (ranking at 11th overall from more than 6,000 entries). The LACP recognized our AFR for achieving the Most Improved Report (Gold) worldwide.



How This Report is Organized

The State Department's Fiscal Year 2016 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2015, and ending on September 30, 2016, with comparative prior year data, where appropriate. The AFR demonstrates the agency's commitment to its mission and accountability to Congress and the American people. This report presents the Department's operations, accomplishments, and challenges. The AFR begins with a message from the Secretary of State, John F. Kerry. This introduction is followed by three main sections and various appendices. In addition, a series of "In Focus" sidebars are interspersed to present useful information on the Department.

Section I: Management's Discussion and Analysis

Section I provides an overview of the Department's performance and financial information. It includes a brief history of the Department, introduces its mission and values, and describes the agency's organizational structure. This section highlights the Department's goals and priorities, and provides an overview of major program areas. The section also highlights the agency's financial results, and provides management's assurances on the Department's internal controls.

Section II: Financial Section

Section II begins with a message from the Comptroller. This section details the Department's financial status and includes the audit transmittal letter from the Inspector General, the independent auditor's reports, and the audited financial statements and notes. The Required Supplementary Information included in this section provides a combining statement of budgetary resources, the condition of heritage asset collections, and a report on the Department's year-end deferred maintenance and repairs.

Section III: Other Information

Section III begins with the Combined Schedule of Spending followed by the Inspector General's statement of the agency's management and performance challenges and management's responses. The section also includes a summary of the results of the Department's financial statement audit and management assurances and describes the Department's financial legal requirements, as well as improper payments efforts, resource management systems, a summary of the Department's heritage assets, and the status of OMB's Freeze the Footprint policy.

Secretary Kerry delivers remarks at the event on the UN Paris Agreement Entry into Force at the United Nations, in New York City, New York, September 21, 2016. *Department of State*

Appendices

The appendices include data that supports the main sections of the AFR. This includes a glossary of abbreviations and acronyms used in the report, a map of the Department of State's locations across the globe, a list of the past and present U.S. Secretaries of State, and websites of interest.

Message from the Secretary

It is my pleasure to present the U.S. Department of State's Agency Financial Report (AFR) for Fiscal Year (FY) 2016. In this report, you will find more than just financial and performance information; you will see evidence of our enduring commitment to promote American security and prosperity at a time when our diplomats and development professionals are engaged more deeply in more places than at any time in our history. We take seriously our duty to invest taxpayer dollars in the long-term success of our nation, and we are committed to defend and advance America's interests and values in a world that is changing faster and becoming more interconnected than ever before.

It is no secret that we live in a time and in a world that is marked both by extraordinary challenges and great promise – a world where America's role is critical as are the resources that only Congress can provide. Now more than ever, we cannot afford to shy away from tackling these challenges head on. We face dangers as old as tribalism and sectarian tension and as new as cyber warfare, dictators who challenge global norms, and violent extremists who combine modern media with medieval thinking to wage war on civilization itself.

Despite the dangers, Americans have many reasons for confidence. Our economy remains the strongest in the world and has added more jobs than the rest of the industrialized world combined. Our armed forces are second to none. Our alliances in Europe and Asia are vigilant and strong. And our citizens are unmatched in the generosity of their commitment to humanitarian causes and civil society. Energetic global leadership is not a favor we do for other countries; it is a strategic imperative for America and an investment in a safer, more humane world.

That is why it matters that we are combining strengths with international partners to enhance our security and promote shared prosperity for generations to come. We have reached historic multilateral accords on Iran's nuclear program and climate change. We have supported important democratic gains in Sri Lanka, Nigeria, and Burma. We have enhanced our position throughout the hemisphere by resuming diplomatic relations with Cuba. We mobilized a broad coalition of actors to stop the spread of Ebola and save countless lives; and we are championing the empowerment of women and respect for internationally recognized human rights. We have also worked in solidarity with our coalition partners in the fight against such terrorist groups as Da'esh, al-Qa'ida, Boko Haram, and al-Shabab. We joined governments from more than 190 nations in approving a comprehensive agreement to curb greenhouse gas emissions and limit the most harmful consequences of climate change. The steps we have taken to bring the Paris Agreement into force, finalize an agreement on international civil aviation emissions, and adopt an amendment to the Montreal Protocol to phase-down the use and production of a particularly strong class of greenhouse gases, comprise perhaps the most consequential period in the diplomatic effort to fight climate change.

America's global alliances and partnerships have never been stronger, and our cooperation with like-minded nations and international organizations remains a pillar of our diplomatic engagement. In an era of diffuse and networked power, we are focusing on strengthening partnerships with civil society, citizen movements, faith leaders, entrepreneurs, innovators, and others to promote democracy and good governance and address gender-based violence. Partnerships with mayors are increasingly central to achieving our diplomatic objectives, as nearly 60 percent of the world's population will live in urban environments by 2030. Cities have a particularly critical role to play when it comes to climate change, and we are engaging mayors, governors, chief executive officers, faith leaders, scientists, and engineers to implement climate solutions at local levels.

To support our diplomatic and foreign assistance initiatives around the world, we are improving the way we do business through strategic, innovative solutions and building cross-agency partnerships to achieve results. These efforts build on the recommendations outlined in the second Quadrennial Diplomacy and Development Review and guide implementation efforts across three key areas: global strategic policy priorities, organizational reforms, and investments in our workforce.

We recognize the importance of strategically managing our operations and improving our financial management and internal controls. This AFR is our principal publication and report to the President, Congress, and the American people on our leadership in financial management and our stewardship of the public funds to which we have been entrusted. To ensure this AFR is complete and reliable, we worked with our Independent Auditor on the financial data and with our bureaus and missions on the summary performance data. The Message from the Comptroller in this AFR underscores our improvements in FY 2016 and includes the results of the independent audit of our FY 2016 Financial Statements.

All this speaks to why our strategic investments are not just a collection of numbers – they are the embodiment of our values and priorities. In this complex environment, some setbacks are inevitable. Persistent and creative engagement with our partners around the world will be required on all fronts, but we are guided by the same values and supported by the same democratic institutions that enabled our predecessors to succeed.

I believe that, once again, our country is answering the call. We see it in our citizens who contribute to international civil society and who work hard every day to address and ease global challenges from extreme poverty to women's rights and the protection of religious liberty and other precious freedoms. We can see it in the work of our development professionals who are helping millions of people overseas to build strong communities, expand markets, and contribute to shared prosperity. We see it in the daily efforts of our diplomats to defend America's interests, advocate our principles, and strengthen our country's position in the world. In an era of uncertainty, one thing remains sure: America will continue to answer the call.

John F. Kerry
Secretary of State
November 15, 2016

Secretary Kerry addresses reporters at a news conference following the U.S.-China Strategic and Economic Dialogue in Beijing, China, June 7, 2016. ***Department of State***

Secretary Kerry meets with Chinese Foreign Minister Wang Yi and high-level Chinese officials to discuss Democratic People's Republic of Korea and other regional issues in Beijing, China, January 27, 2016. ***Department of State***

SECTION I:

Management's Discussion and Analysis

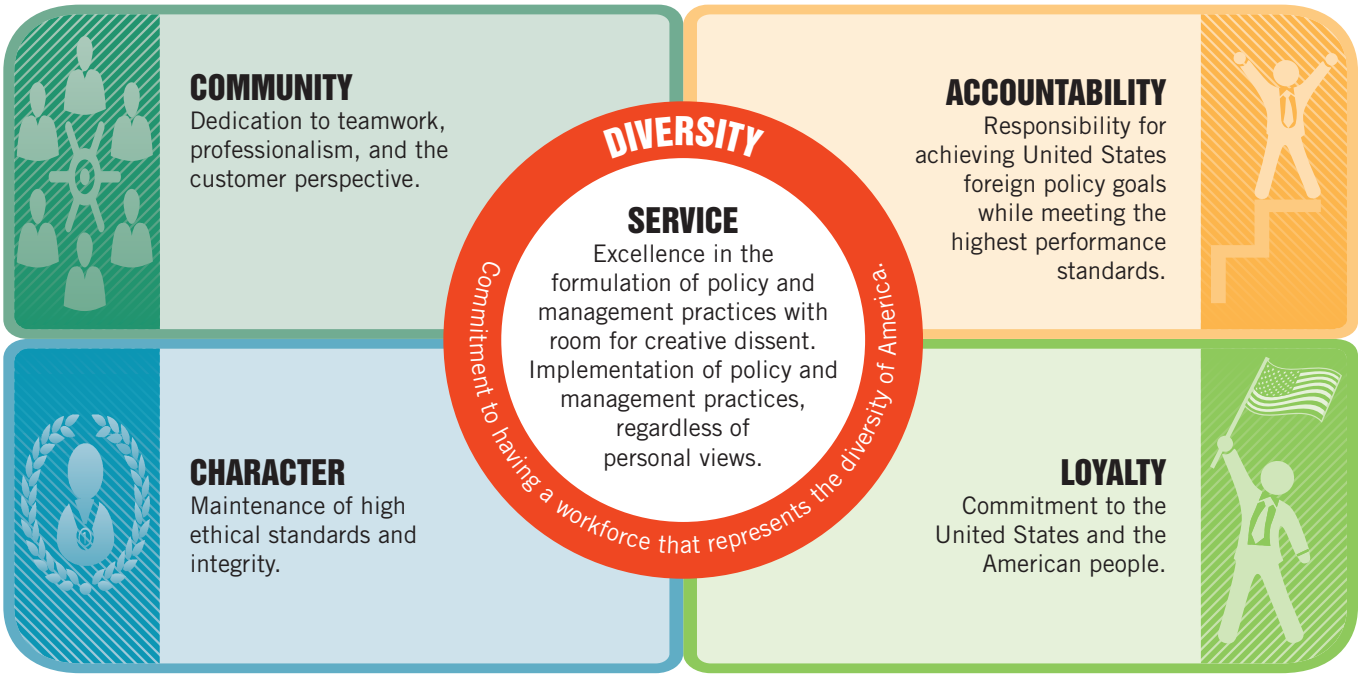
> "We believe that America is safer when the world is safe, more prosperous when the world prospers, and more secure in our dignity and democracy when those values become universal."
>
> *– Secretary of State, John Kerry*

About the Department

Our Mission Statement

The Department's mission is to shape and sustain a peaceful, prosperous, just, and democratic world and foster conditions for stability and progress for the benefit of the American people and people everywhere. This mission is shared with the USAID, ensuring we have a common path forward in partnership as we invest in the shared security and prosperity that will ultimately better prepare us for the challenges of tomorrow.

Our Values



Our History

The U.S. Department of State (the Department) is the lead U.S. foreign affairs agency within the Executive Branch and the lead institution for the conduct of American diplomacy. Established by Congress in 1789, the Department is the nation's oldest and most senior cabinet agency.

The Department is led by the Secretary of State, who is nominated by the President and confirmed by the U.S. Senate. The Secretary of State is the President's principal foreign policy advisor and a member of the President's Cabinet. The Secretary carries out the President's foreign policies through the State Department and its employees.

Did You Know?

Elihu B. Washburne, the 25th Secretary of State, served only 11 days in 1869. His term remains the shortest of any Secretary of State. For a complete list of those who have served as U.S. Secretary of State, please refer to Appendix C of this report.

LEARN MORE

More information on former Secretaries can be found at: *https://history.state.gov/departmenthistory/people/secretaries*

Our Organization and People

The Department of State advances U.S. objectives and interests in the world through its primary role in developing and implementing the President's foreign policy worldwide. The Department also supports the foreign affairs activities of other U.S. Government entities including the United States Agency for International Development (USAID). USAID is the U.S. Government agency responsible for most non-military foreign aid and it receives overall foreign policy guidance from the Secretary of State. The State Department carries out its foreign affairs mission and values in a worldwide workplace, focusing its energies and resources wherever they are most needed to best serve the American people and the world.

The Department is headquartered in Washington, D.C. and has an extensive global presence, with more than 270 embassies, consulates, and other posts in over 180 countries. A two-page map of the Department's locations appears in Appendix B. The Department also operates several other types of offices, mostly located throughout the United States, including over 25 passport agencies, two foreign press centers, one reception center, five logistic support offices for overseas operations, 20 security offices, and two financial service centers.

The Foreign Service officers and Civil Service employees in the Department and U.S. missions abroad represent the American

Deputy Secretary Blinken addresses reporters after delivering remarks at the 31st Session of the UN Human Rights Council in Geneva, Switzerland, March 2, 2016. *Department of State*

Secretary Kerry poses with staff and family members of the U.S. Embassy in Santo Domingo, Dominican Republic, June 14, 2016. *Department of State*

people. They work together to achieve the goals and implement the initiatives of American foreign policy. The Foreign Service is 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. The Department's Civil Service corps, most of whom are headquartered in Washington, D.C., is involved in virtually every policy and management area – from democracy and human rights, to narcotics control, trade, and environmental issues. Civil Service employees also serve as the domestic counterpart to Foreign Service consular officers who issue passports and assist U.S. citizens overseas.

Host country Foreign Service National (FSN) and other Locally Employed (LE) staff contribute to advancing the work of the Department overseas. Both FSNs and other LE staff contribute local expertise and provide continuity as they work with their American colleagues to perform vital services for U.S. citizens. At the close of 2016, the Department was comprised of approximately 75,000 employees.

The U.S. Department of State, with just over one percent of the entire Federal budget, has an outsized impact on Americans' lives at home and abroad. For a relatively small investment, the Department yields a large return in a cost-effective way by advancing U.S. national security, promoting our economic interests, creating jobs, reaching new allies, strengthening old ones, and reaffirming our country's role in the world. The Department's mission impacts American lives in multiple ways.

These impacts include:

1. **We create American jobs.** We directly support 20 million U.S. jobs by promoting new and open markets for U.S. firms, protecting intellectual property, negotiating new U.S. airline routes worldwide, and helping American companies compete for foreign government and private contracts.

2. **We support American citizens abroad.** We provide emergency assistance to U.S. citizens in countries experiencing natural disasters or civil unrest. In 2015, 5,648 immigrant visas were issued to children who were adopted abroad, or who were coming to the United States to be adopted by U.S. citizens. In addition, there were 93 reported outgoing adoption cases involving children who emigrated from the United States to both Convention and non-Convention countries. In calendar year 2015, we worked on parental child abduction cases involving more than 1,450 children – resulting in the return of over 290 American children.

3. **We promote democracy and foster stability around the world.** Stable democracies are less likely to pose a

Participants of TechCamp Bogota pose for a group picture in Bogota, Colombia, July 28, 2016. *Department of State*

FOCUS

Department of State TechCamp in Bogota Helps Regional Partners Fight Zika

The U.S. Department of State, in partnership with El Bosque University in Bogota, Colombia, sponsored a Technology Camp (TechCamp), July 27–28, for more than 50 public health professionals from countries across the Western Hemisphere. The TechCamp program built a network of health communicators to share information and increase their knowledge about modern technologies that play an important part of public information campaigns about how to prevent the transmission of emerging infectious diseases, including Zika.

Experts from 12 countries, including Brazil, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Venezuela, and the United States, attended panels. They also participated in "speed-geeking" sessions, which offered practitioners and researchers the opportunity to quickly learn about a range of potentially useful technologies. Additionally, participants discussed how to apply what they learned about new technologies to communicate more effectively with the public about global health issues of interest across their region.

TechCamps are a Department of State program that link civil society groups with technology experts, sharing and developing tools to apply tech solutions to real-world issues. More than 3,000 participants globally have taken part in a TechCamp since the program's inception in 2010.

To learn more about the event, please follow #TechCampBogota on Twitter or view additional photos on Flickr at *https://www.flickr.com/photos/usembassybogota/sets/72157668719622373*.

threat to their neighbors or to the United States. We partner with the public and private sectors in countries in conflict to foster democracy and peace.

4. **We help to make the world a safer place.** Under the New Strategic Arms Reduction Treaty, we are reducing the number of deployed nuclear weapons to levels not seen since the 1950s. Our nonproliferation efforts prevent the spread of weapons of mass destruction – nuclear, biological, chemical, or radiological. The Department has helped over 40 post-conflict countries clear millions of square meters of landmines and unexploded ordnance. Our security assistance programs provide training and equipment to improve the capabilities of partners to meet shared security challenges. We also work with foreign partners to strengthen international aviation and maritime safety and security.

5. **We save lives.** Strong bipartisan support for U.S. global health investments has led to worldwide progress against

HIV/AIDS, tuberculosis, malaria, and polio. Better health abroad reduces the risk of instability and enhances our national security.

6. **We help countries feed themselves.** We help other countries plant the right seeds in the right way and get crops to markets to feed more people. Strong agricultural sectors lead to more stable countries.

7. **We help in times of crisis.** From natural disasters to famine to epidemics, our dedicated emergency professionals deliver assistance to those who need it most.

8. **We promote the rule of law and protect human dignity.** We help people in other countries find freedom and shape their own destinies. Reflecting U.S. values, we advocate for the release of prisoners of conscience, prevent political activists from suffering abuse, train police officers to combat sex trafficking, and equip journalists to hold their governments accountable.

9. **We help Americans see the world.** The Department's Bureau of Consular Affairs supports and protects the American public. In 2016, we issued 17.5 million passports and passport cards for Americans to travel abroad. We facilitate the lawful travel of international students, tourists, and business people to the United States, adding greatly to our economy. We also keep Americans apprised of dangers or difficulties abroad through our travel warnings.

10. **We are the face of America overseas.** Our diplomats, development experts, and the programs they implement are the source of American leadership around the world. They are the embodiments of our American values abroad and a force for good in the world.

VIEW VIDEO

For more information, a video on Consular Affairs entitled "Welcoming the World" may be viewed at: *http://video.state.gov/en/video/2761491252001*

The Department's organizational chart appears on page 13. As shown, the Secretary of State (S) is supported by two Deputy Secretaries, the Executive Secretariat (S/ES), the Office of U.S. Foreign Assistance Resources (F), the Counselor (C) and Chief of Staff (S/COS), six Under Secretaries, and over 30 functional and management bureaus and offices. The Deputy Secretary of State (D) serves as the principal deputy, adviser, and alter ego to the Secretary of State. The Deputy Secretary of State for Management and Resources (D–MR) serves as the Department's Chief Operating Officer. The Under Secretaries have been established for Political Affairs (P); Economic Growth, Energy and Environment (E); Arms Control and International Security Affairs (T); Public Diplomacy and Public Affairs (R); Management (M); and Civilian Security, Democracy and Human Rights (J). The Under Secretary for Management also serves as the Chief Financial Officer for the Department.

Did You Know?

Cordell Hull, the 47th Secretary of State, served 4,289 days (11 years and 271 days) from 1933 to 1944. He was the longest serving Secretary in U.S. history. For a complete list of those who have served as U.S. Secretary of State, please refer to Appendix C of this report.

LEARN MORE

More information on former Secretaries can be found at: *https://history.state.gov/departmenthistory/people/secretaries*

The Department's political affairs mission is supported through six regional bureaus – each is responsible for a specific geographic region of the world. These include:

- Bureau of African Affairs (AF),
- Bureau of European and Eurasian Affairs (EUR),
- Bureau of East Asian and Pacific Affairs (EAP),
- Bureau of Near Eastern Affairs (NEA),
- Bureau of South and Central Asian Affairs (SCA), and
- Bureau of Western Hemisphere Affairs (WHA).

The Department also includes the Bureau of International Organization Affairs. This Bureau develops and implements U.S. policy in the United Nations, its specialized and voluntary agencies, and other international organizations.

VIEW VIDEO

For more information, view the video entitled "About the Department" at: *http://video.state.gov/en/video/2761500542001*

Our Work at Home and Overseas

At home, the passport process is often the primary contact most U.S. citizens have with the Department of State. There are 29 domestic passport agencies and centers, and approximately 8,000 passport acceptance facilities worldwide. The Department designates many post offices, clerks of court, public libraries and other state, county, township, and municipal government offices to accept passport applications on its behalf.

Overseas, in each Embassy, the Chief of Mission (usually an Ambassador) is responsible for executing U.S. foreign policy aims, as well as coordinating and managing all U.S. Government functions in the host country. The President appoints each Chief of Mission, who is then confirmed by the Senate. The Chief of Mission reports directly to the President through the Secretary of State. The U.S. Mission is also the primary U.S. Government point of contact for Americans overseas and foreign nationals of the host country. The Mission serves the needs of Americans traveling, working, and studying abroad, and supports Presidential and Congressional delegations visiting the country.

Every diplomatic mission in the world operates under a security program designed and maintained by the Department's Bureau of Diplomatic Security (DS). In the United States, DS investigates passport and visa fraud, conducts personnel security investigations, and protects the Secretary of State and high-ranking foreign dignitaries and visiting officials. An "In Focus" view of our global visa fraud investigations is shown below.

Additionally, the Department utilizes a wide variety of technology tools to further enhance its effectiveness and magnify its efficiency. Today, most offices increasingly rely on digital video conferences, virtual presence posts, and websites to support their missions. The Department also leverages social networking Web tools to engage in dialogue with a broader audience. See Appendix D for Department websites of interest.

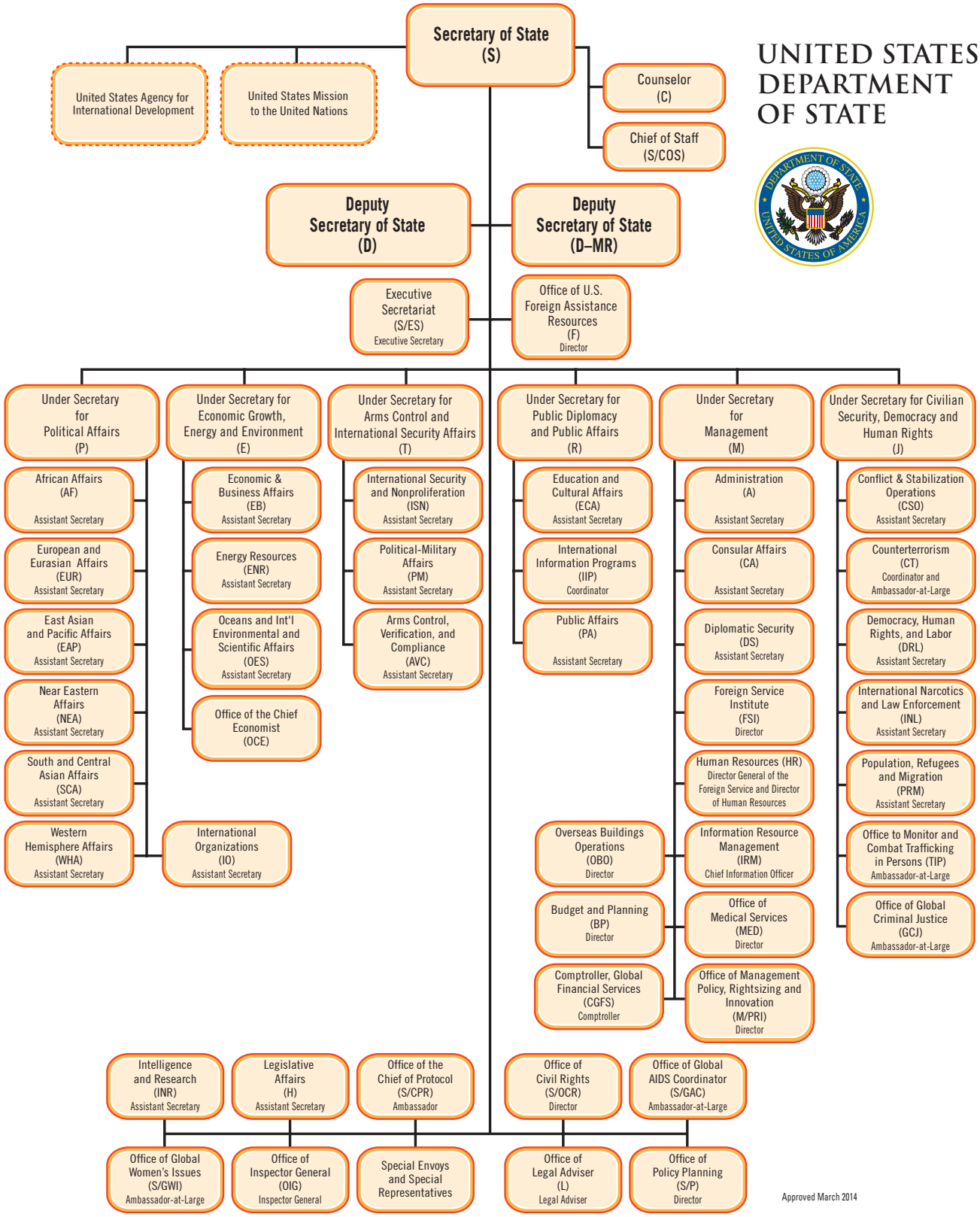
FOCUS

Increased Number of Visa Crime Investigations Opened Globally

The Bureau of Diplomatic Security (DS) is the security and law enforcement arm of the Department. Visa crimes are international offenses that may start overseas, but can threaten public safety inside the United States if offenders are not interdicted with aggressive and coordinated law enforcement action. DS agents and analysts observe, detect, identify, and neutralize networks that exploit international travel vulnerabilities. DS global visa crime investigations and arrests have increased over 32 percent since 2011.

During 2015, Operation Southern Watch and Operation Northern Watch used visa revocations to interdict the travel of 2,635 individuals linked to organized crime, threats to travel document integrity, and domestic security. These DS programs use "intelligence led policing" to satisfy a Presidential requirement by leveraging the Department's visa process – increasing Homeland safety and security. Moreover, these programs directly support the President's guidance (Strategy to Combat Transnational Organized Crime) to ensure the security of the Homeland by denying Transnational Organized Crime members and their associates access to the United States. More information on the Strategy can be found at: https://www.whitehouse.gov/administration/eop/nsc/transnational-crime/strategy.

Source: U.S. Department of State, Bureau of Diplomatic Security.



1. *The dotted lines on the Organizational Chart represent the Secretary of State's shared authority with the USAID Administrator and the U.S. Permanent Representative to the U.S. Mission to the United Nations.*
2. *The Organizational Chart displays two positions as Deputy Secretary of State. The Deputy Secretary of State (D) serves as the principal deputy, adviser, and alter ego to the Secretary of State. The Deputy Secretary of State for Management and Resources (D–MR) serves as the Department's Chief Operating Officer.*
3. *The Under Secretary for Management (M) serves as Chief Financial Officer of the Department.*

Strategic Goals and Government-wide Management Initiatives

Managing for Results: Planning, Budgeting, Managing, and Learning

Strategic planning is a forward-looking management tool to set priorities, focus resources, strengthen operations, and ensure all are working toward shared objectives.

The first Quadrennial Diplomacy and Development Review (QDDR) articulated the need to elevate and improve strategic planning, to align budget requests to plans, to create better monitoring and evaluation systems, and to integrate and rationalize these components into a cohesive planning, budgeting, program, and performance management framework. In April 2015, the Department of State and USAID released the second QDDR, which furthered the commitment to strengthen strategic planning and performance management. Building on progress since the 2010 QDDR, the Department will continue to develop the training, technical assistance, and planning and management tools available to our employees. The 2015 QDDR includes recommendations to:

- Strengthen information-sharing and collaboration. Collaboration is essential to the success of strategic planning and programming. At overseas posts the Department will create networks that share information on strategic planning, budgeting, programming, and performance;
- Institute senior-level bureau and mission reviews. Senior Department bureau leaders and chiefs of mission will institute regular reviews to assess progress against strategic objectives, and ensure alignment of policy, planning, resources, and program decision making;
- Deepen expertise in planning and performance management. Each bureau in the Department will assign at least one full-time, qualified, mid- to senior-level Civil Service employee to bureau planning and performance management, including monitoring and evaluation; and
- Advance adaptive planning and assistance. We will make our strategic planning, program and project design, and monitoring and evaluation processes more adaptive in challenging environments.

Managing for Results Framework

The Department's Managing for Results Framework is a step-by-step integrated process, managed by State and coordinated with USAID, by which State links strategy to resources and supports program activity with strengthened management guidelines and use of performance management in decision making. The Framework shows how the Agency employs four primary steps of strategic planning, budgeting, program management, and performance management to effectively carry out our business. These are integrated and inter-related processes that should inform and facilitate one another. The Department sets objectives before determining the appropriate funding level, rather than combining strategic and resource planning. The Department's and USAID's strategic planning documents include the following:

- The Joint Strategic Plan – Four-year strategic plan that outlines Department of State and USAID overarching goals and objectives, and guides bureau and mission planning.
- The Joint Regional Strategy – Three-year strategic plan for each region that sets joint State and USAID priorities and guides key partner bureau and mission level planning.
- The Functional Bureau Strategy – Three-year strategic plan that sets priorities for each State functional bureau and guides key partner bureau and mission level planning.
- The Integrated Country Strategy (ICS) – Three-year strategic plan that articulates whole-of-government priorities in a given country and incorporates higher-

level planning priorities. As directed by the Presidential Policy Directive on Security Sector Assistance, the ICS also represents the official U.S. Government strategy for all Security Sector Assistance in its respective countries.

Additionally, and in line with the whole-of-government scope of each ICS, each USAID mission's Country Development Cooperation Strategy is nested within the ICS.

Joint State-USAID Strategic Goals

In FY 2014, the Department of State and USAID developed the 2014 – 2017 Joint Department of State – USAID Strategic Plan through a consultative process involving the senior leadership of the two agencies. Their deliberations, shaped by Presidential directives and policies, previous strategic planning efforts, and the 2010 Quadrennial Diplomacy and Development Review, produced the strategic goals and strategic objectives for the next four years. Working groups comprised of representatives from both agencies took these goals and objectives and assembled information that describes the programs and activities designed to achieve them.

The Department and USAID consulted with other Government agencies on the Joint Strategic Plan and also engaged their Congressional oversight committees to explain the goals and objectives of this planning effort. While the Joint Strategic Plan does not capture all the work that the State Department and USAID are doing, it lays out key priorities through five strategic goals. The Department of State – USAID Joint Strategic Goal Framework below highlights the Department's Strategic goals and strategic objectives.

LEARN MORE

More information on the Joint Strategic Plan can be found at: *http://www.state.gov/documents/organization/223997.pdf*

State-USAID Joint Strategic Goal Framework

Strategic Goal 1: Strengthen America's Economic Reach and Positive Economic Impact

Increasingly, foreign policy is economic policy. To maintain American leadership in an era defined by economic power, we need to shift economics from the periphery to the center of U.S. foreign policy, and keep driving an economic agenda that confronts the major economic challenges of our time. Peace, prosperity, sustainable development, stability, and security are inexorably linked to economic growth and development. Government alone cannot bring about global growth and development; it can only do so with the cooperation of the private sector. Through innovative business models and entrepreneurship, promotion of free markets, human rights, labor rights, rule of law, respect for the environment, and the free exchange of ideas, the Department of State, USAID, and the U.S. private sector directly enhance the ability of our nation to advance security, prosperity, and sustainable economic growth for America and the world.

In a world where 95 percent of consumers live outside the United States, American prosperity depends on strong demand for our goods and services abroad and the free flow of goods and capital. While the private sector does the trading and investing, the government has an important role in strengthening America's economic reach. State Department and USAID officials work to open foreign markets; advocate on behalf of U.S. firms; foster science, technology, education, and innovation; improve governance, rule of law, and transparency; and advance conditions for private sector-led growth. These actions all promote economic growth and help create jobs in the United States.

Secretary Kerry, U.S. Ambassador-at-Large for Global Women's Issues Catherine Russell, and Assistant Secretary Thomas-Greenfield meet with a group of young women who have been empowered in Abuja, Nigeria, August 24, 2016. *Department of State*

In the developing world, inclusive economic growth, in which all members of society share in the benefits of growth, can be transformative by reducing poverty, expanding opportunity, and reducing gender inequality. Development assistance is in our economic interest, in our strategic interest, and is a visible expression of our values. The United States and other countries are helping one billion people out of extreme poverty by 2030 through investments that improve economic opportunity, health, food security, education, stability, and accountable governance. While we cannot stop shocks from happening, we are committed to doing more to help people build the resilience to withstand them. Workforce development programs promote inclusion by providing youth with job-specific skills. Respect for labor rights ensures that workers enjoy a fair share of the benefits of economic growth.

A more innovative world is a more prosperous world and one that can tackle global challenges more effectively. To this end, the United States fosters a positive international environment for creative entrepreneurs. U.S. strength and leadership in technology, research and development, and new methods of doing business are strategic assets that attract international support for U.S. economic policies. The United States champions openness, transparency, non-discrimination, a free and open Internet, broadband access, and the protection of intellectual property, and actively assists other countries in these areas. We also promote cross-border scholarly, entrepreneurial, and scientific exchanges and collaboration, including through public-private partnerships.

Strategic Goal 2: Strengthen America's Foreign Policy Impact on our Strategic Challenges

Deploying diplomats and development experts on the frontlines today is cheaper than deploying troops tomorrow. This is why we are acting on several fronts to make investments that strengthen the impact of America's foreign policy on our greatest strategic challenges. We know the difference that the United States can make around the world, and we must continue to deliver diplomatic, security, development, and humanitarian solutions that match the scale of the challenges we face.

Secretary Kerry sits with his fellow Foreign Ministers at the National Convention Center during a meeting of the ASEAN Regional Forum in Vientiane, Laos, July 26, 2016. *Department of State*

The challenges we face are great, many, and span the globe. Whether it be providing care and treatment for HIV/AIDS and malaria in sub-Saharan Africa, strengthening judicial institutions in Latin America, building trust and combating extremism in Afghanistan and Pakistan, or joining with our European partners to deliver humanitarian assistance where disaster strikes, the United States is at work in every region of the world. In all that we do, we are partnering with the United Nations and other international organizations, whose cooperation is critical to our success.

While the men and women of the Department of State and USAID are active worldwide, a few strategic challenges are singled out in this report because they exemplify our commitment to building performance capabilities and to measuring and reporting on our performance. These challenges are: building a new stability in the Middle East and North Africa (MENA); rebalancing to the Asia-Pacific; preventing and responding to crises and conflict, and providing humanitarian assistance to those in need; and combating challenges to global security and health.

Success in building a new stability in the MENA region is essential to U.S. global interests. The region is in the midst of transition and crisis, and poses some of the most immediate challenges for U.S. national security. The United States "rebalance" to the Asia-Pacific reflects a profound recognition that the security and prosperity of our nation will be shaped by developments in that region. Home to two-thirds of the world's people and many of its fastest growing economies, the Asia-Pacific presents both opportunities and challenges for U.S. strategic and economic interests. A transatlantic renaissance in relations with European allies and partners is essential to successfully confronting global challenges, as well as shaping and defending international institutions and norms in line with our shared, democratic, free-market values.

In addition, more than 1.5 billion people worldwide live in fragile or conflict-affected states, or in countries trapped in cycles of violence. When states cannot control their territory, protect their people, support sustainable growth, or help those in need, the resulting instability disrupts economic activity and fosters permissive environments for violent extremists and weapons proliferation.

We must meet these and other global security and health challenges that affect international stability and prosperity, and threaten U.S. interests. These challenges include securing the world's most dangerous weapons; investing in rule of law; securing borders and combating transnational organized crime; and countering cyber threats. And we must continue to work with bilateral and multilateral partners to strengthen health systems in developing countries, create an AIDS-free generation, end preventable child and maternal deaths, and reduce the threat of infectious diseases.

Strategic Goal 3: Promote the Transition to a Low-Emission, Climate-Resilient World while Expanding Global Access to Sustainable Energy

Climate change is a real and imminent threat to core U.S. interests and to the global economy. The scientific consensus is that greenhouse gases are causing higher land temperatures, warming oceans, raising average sea levels, and creating more extreme heat waves and storms. These changes are leading to declines in agricultural productivity, exacerbating water scarcity, causing losses of biodiversity, and amplifying humanitarian crises that risk undermining the social, economic, and political stability of our allies and partners. Climate change disproportionately affects the most vulnerable, threatens to reverse hard-won development gains, and works against U.S. interests worldwide – namely peace and stability, poverty alleviation, food security, and economic development. It is in America's vital interest to lead in the global fight against climate change by taking aggressive, smart, and effective action.

Sustainable and secure sources of energy are fundamental to global economic growth, prosperity, and stability. Global energy demand is expected to increase nearly 40 percent by 2030, with more than 90 percent of that increase occurring in developing and emerging market countries. Without effective action, this increasing demand will lead to greater emissions, causing further climate change.

Under the President's Climate Action Plan, we are investing at home to cut emissions from power plants, unlocking long-term investment in clean energy innovation, and building resilience to climate change in our communities. Internationally, we are leading efforts to forge a new agreement that applies to all countries starting in 2020. We are encouraging the safe, responsible transition to cleaner fuels such as natural gas, fostering investment, encouraging innovation in renewable technologies, and thereby creating opportunities for U.S. businesses. We are supporting countries in reducing greenhouse gas emissions from their forests and their land. And we are using diplomatic tools and development resources to reduce the likelihood of even more dangerous climate change in the future and to prepare vulnerable nations for climate impacts that will be unavoidable.

At the State Department and USAID, promoting the transition to a low-emission, climate-resilient world while expanding global access to sustainable energy is central to our mission. We are committed to addressing climate change in a way that permits all countries to prosper. We understand that this requires a fundamental shift in the way the world uses land, and produces, consumes, and distributes energy while maintaining economic growth. We are also working to encourage responsible resource management by promoting global transparency standards to ensure energy producing countries are well-governed.

Energy and climate change shape political, economic, environmental, and security developments within and among countries. The global energy sector is undergoing dramatic change. Technologies such as hydraulic fracturing and horizontal drilling are altering the global energy landscape, with the Western Hemisphere becoming increasingly important as a source of production. Renewable energy costs have plummeted in recent years. Due to burgeoning domestic production of unconventional gas and oil, the United States will become a net exporter of natural gas. Our oil imports are at their lowest level in 20 years. Energy efficiency and conservation programs with strong bipartisan support, such as improvements in vehicle fuel efficiency, continue to reduce our petroleum demand.

Even as the United States reduces its reliance on imported oil and gas and encourages a transition to renewable energy, increased energy demand from emerging markets continues to drive global demand for hydrocarbons. As we seek to transition from traditional energy resources, the world still needs a stable supply of energy, including security to the lines of transportation and a reasonable price for oil and gas. This security underpins stability in the global economy and helps mitigate resource-driven security risks.

Strategic Goal 4: Protect Core U.S. Interests by Advancing Democracy and Human Rights and Strengthening Civil Society

U.S. leadership in advancing democracy and human rights, including labor rights, and strengthening civil society worldwide is a strategic long-term investment in our security, a matter of principle, and a crucial source of our international influence and strength. We commit to these efforts recognizing the likelihood of skepticism, setbacks, and tensions between our long- and short-term objectives, and understanding that progress requires our unwavering dedication to long-term priorities and enduring principles.

The National Security Strategy makes clear that in order to advance our common security, we must address the underlying political and economic deficits that foster instability, enable radicalization and extremism, and ultimately undermine the ability of governments to manage threats within their borders and to be our partners in addressing common challenges. These political and economic deficits often have roots in weak or nonexistent democratic institutions, governmental repression of universal human rights, disengagement of large sectors of the populace including women and youth, and an absence of robust civil society that drives positive change and counterbalances poor policymaking. Our efforts to promote democracy and human rights protect core U.S. interests by combating causes of instability and violent extremism, increasing inclusiveness in the political process, strengthening political and economic partnerships, and ensuring our development assistance contributes to lasting progress.

By strengthening civil society, we reinforce a country's ability to examine and identify its own way forward that respects the will of the people and serves their needs.

In addition, U.S. leadership in multilateral fora, most notably the UN Human Rights Council, helps encourage greater attention to human rights crises; action to investigate human rights abuses and abusers; and that human rights defenders receive needed protection and support.

The State Department and USAID communicate our nation's commitment to democratic values and support the democratic aspirations of countries and people around the world. In our daily work, we pursue this National Security Strategy priority in concert with other political and economic imperatives. President Obama pledged at the United Nations: "The United States will at times work with governments that do not meet, at least in our view, the highest international expectations, but who work with us on our core interests. Nevertheless, we will not stop asserting principles that are consistent with our ideals, whether that means opposing the use of violence as a means of suppressing dissent, or supporting the principles embodied in the Universal Declaration of Human Rights."

The United States asserts these principles in frank bilateral dialogue and the provision of technical assistance; by working through regional and multilateral mechanisms and multi-stakeholder initiatives; and by leveraging trade agreements and trade preference programs. We condition assistance; pursue meaningful sanctions and multilateral interventions; foster people-to-people ties; and partner with businesses and stakeholders to advance responsible business conduct that supports human and labor rights, transparency, and rule of law. We emphasize rule of law; human rights, promoting gender equality, and the increased participation of women in political and public life; the prevention of, and response to, gender-based violence; freedom from human trafficking; effective democratic institutions; independent media; tolerance; and strong, engaged civil society. By reaching out broadly to underserved audiences, particularly women and youth, we seek to engage many of those people who never make it into the halls of power, yet still press for accountability and progress through public debate and peaceful dissent in the public square, both online and off. Our work on anti-corruption, transparency, accountability, and rule of law strengthens the economic infrastructure vital to fair competition. Activists

Secretary Kerry speaks at the first plenary session of an anti-corruption summit meeting in London, U.K., May 12, 2016. *Department of State*

and organizations in authoritarian countries rely on our support as they work toward peaceful democratic reforms, democratic institutions, respect for minority rights, and dignity for all. In post-conflict states, we stand with those striving for accountability, justice, remediation, and reconciliation. Throughout the world, we work to advance inalienable rights, to share the U.S. democratic experience, and to expand the space for civil society.

Strategic Goal 5: Modernize the Way We Do Diplomacy and Development

The Department of State and USAID drive the realization of U.S. foreign policy and assistance objectives through our diplomatic and development activities. In the 21st Century, effective engagement with international partners, stakeholders, customers, and audiences requires fundamental shifts that involve applying new technologies and innovative approaches for strengthening collaboration, coordinated and integrated strategic planning linked to budget priorities, and expanding our internal and external networks. Whether promoting transparency through open and accountable government and open data initiatives, meeting increased customer demand for passports and other consular services, expanding our digital media to reach a rapidly growing audience, or eliminating inefficiencies and reducing costs through business process

reform, the Department and USAID are working together to amplify the effectiveness of our diplomatic and development professionals. Modernizing how the Department and USAID operate is key to bolstering the U.S. Government response to the range and magnitude of foreign policy and development challenges. In accomplishing our mission, we stand committed to becoming more efficient, effective, transparent, and flexible organizations while maintaining accountability to the American people in managing government resources. The Department and USAID will continue efforts to regularly review business practices and processes to identify areas for improvement and innovation.

The Department of State and USAID are pursuing several courses of action to explore balanced, smart, and lean approaches to addressing joint management issues. The Joint Management Board, which was a direct result of Government Accountability Office recommendations, will continue to find ways to drive efficiency into our overseas operations and reduce operating costs. The Department and USAID will continue to adopt balanced, smart, and lean methodologies for continuously improving core business processes. The Department and USAID will also leverage learning from each other to advance efficiency and effectiveness in their contributions to the achievement of Federal cross-agency priority (CAP) goals.

Agency Priority Goals

A goal is a simple but powerful way to motivate people and communicate priorities. Leaders in states, local governments, Federal programs, and in other countries have demonstrated the power of using specific, challenging goals (combined with frequent measurement, analysis, and follow-up) to improve performance and cut costs. This Administration has embraced the power of goal-setting as a way to improve the Federal Government's performance and accountability to the American people. Federal agencies are using near-term and longer-term goals in a variety of ways to improve their effectiveness and efficiency.

The Federal Government operates more effectively when agency leaders at all levels of the organization set clear measurable goals aligned to achieving better outcomes. It is also vital that they regularly engage their organizations and

Secretary Kerry sits with Myanmar Foreign Minister Aung San Suu Kyi before a bilateral meeting at the Ministry of Foreign Affairs in Naypyitaw, Myanmar, May 22, 2016. *Department of State*

delivery partners in critical reviews of progress on these goals. This leads to the discovery of what works and what does not. Federal agency leaders are increasingly using goals and measurement to reinforce priorities, motivate action, and illuminate paths to improvement. Agencies are also using goals in partnership efforts to improve outcomes.

An agency priority goal (APG) supports improvements in near-term outcomes, customer service, or efficiencies, and advances progress toward longer-term, outcome-focused strategic goals and objectives in the agency's Strategic Plan. It is a near-term result or achievement that leadership wants to accomplish within approximately 24 months that relies predominantly on agency execution to be accomplished, not new legislation or additional funding. APGs reflect the top implementation-focused, performance improvement priorities of agency leadership and the Administration, and therefore do not reflect the full scope of the agency mission.

For the FY 2016-2017 APG cycle, State and USAID have identified five APGs, of which State owns two (Excellence in Consular Service Delivery and Outreach to U.S. Business), USAID owns two (Global Health and Food Security) and both State and USAID co-own one (Climate Change).

A brief description of the Department's FY 2016-2017 APGs follows. The full APG language, goal leads, collaborating partners, and additional information may be found on *www.performance.gov/agency/department-state-and-usaid*.

- **Excellence in Consular Service Delivery:** Improve visa and passport customer service and processing speed in support of the travel and tourism sector of the U.S. economy, while preserving the integrity of passport and visa adjudication processes. Through September 30, 2017, process 99 percent of all passport applications within the published timeframes and ensure 80 percent of nonimmigrant visa applicants are interviewed within three weeks of the date of application.

  This APG falls under strategic objective 5.1, "Enable diplomats and development professionals to influence and operate more efficiently, effectively, and collaboratively."

- **Outreach to U.S. Business:** Increase access to market information for U.S. businesses looking to export. By September 30, 2017, the Department of State will increase the number of Direct Line calls and webinars by 20 percent and increase the average number of participants on the calls by 10 percent over the FY 2015 baseline to provide U.S. companies with tactical, on-the-ground information critical to market access and decision making.

  This APG falls under strategic objective 1.1, "Expand access to future markets, investment, and trade."

- **Climate Change:** Combat global climate change by supporting the transition to high-performing, low-carbon economies. By September 30, 2017, U.S. Government partnerships with developing countries to refine and implement their low emission development strategies (LEDS) will result in achievement of 100 (from a baseline of 46) major milestones which contribute to significant, measureable progress toward achieving domestic and international contributions to global greenhouse gas reductions. At least 4,000 developing country government officials and practitioners (from a baseline of 2,000) will strengthen their LEDS capacity through participation in the LEDS Global Partnership (GP), and that capacity will result in strengthened LEDS policies or measures in 24 countries (from a baseline of 0).

  This APG falls under strategic objective 3.1, "Building on strong domestic action, lead international actions to combat climate change."

Cross-Agency Priority Goals

Established by the GPRA Modernization Act of 2010, CAP goals accelerate progress on a limited number of Presidential priority areas where implementation requires active collaboration between multiple agencies. CAP goals address longstanding horizontal problems across vertical agency silos. Fifteen CAP goals were announced in the FY 2015 Budget; these include seven mission-oriented and eight management-focused goals with a four-year time horizon. To establish these goals, OMB solicited nominations from Federal agencies and several congressional committees.

Each goal has a named senior leader both within the Executive Office of the President and within key delivery agencies to ensure effective leadership and accountability across Federal Government. For example, the National Economic Council, together with the Deputy Secretaries from the Department of Commerce and the U.S. Department of State, are leading efforts to encourage foreign direct investment and spur job growth by improving Federal investment tools and resources while increasing interagency coordination. In another example, the Presidential Personnel Office and Office of Personnel Management are teaming up to strengthen our Federal workforce through data-driven efforts to improve employee engagement, hiring reform, and our management cadre.

Mission Oriented Cross-Agency Priority Goals

- **Cybersecurity:** Improve cybersecurity performance through ongoing awareness of information security, vulnerabilities, and threats impacting the operating information environment; ensuring that only authorized users have access to resources and information; and the implementation of technologies and processes that reduce the risk of malware.

- **Climate Change (Federal Actions):** More than double Federal Government consumption of electricity from renewable sources to 20 percent by 2020 and improve energy efficiency at Federal facilities as part of the wider strategy to reduce the Federal Government's direct greenhouse gas emissions by 40 percent by 2025 (2008 baseline).

- **Insider Threat and Security Clearance Reform:** Mitigate the inherent risks and vulnerabilities posed by personnel

with trusted access to government information, facilities, systems, and other personnel.

- **Job-Creating Investment:** Improve Federal investment tools and resources, while also increasing interagency coordination, to encourage foreign direct investment, spurring job growth.
- **Infrastructure Permitting Modernization:** Modernize the Federal permitting and review process for major infrastructure projects to reduce uncertainty for project applicants, reduce the aggregate time it takes to conduct reviews and make permitting decisions by half, and produce measurably better environmental and community outcomes.
- **STEM Education:** Improve science, technology, engineering and mathematics (STEM) education by implementing the Federal STEM Education Five-Year Strategic Plan, announced in May 2013.
- **Service Members and Veterans Mental Health:** Improve mental health outcomes for service members, veterans, and their families.

Management Oriented Cross-Agency Priority Goals

- **Customer Service:** Deliver world-class customer services to citizens by making it faster and easier for individuals and businesses to complete transactions and have a positive experience with government.
- **Smarter IT Delivery:** Improve outcomes and customer satisfaction with Federal services through smarter IT delivery and stronger agency accountability for success.
- **Category Management:** Expand the use of high-quality, high-value strategic sourcing solutions in order to improve the government's buying power and reduce contract duplication.
- **Shared Services:** Strategically expand high-quality, high value shared services to improve performance and efficiency throughout government.
- **Benchmark and Improve Mission-Support Operations:** Improve administrative efficiency and increase the adoption of effective management practices by establishing cost and quality benchmarks of mission-support operations and giving agency decision makers better data to compare options, allocate resources, and improve processes.
- **Open Data:** Fuel entrepreneurship and innovation and improve government efficiency and effectiveness by unlocking the value of government data and adopting management approaches that promote interoperability and openness of this data.
- **Lab-to-Market:** Increase the economic impact of Federally-funded research and development by accelerating and improving the transfer of new technologies from the laboratory to the commercial marketplace.
- **People and Culture:** Innovate by unlocking the full potential of the workforce we have today and building the workforce we need for tomorrow.

A hyperlinked table to the Federal CAP goals is presented below.

FEDERAL CROSS-AGENCY PRIORITY GOALS	
Priority Goal	**performance.gov link**
Cybersecurity	*http://www.performance.gov/node/3401*
Climate Change (Federal Actions)	*http://www.performance.gov/node/3406*
Insider Threat and Security Clearance Reform	*http://www.performance.gov/node/3407*
Job-Creating Investment	*http://www.performance.gov/node/3408*
Infrastructure Permitting Modernization	*http://www.performance.gov/node/3393*
STEM Education	*http://www.performance.gov/node/3404*
Service Members and Veterans Mental Health	*http://www.performance.gov/node/3405*
Customer Service	*http://www.performance.gov/node/3400*
Smarter IT Delivery	*http://www.performance.gov/node/3403*
Category Management	*http://www.performance.gov/node/3399*
Shared Services	*http://www.performance.gov/node/3398*
Benchmark and Improve Mission-Support Operations	*http://www.performance.gov/node/3397*
Open Data	*http://www.performance.gov/node/3396*
Lab-to-Market	*http://www.performance.gov/node/3395*
People and Culture	*http://www.performance.gov/node/3394*

FOCUS

Announcements by the United States at Our Ocean 2016

At the third annual Our Ocean conference, the United States committed to a series of concrete actions to protect precious ocean areas and marine resources, continuing the momentum of the two previous years. We look forward to building on these and previous commitments at the conferences in 2017 hosted by the European Union in Malta, in 2018 in Indonesia, and in 2019 in Norway.

Protecting Ocean Areas – The United States announced the expansion of the Papahānaumokuākea Marine National Monument off the coast of Hawaii to cover an additional 1,146,798 square kilometers, creating the world's largest marine protected area and permanently protecting pristine coral reefs, deep sea marine habitats, and important ecological resources. The United States also announced the establishment of a new marine monument of 12,725 square kilometers covering New England Canyons and Seamounts.

Promoting Sustainable Fisheries – The United States announced pilot activities in Indonesia, the Philippines, and Bangladesh to integrate marine tenure into fisheries management projects in support of the Food and Agriculture Organization's "Voluntary Guidelines for Securing Small-Scale Fisheries in the Context of Food Security and Poverty Reduction."

Reducing Marine Pollution – The United States announced its intention to issue four grants totaling $1 million to fund projects to reduce nutrient pollution in the Caribbean and marine debris in Southeast Asia.

Climate and Ocean – The United States announced $2 billion for development and operation of two major, next generation, NASA global ocean satellite systems: the Plankton, Aerosol, Cloud ocean Ecosystem satellite, due to launch in 2022/23, will monitor the health of our ocean ecosystems and improve our understanding of the carbon cycle dynamics in the ocean and atmosphere; and the Surface Water and Ocean Topography satellite, due to launch in 2020, will improve our understanding of ocean circulation and climate. The Surface Water and Ocean Topography mission is in partnership with the French space agency Centre national d'études spatiales, as well as collaboration with Canada and the United Kingdom. In addition, the United States announced that the Soil Moisture Active Passive satellite, launched in early 2015, is now routinely producing sea surface salinity observations, which can reveal important information about changes in Earth's water cycle, ocean circulation, and climate.

Under Secretary for Economic Growth, Energy, and the Environment Catherine A. Novelli introduces U.S. Secretary of State John Kerry at the 2016 Our Ocean Conference, September 15, 2016. *Department of State*

Mapping and Understanding the Ocean – The United States announced the expansion of the Smithsonian's MarineGEO initiative to research the impacts of climate change on coastal marine biodiversity and ecosystems along the Pacific coastline of North America, with $200,000 in funding from a private Foundation and the Hakai Institute.

LEARN MORE

For further information, please contact *OurOcean2016@state.gov* or visit: *http://www.ourocean2016.org*

Performance Summary and Highlights

The Department of State plays a unique role as the agency delegated by the President for the conduct of America's foreign affairs, just as the Department of the Treasury leads on economic issues and the Department of Defense guides on defense issues. Because of the increased interconnection between agencies, agencies that lead in some program areas support in others. Although many Federal agencies have international mandates, it is critical that they coordinate with the Department of State to ensure that our relationships are managed effectively and our national objectives are achieved efficiently. As the President's introduction to the National Security Strategy makes clear, the ultimate goal is to "build and integrate the capabilities that can advance our interests."

In an era of tight budgets and constrained resources, investing in civilian power makes sense. In fact, we see investments in civilian power – with its dedication to prevention and avoiding costlier efforts in the future – as a cost-effective necessity in times of fiscal restraint.

In FY 2016, the Department of State continued to increase analytical rigor in strategic planning and performance management by focusing on agency-level, outcome-oriented performance measures that support the strategic goals and APGs. Complete performance information will be featured in the *Annual Performance Report*, scheduled for release in April 2017. The following section provides an overview of the seven major program areas. The figure on the next page shows the relationship between the Department's strategic goals described in the Strategic Plan and the major programs used to present the Statement of Net Cost and related disclosures.

Major Program Areas

Peace and Security

Today, the United States faces diverse and complex security challenges. Hostile nation states, violent extremists, transnational organized crime, unaccountable or abusive governance, weak rule of law, and inter- and intra-state conflict all affect civilian security, international stability and prosperity, and directly threaten U.S. interests and foreign policy objectives. To meet these challenges, we must secure the world's most dangerous weapons and material; prevent the rise of criminal and insurgent groups; mitigate the effects of transnational crime; dismantle terrorist organizations and deny them new recruits; strengthen rule of law globally; counter threats posed in cyberspace; reaffirm and support the balance between individual rights and collective security; and empower women to play an equal role in solving global security problems.

To realize the President's long-term policy to seek the peace and security of a world without nuclear weapons, we must: ensure that weapons-usable nuclear material is secured worldwide; halt the proliferation of nuclear weapons and their delivery systems; heighten transparency into the capabilities of countries of concern; and develop verification methods and technologies capable of detecting violations of obligations and enforcement methods sufficiently credible to deter such violations.

Democracy, Human Rights and Governance

The United States supports the expansion of democracy abroad because countries with freely elected, accountable governments contribute to a freer, more prosperous, and peaceful world. Democracies are our strongest partners on security, trade, energy, and the environment, in peace and conflict. Our support for democratic ideals supplies a lifeline for individuals striving for change, and is our greatest strength in combating violent extremism. Democratic governments work with the United States to build consensus and solve problems on the global stage. Their respect for the pluralism of ideas, inclusiveness, and vibrant civil societies leads to innovation and entrepreneurship that benefits all.

The State Department and USAID, therefore, work to strengthen democratic institutions and processes including through improved electoral administration, enhanced citizen oversight and civic participation, legislative frameworks that protect fundamental freedoms, and political party-building. Because there is no democracy without the inclusion of women and underrepresented groups, the U.S. Government also works to ensure their full participation in every aspect of these processes. Strong, moderate, issues-based democratic parties are particularly integral to ensuring healthy political debate and progress that recognizes the importance of all voices in a society.

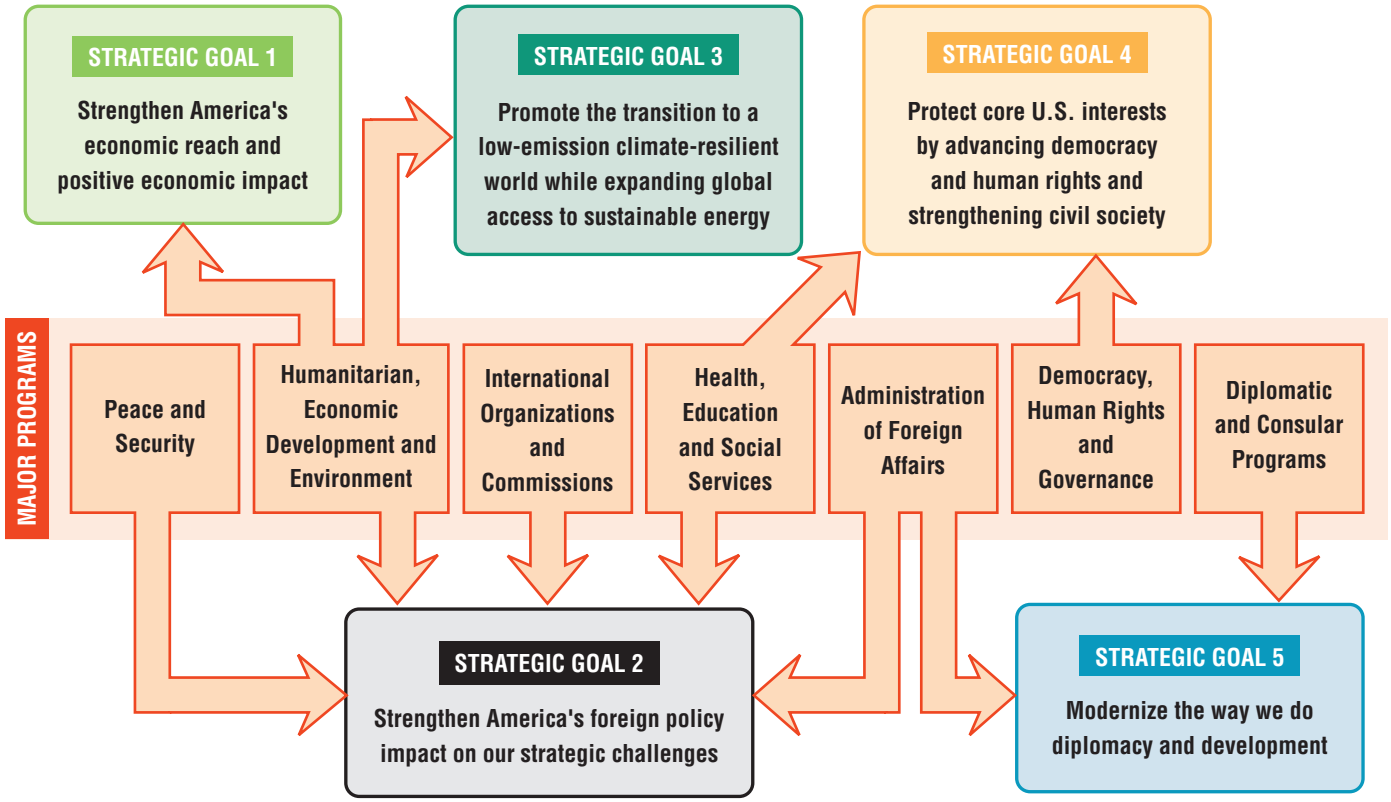
However, only a nation itself – its people – can truly bring about sustainable democracy within its borders. Studies show that democratic progress can take decades, and setbacks are common. Consistent U.S. engagement is necessary to contribute to sustainable progress.

Health, Education and Social Services

U.S. efforts to improve global health advance our broader development goals and national security interests, and are a concrete expression of our humanitarian values. The State Department and USAID use diplomacy and foreign assistance programs to address U.S. Government goals of creating an AIDS-free generation, ending preventable child and maternal deaths, and reducing the threat of infectious diseases. The U.S. Government partners with multilateral institutions, donor nations, and other organizations to encourage and empower developing countries to build strong, sustainable health care systems. Expanding health care capacity abroad is essential to long-term development. Health is the largest component of U.S. development assistance.

U.S. investments that result in healthier people make for stronger, more prosperous, and more stable countries; they enhance international security and trade; and they ensure a safer, more resilient America. Despite successes in addressing health challenges in recent decades, in some places progress

RELATIONSHIP BETWEEN STRATEGIC GOALS AND MAJOR PROGRAMS



remains far too slow. Much remains to be done to strengthen health systems in developing countries and address HIV/AIDS, tuberculosis, malaria, and maternal and child mortality. Infectious disease outbreaks, whether naturally caused, intentionally produced, or accidentally released, remain among the foremost dangers to human health and the global economy. Many countries have limited capacity to prevent, detect, and rapidly respond to these threats.

Humanitarian, Economic Development and Environment

As one of the world's most competitive and innovative economies, the United States benefits as markets open and trade barriers are lowered. A proven way to open markets and lock in transparent trade and investment rules is through trade negotiations. Doubling down on our already-robust partnership with Europe and linking the eastern and western halves of the Pacific is in our economic and security interest.

Free trade agreements are only part of the story. All around the world, State and USAID work hard to establish clear, transparent, and open markets outside of formal negotiations. U.S. firms succeed abroad when government and private sector procurement decisions are based on commercial and technical merits, when rules and regulations are transparent and enforceable, when intellectual property rights are respected, and when foreign competitors, including state-owned enterprises, do not benefit from unfair advantages or unsustainable labor and environmental practices.

The American higher education sector is an engine for American innovation and growth, providing opportunities for international students to partner with Americans in collaboration that furthers market access and increased trade in a global marketplace. Students from around the world who study in the United States also contribute to America's scientific and technical research and bring international perspectives into U.S. classrooms, helping prepare American undergraduates for global careers, and often lead to longer-term business relationships and economic benefits. The Department encourages their enrollment through EducationUSA centers worldwide, where trained advisers provide accurate, current, and comprehensive information about studying in the United States. Foreign students are particularly important to U.S.

Ambassador Russell introduces Secretary Kerry to speak at the 2016 International Women of Courage Award Ceremony in Washington, D.C., March 29, 2016. *Department of State*

colleges and universities' advanced science and engineering research and coursework, driving U.S. innovation.

International Organizations and Commissions

The United States continued to strengthen its leadership in a host of UN agencies and organizations in support of U.S. national interests and to advance shared objectives. U.S. leadership in these venues is often instrumental in driving important initiatives, highlighting the need for assertive action, and blocking counterproductive initiatives from undemocratic member states. In the absence of active U.S. presence across the international system, including at the United Nations, there is little reason to believe that U.S. national interests would or could be as energetically or successfully protected and promoted.

Only the people of a nation can truly bring about sustainable democracy. U.S. senior officials engage publicly and privately with citizens in countries eager for progress and those burdened by non-democratic forms of governance. The U.S. Government pushes back on attempts to dismantle democratic institutions, and works with like-minded governments such as: the United Nations (UN), particularly the Human Rights Council; the UN General Assembly Third (Social, Humanitarian and Cultural Affairs) Committee;

FOCUS

Explosive Detection Canine Teams at State

"The State Department's 12 explosive detection canine teams are critical to Diplomatic Security's mission," says Domestic Facilities Protection Office Director John Hampson, who heads the Department's canine program. "They regularly sweep the perimeter of all State Department facilities around the National Capital Area. They're a familiar sight to all who frequent the State Department, and there's no mistaking the message they convey – vigilance and determination in finding hidden explosives."

Deputy Secretary of State Higginbottom is pictured with DSS Bomb Dog Cooper and Officer Walters on National Dog Day in Washington, D.C., August 26, 2016.
Department of State

and the UN Special Rapporteurs. The U.S. Government also engages regional mechanisms such as the Organization for Security and Co-operation in Europe and Organization of American States; and intergovernmental organizations like the Community of Democracies to advance democratic ideals and to deter backsliding by governments.

Diplomatic and Consular Programs

Twenty-first century diplomatic and development challenges demand innovative approaches to create transformational solutions. In an era when information is disseminated instantaneously worldwide, our ability to engage quickly and effectively with the multitude of stakeholders, customers, and audiences is a core competency for our high-performing, motivated professionals. To meet these challenges also requires a flexible, nimble and efficient support platform for our professionals who are representing the United States around the world.

The Department of State and USAID are focusing on improving the security of their respective networks by implementing the U.S. Government's priority cybersecurity capabilities. Per Homeland Security Presidential Directive 12 (HSPD-12), every U.S. Government department and agency will improve their protection against unauthorized system and facility access through the use of an advanced identity management mechanism. Ensuring that only the right people are allowed on the systems, coupled with an increasingly sophisticated cybersecurity infrastructure, means that the Department and USAID are able to carry out our mission while maintaining our security. As the number and variety of the Department's activities continue to grow, the Department's ability to keep personnel safe from physical and virtual threats is a top priority. The Department of State and USAID are striving to ensure that all personnel, whether they are diplomats, development professionals, security agents or family members, receive the right training at the right time so that everyone is a contributor to overall security.

Administration of Foreign Affairs

The Department of State and USAID drive the realization of U.S. foreign policy and assistance objectives through our diplomatic and development activities. In the 21st Century, effective engagement with international partners, stakeholders, customers, and audiences requires fundamental shifts that involve applying new technologies and innovative approaches for strengthening collaboration, coordinated and integrated strategic planning linked to budget priorities, and expanding our internal and external networks. In an era when information is disseminated instantaneously worldwide, our ability to engage quickly and effectively with the multitude of

stakeholders, customers, and audiences is a core competency for our high-performing, motivated professionals. To meet these challenges also requires a flexible, nimble and efficient support platform for our professionals who are representing the United States around the world.

Another focus of the Department's efforts involves transitioning its engagement activities from ones which tended toward engagements that involved limited, exclusive, and direct contacts to an approach based on a culture of openness. This has resulted in the expanded use of digital communications platforms such as social media, digital video conferencing, smart phone applications, and similar means that allow the Department to reach directly to people and that open up its public engagement to all who are interested, not just the limited audience that can be invited to attend our events in person. Evidence-based planning and increased operational efficiency and effectiveness are among the factors accounting for the impressive improvements in performance and results.

Maximizing America's Investment through Innovation, Evaluation, and by Meeting Management Challenges

Evidence and Evaluation

The State Department supports the analysis and use of evidence in policymaking by training staff, creating groups for knowledge sharing, requiring evaluations be performed, providing funding opportunities to gather better evidence, and maintaining a central database to manage and share evaluations. The Department continues its efforts to strengthen the use of data and evidence to drive better decision making and achieve greater impact. Ongoing performance monitoring data provide a picture of how the Department's programs are doing, and the Department employs deeper analysis and program evaluation to understand "why" or "what" about them is working.

The Department's evaluation policy was updated in 2015, to require that all bureaus and independent offices, at a minimum, undertake at least one evaluation per fiscal year. The policy further specifies that those bureaus that receive and directly manage program funds must conduct evaluations of their large programs once in their programs' lifetime. Additionally, pilot programs should be evaluated before being replicated. In order to implement the evaluation policy, some bureaus at the State Department have restructured their organization to better integrate and facilitate program planning, performance management, and decision support processes for the purpose of increasing their bureaus' stakeholders' visibility into program activities in support of their bureaus' missions. Several bureaus have designated or hired a full-time Bureau Evaluation Coordinator responsible for the management, control, development, coordination, and execution of the bureaus' programs as part of a larger strategy to grow research and performance management capacity.

The Department has an Evaluation Community of Practice that meets monthly to discuss policy issues, share best practices and host presentations. The Department also hosts annual evaluation events whereby the Department's evaluation community and key Department leaders share how they have used the results of evaluations to validate current plans or inform future decisions. Additionally, the Department's Program and Project Management Community of Practice advances a practical understanding of program and project management at the Department. The community promotes industry standards, including collecting data on performance, facilitating best practices, and sharing templates and techniques to manage a wide variety of projects and programs. It shares best practices with members to advance their knowledge and skills.

LEARN MORE

More information on the Department's Evaluation Policy can be found at: *http://www.state.gov/s/d/rm/rls/evaluation/2015/236970.htm*

Images (Left) to (Right): **(1) Assistant Secretary of State for Educational and Cultural Affairs Evan Ryan presents plaques to students from Lahore University of Management Sciences for their initiative to challenge extremism in Washington, D.C., February 2, 2016; and (2) President Obama addresses the Leaders' Summit to Counter ISIL and Violent Extremism at UN Headquarters in New York City, New York, September 29, 2015.** ***Department of State***

FOCUS IN

Department of State and USAID: Assisting International Partners to Counter Violent Extremism

As announced by Deputy Secretary of State Tony Blinken on February 16, the Department of State and the U.S. Agency for International Development (USAID) are elevating and expanding ongoing efforts to Counter Violent Extremism. State and USAID released the new *Department of State and USAID Joint Strategy on Countering Violent Extremism* in May 2016. The Strategy will guide U.S. efforts to leverage the full range of diplomatic and development resources to prevent and counter the spread of violent extremism.

The new strategy outlines five objectives:

- Expand international political will, partnerships, and expertise to better understand the drivers of violent extremism and mobilize effective interventions.
- Encourage and assist partner governments to adopt more effective policies and approaches to prevent and counter the spread of violent extremism, including changing unhelpful practices where necessary.
- Employ foreign assistance tools and approaches, including development assistance, to reduce specific political or social and economic factors that contribute to community support for violent extremism in identifiable areas or put particular segments of a population at high risk of violent extremist radicalization and recruitment to violence.
- Empower and amplify locally credible voices that can change the perception of violent extremist groups among key demographic segments.
- Strengthen the capabilities of government and non-governmental actors to isolate, intervene with, and promote the rehabilitation and reintegration of individuals caught in the cycle of radicalization to violence.

Overview of Department Progress and Plans

In the past year, the Department has increased the number of staff trained in the management of evaluations, completed more evaluations of programs, projects, and processes, updated its performance measures, and begun implementing a knowledge management strategy. The details of this progress are discussed below.

Train staff in planning, project management, and evaluation process: As part of an effort to solidify its Managing for Results infrastructure, the Department launched a project to develop coursework on strategic planning and performance management which will equip personnel with the skills to develop strategic plans, articulate and measure bureau and office performance, and link performance goals to strategic goals and objectives. Through the Teamwork@State initiative, the Department advanced the skills of project managers and staff by providing three simple toolkits that improve the ability of staff and teams to develop office-level plans, manage projects, and improve processes. In the last year, the initiative provided trainings to 140 staff, and engaged another 710 through webinars, briefings, and consultations. Through FSI, the Department also trained 296 people in an intensive project management workshop that serves as introduction to the terminology and phases of the project management cycle. Finally, the Department continued to prepare personnel to conduct evaluations by providing formal training on managing evaluations to 106 people and providing formal training on evaluation methods and designs to another 50. This training is yielding a growing base of professionals with the tools to commission and use the evaluation findings.

Provide staff with management data and a process improvement methodology through the Collaborative Management Initiative: Drawing on the Teamwork@State tools, the Collaborative Management Initiative (CMI) promoted a continuous process improvement methodology that encourages ICASS service providers overseas to draw on stakeholder feedback and service performance data to analyze management operations and to make data-driven decisions about allocating resources. Training on CMI was provided to management personnel and CMI Quality Coordinators overseas.

Produce evaluations of projects, processes, and programs: In the past year, the Department completed 21 separate evaluations of Diplomatic Engagement funded work and included the discussion of evaluation findings in the budget request process with senior leadership. One of these evaluations assessed the effectiveness of the parking program administration, allocation, and assignment, resulting in improvements to the Department's Domestic Parking Program. Another evaluation reviewed the pilot Overseas Development Program, which provides Civil Service employees the opportunity to take a Foreign Service assignment through a competitive process, to inform future implementation of the program, including providing a wider range of positions. The Department continued the practice of performing 'hybrid' evaluations that build internal skills and maximize resources by pairing bureaus in the conduct of evaluations or by having bureaus contract out independent data collection and conduct the subsequent analysis internally.

Implement a comprehensive knowledge management strategy: The QDDR's recommendations for applying thoughtful knowledge management to increase the use of evidence in decision making have made strong gains since its 2015 inception with a possible implementation window of nearly four years. Across the organization, data is being gathered and structured to inform and support critical decision making in executing foreign policy. The Bureau of Information Resource Management, Enterprise Data Quality Initiative, and related governance boards have developed consistent, repeatable processes to set policies and establish standards that support knowledge management, records management, and Open Data goals. Multiple efforts represent early successes from this foundation: the recent establishment by Department leadership of a knowledge management vision, the small but critical steps of creating policy around data-awareness and metadata in the African Affairs bureau, and our public diplomacy family bureaus' reporting, analytics, and contact management technology activities. Our "Statecraft: a vision for 21st Century diplomacy" initiative, chartered in 2016, will continue to align and implement activities that further support evidence in our decision making.

AGENCY PRIORITY GOALS FY 2016 – FY 2017

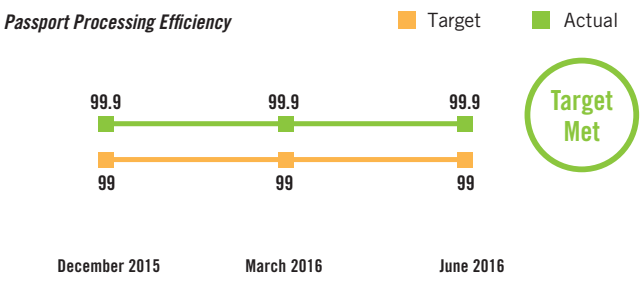
EXCELLENCE IN CONSULAR SERVICE DELIVERY

The Department established the following Excellence in Consular Service Delivery APG to set targets and measure progress in FY 2016 through FY 2017:

Goal: Improve visa and passport customer service and processing speed in support of the travel and tourism sector of the U.S. economy, while preserving the integrity of passport and visa adjudication processes. Through September 30, 2017, process 99 percent of all passport applications within the published timeframes and ensure 80 percent of nonimmigrant visa applicants are interviewed within three weeks of the date of application.

The Department continues to exceed its goal of processing 99 percent of passports within the targeted timeframe, as shown on the Department's website. Passport Services processed 99.9 percent of passport applications within the service level commitment to the American public during the first, second, and third quarters of FY 2016.

Illustrative Indicator for Excellence in Consular Service Delivery APG:

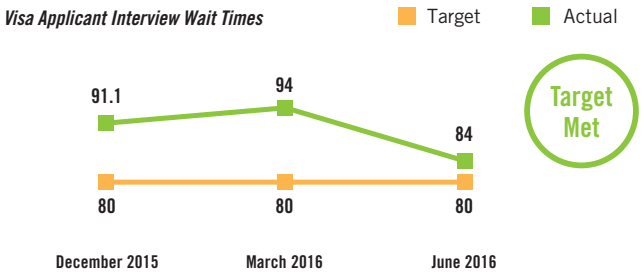


Illustrative Indicator: This indicator measures the percentage of passport applications processed within the targeted timeframe, as shown on the Department's website. For this indicator, quarterly data is presented because it is not an annual cumulative measure.

Data Source: Bureau of Consular Affairs at the Department of State.

During FY 2016 quarters one, two, and three, the Department continued to exceed the goal set out by Executive Order 13597 (Establishing Visa and Foreign Visitor Processing Goals and the Task Force on Travel and Competitiveness), issued in January 2012, by implementing new efficiencies and process improvements to keep interview wait times for visa appointments to three weeks or less at all posts. During these quarters, 91.1, 94, and 84 percent of visa applicants, respectively, received an appointment within three weeks of submitting an application. The Department anticipates that it will continue to exceed its goal.

Illustrative Indicator for Excellence in Consular Service Delivery APG:



Illustrative Indicator: This indicator measures the percentage of nonimmigrant visa applicants that are interviewed worldwide within three weeks of the receipt of their visa application. For this indicator, quarterly data is presented because it is not an annual cumulative measure.

Data Source: Bureau of Consular Affairs at the Department of State.

In the face of increasing demand, the Department of State maintains timely and high quality consular service delivery by leveraging technology and building on best practices to ensure that U.S. citizen and visa service delivery to the public is efficient, vigilant, professional, and within the targeted timeframes.

Executive Order 13597 required the Department of State to increase its visa adjudication capacity in Brazil and China by 40 percent and ensure that 80 percent of nonimmigrant visa applicants worldwide are interviewed within three weeks of receipt of an application. The Department surpassed the Executive Order target of a 40 percent increase in capacity, as defined by the number of adjudicating staff, in Brazil in June 2012 and in China in November 2012. In FY 2015, the Department adjudicated more than 13 million nonimmigrant visa applications, a 13.5 percent increase over FY 2014. In FY 2015, more than 92.5 percent of applicants worldwide, on average, were interviewed within three weeks of submitting their applications, a significant change over the 82 percent in FY 2013.

Facebook CEO Zuckerberg gives Secretary Kerry a tour of Facebook's new headquarters during the 2016 Global Entrepreneurship Summit in Menlo Park, California, June 23, 2016. *Department of State*

The Excellence in Consular Service Delivery APG provides additional benefits toward the achievement of the Department's goals. In calendar year 2014, the Department's efforts facilitated the travel of 75 million visitors to the United States, who, according to the Department of Commerce's United States Travel and Tourism Statistics, spent $220.6 billion, an average of approximately $3,000 per visitor. International travel supported an estimated 1.1 million jobs in the United States. In addition to the economic benefits, the visa adjudication process puts the Department on the front line of U.S. border security, as consular staff vet individuals who seek to travel to the United States.

ConsularOne is the Department's major information technology initiative to modernize, restructure, and enhance our consular software, as well as improve efficiency, security, and consistency across consular workflows. ConsularOne comprises a complete consular suite of application services, which will incorporate virtually all the major functions of domestic and overseas consular work into a common, intuitive, and integrated user interface, and improve how information is shared within the Department and across the government.

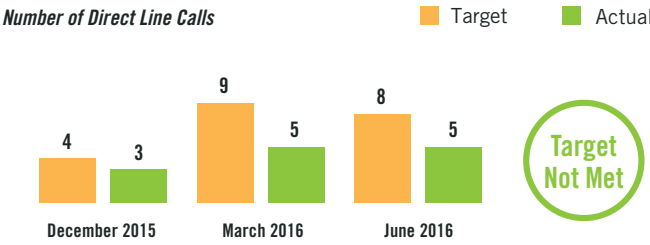
OUTREACH TO U.S. BUSINESS

The Department established the following Outreach to U.S. Business APG to set targets and measure progress in FY 2016 through FY 2017:

Goal: Increase access to market information for U.S. businesses looking to export. By September 30, 2017, the Department of State will increase the number of Direct Line calls and webinars by 20 percent and increase the average number of participants on the calls by 10 percent over the FY 2015 baseline to provide U.S. companies with tactical, on-the-ground information critical to market access and decision making.

The Department did not meet its quarterly targets for the number of Direct Line calls held during FY 2016, quarters one through three.

Illustrative Indicator for Outreach to U.S. Business APG:

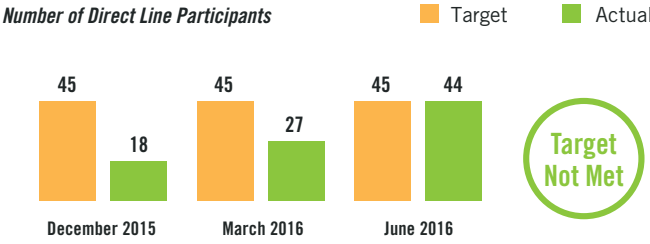


Illustrative Indicator: This indicator represents the increase in the number of Direct Line calls set up. The number of calls that the Department can set up is an appropriate gauge of the outflow of market information that our U.S. missions can provide to all U.S. companies.

Data Source: Bureau of Economic and Business Affairs at the Department of State.

The Department did not meet its quarterly targets for the average number of Direct Line call participants during FY 2016, quarters one through three. However, it did come very close to meeting the target during the third quarter.

Illustrative Indicator for Outreach to U.S. Business APG:



Illustrative Indicator: This indicator represents the increase in the number of participants on Direct Line calls. The average number of call participants is an appropriate gauge of the intake by the private sector of market information that our U.S. missions provide during a Direct Line call.

Data Source: Bureau of Economic and Business Affairs at the Department of State.

The Direct Line program provides a unique opportunity for American businesses, particularly small- and medium-sized enterprises, to engage directly via teleconference or webcast with U.S. Ambassadors overseas at our 270 Embassies and Consulates in over 190 countries. Small and medium enterprises operating in a high-speed global marketplace need answers to their questions quickly. Quick access to accurate information is the cornerstone of Direct Line program. It is important to note that U.S. business, particularly small and medium enterprises, face considerable hurdles to enter overseas markets. This information will provide U.S. companies with tactical, on-the-ground information critical to market access and decision making.

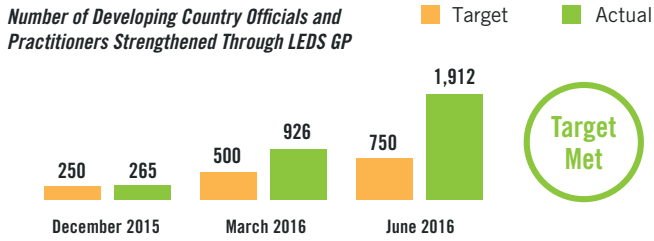
CLIMATE CHANGE

The Department, in conjunction with USAID, established the following Climate Change APG to set targets and measure progress in FY 2016 through FY 2017:

Goal: Combat global climate change by supporting the transition to high-performing, low-carbon economies. By September 30, 2017, U.S. Government partnerships with developing countries to refine and implement their low emission development strategies (LEDS) will result in achievement of 100 (from a baseline of 46) major milestones which contribute to significant, measureable progress toward achieving domestic and international contributions to global greenhouse gas reductions. At least 4,000 developing country government officials and practitioners (from a baseline of 2,000) will strengthen their LEDS capacity through participation in the LEDS Global Partnership (GP), and that capacity will result in strengthened LEDS policies or measures in 24 countries (from a baseline of 0).

As reported in FY 2016, the U.S. Government team exceeded its targets for this APG during the first, second, and third quarters. The cumulative number of developing country officials and practitioners with strengthened capacity through participation in the LEDS GP was 265 in quarter one, 926 in quarter two, and 1,912 in quarter three, exceeding the quarterly targets of 250; 500; and 750; respectively.

Illustrative Indicator for Climate Change APG:

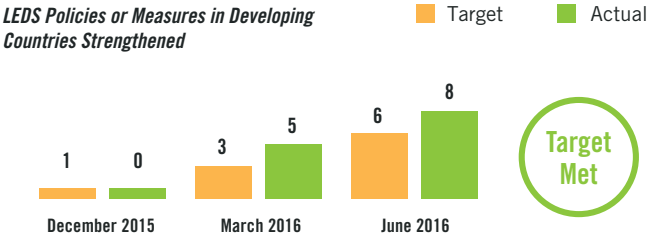


Illustrative Indicator: This indicator represents developing country officials and practitioners for which the U.S. Government has provided one or more person-hours of training or assistance through participation in LEDS GP activities.

Data Source: Department of State and USAID, LEDS GP Secretariat.

The number of LEDS policies or measures in developing countries strengthened by capacity gained through participation in the LEDS GP during FY 2016 was zero in the first quarter, five in the second quarter, and eight in the third quarter.

Illustrative Indicator for Climate Change APG:



Illustrative Indicator: This indicator represents strategies, plans, policies, processes, or activities that are strengthened or adopted to support LEDS development and implementation in countries for which U.S. Government support through the LEDS GP (e.g., trainings, workshops, webinars, technical assistance) has strengthened the capacity of practitioners and officials. Examples include a participant in measurement, reporting, and verification training using that knowledge to improve the measurement, reporting, and verification system in his country or a participant in training on energy modelling using the model to support development of an energy law.

Data Source: Department of State and USAID, LEDS GP Secretariat.

The Department of State and USAID climate change teams will continue to use evidence and evaluation to support the implementation strategy for this APG through a series of interagency discussions and regular enhancing capacity LEDS management meetings convened by the USAID Global Climate Change Coordinator and the Deputy Special Envoy for Climate Change.

Secretary Kerry makes remarks at the Counter-ISIL Ministerial Joint Ministerial Plenary in Washington, D.C., July 21, 2016.
Department of State

Through the President's Climate Action Plan, the President's Global Climate Change Initiative, and USAID's Climate Change and Development Strategy, the United States has made low-emissions, climate-resilient sustainable economic growth a priority in our diplomacy and development. The U.S. Government's efforts involve two major areas of engagement:

1. Lowering the atmospheric accumulation rate of greenhouse gases that cause climate change; and
2. Helping societies anticipate and incorporate plans for responding to potential climate change impacts.

The United States is leading efforts to address climate change through international climate negotiations while enhancing multilateral and bilateral engagement with major economies. It is also enhancing partnerships with other key countries and regions. The United States is focusing its efforts on actions that support, among others, successful implementation of the United Nations Framework Convention on Climate Change Paris Agreement including supporting developing countries in implementing their Nationally Determined Contributions and in developing and implementing their National Adaptation Plans. These efforts deliver results that contribute to an ambitious and effective global response to climate change to the year 2020 and beyond.

Management Challenges: Providing an Independent Statement of the Agency

In the 2016 annual statement, the Department's Office of Inspector General (OIG) identified the most serious management and performance challenges for the Department. These challenges were identified for the following areas: Protection of People and Facilities; Managing Posts and Programs in Conflict Areas; Information Security and Management; Oversight of Contracts and Grants; and Financial Management.

The OIG statement may be found in the Other Information (OI) section of this report (see pages 120-127). In response to the OIG's recommendations, the Department took a number of corrective actions. Information on management's assessment of the challenge and a summary of actions taken may also be found in the OI section.

Images (Left) to (Right): **(1) Newly completed photovoltaic/energy-saving project serves the U.S. Embassy in Managua, Nicaragua; and (2) The Innovation Center located in Helsinki, Finland, was awarded the prestigious LEED Platinum Certification.** ***Department of State***

FOCUS IN

Embassies Go Green

Currently, the Department has 38 certified facilities as Leadership in Energy & Environment Design (LEED) within its overseas portfolio. The portfolio now includes one prestigious LEED Platinum Certification for the Innovation Center in Helsinki, twelve LEED Gold certifications for embassies and consulates in Abuja, Brazzaville, Bujumbura, Dakar, Dubai, Manila, Mbabane, Monrovia, Monterrey, Rabat, Santo Domingo and Vientiane. The remaining 25 certifications were awarded Silver or Certified. With LEED certification recognizing buildings in over 150 countries around the world, the value, meaning, and language of LEED certification translates well to host country governments and citizens. Twenty of our facilities were pioneers as the first in the host country to achieve certification, demonstrating tangible best practices to the local building industry.

Solar power, solar shading, solar hot water, occupancy and daylight sensors, LED lighting, highly efficient HVAC strategies, highly reflective roofing materials that reduce the absorption of solar heat, electric traction elevators, and other energy conservation strategies were modeled to reduce energy costs by an average of twenty-seven percent below the industry baseline.

These new diplomatic facilities also employ advanced water conservation strategies. Consumption inside the buildings is reduced by an average of thirty-six percent through the use of air-cooled chillers, and low-flush and low-flow plumbing fixtures. The careful selection of native, adaptive, and drought tolerant plantings reduced potable water demand for landscaping by an average of seventy-three percent, when compared against baseline assumptions.

The U.S. Embassy in Monrovia, Liberia, became the first newly constructed U.S. Embassy campus to generate clean power from photovoltaic panels, and utilize a rainwater harvesting system from the day the Embassy staff moved into the building. LEED-certified U.S. embassies and consulates in Abuja, Bujumbura, Cotonou, Dakar, Mbabane, Monterrey, Santo Domingo and Vientiane also generate clean power from photovoltaic panels reducing their grid purchased energy demand by an average of nineteen percent.

In addition to the facilities certified under the LEED for New Construction and Major Renovation system, in 2015 the Mel Sembler building in Rome became the Department's first facility certified under LEED for Existing Buildings: Operations and Maintenance, and in 2016 the USAID Renovation in Dhaka became the Department's first space certified under LEED for Commercial Interiors.

LEED-certified U.S. embassies and consulates have diverted forty-five percent of construction waste from landfills and incinerators. These facilities are constructed using base building materials containing high quantities of recycled content. On average, fifteen percent of the building materials contain previously used feedstock to create the new building materials. Additionally, twenty percent of base building materials were sourced within 500 miles of the facility.

LEED certification is an internationally recognized standard for measuring building sustainability. LEED-certified buildings are designed to lower operating costs while increasing asset value, reduce waste sent to landfills, conserve energy and water, be healthier and safer for occupants, and reduce harmful greenhouse gas emissions.

Financial Summary and Highlights

The financial summary and highlights that follow provide an overview of the 2016 financial statements of the Department of State (the Department). The independent auditor, Kearney & Company, audited the Department's Consolidated Balance Sheet for the fiscal years ending September 30, 2016 and 2015, along with the Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statement of Budgetary Resources[1]. The Department received an unmodified ("clean") audit opinion on both its 2016 and 2015 financial statements. A summary of key financial measures from the Balance Sheet and Statements of Net Cost and Budgetary Resources is provided in the table below. The complete financial statements, including the independent auditor's reports, notes, and required supplementary information, are presented in Section II: Financial Information.

Summary Table of Key Financial Measures *(dollars in billions)*

Summary Consolidated Balance Sheet Data	2016	2015	Change	% Change
Fund Balance with Treasury	$ 50.7	$ 50.0	$ 0.7	1%
Investments, Net	18.4	18.2	0.2	1%
Property and Equipment, Net	21.8	20.2	1.6	8%
Cash, Receivables, and Other Assets	2.9	2.2	0.7	32%
Total Assets	**$ 93.8**	**$ 90.6**	**$ 3.2**	**4%**
Accounts Payable	$ 2.3	$ 2.2	$ 0.1	5%
After-Employment Benefit Liability	20.0	20.0	—	0%
International Organizations Liability	1.6	1.6	—	0%
Other Liabilities	1.8	1.6	0.2	13%
Total Liabilities	**$ 25.7**	**$ 25.4**	**$ 0.3**	**1%**
Unexpended Appropriations	40.8	39.8	1.0	3%
Cumulative Results of Operations	27.3	25.4	1.9	7%
Total Net Position	**$ 68.1**	**$ 65.2**	**$ 2.9**	**4%**
Total Liabilities and Net Position	**$ 93.8**	**$ 90.6**	**$ 3.2**	**4%**
Summary Consolidated Statement of Net Cost Data				
Total Cost and Loss/Gain on Assumption Changes	$ 36.0	$ 33.4	$ 2.6	8%
Less Total Revenue	8.6	7.8	0.8	10%
Total Net Cost	**$ 27.4**	**$ 25.6**	**$ 1.8**	**7%**
Summary Combined Statement of Budgetary Resources Data				
Unobligated Balance Brought Forward	$ 23.2	$ 21.3	$ 1.9	9%
Appropriations	31.8	31.2	0.6	2%
Spending Authority from Offsetting Collections	12.5	12.0	0.5	4%
Other Resources (Adjustments)	1.8	1.4	0.4	29%
Total Budgetary Resources	**$ 69.3**	**$ 65.9**	**$ 3.4**	**5%**

[1] Hereafter, in this section, the principal financial statements will be referred to as: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Combined Statement of Budgetary Resources.

To help readers understand the Department's principal financial statements, this section is organized as follows:

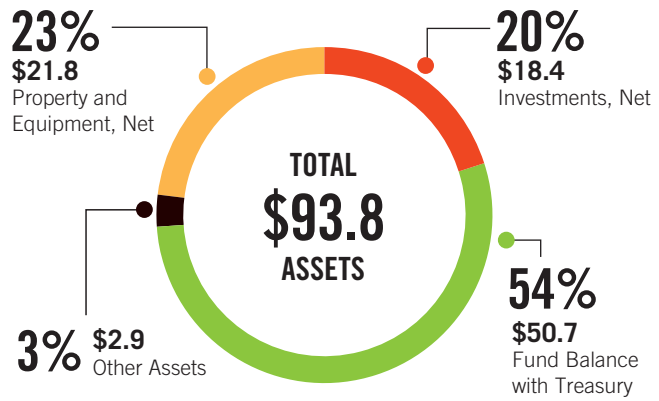
- Balance Sheet: Overview of Financial Position,
- Statement of Net Cost: Yearly Results of Operations,
- Statement of Changes in Net Position: Cumulative Overview,
- Combined Statement of Budgetary Resources: Addressing Global Challenges Through Engagement and Partnership,
- The Department's Budgetary Position,
- Resource Management Systems Summary, and
- Limitation of Financial Statements.

Balance Sheet: Overview of Financial Position

The Balance Sheet provides a snapshot of the Department's financial position. It displays, as of a specific time, amounts of future economic benefits owned or managed by the reporting entity (Assets), amounts owed (Liabilities), and amounts which comprise the difference (Net Position) at the end of the fiscal year.

Assets. The Department's total assets were $93.8 billion at September 30, 2016, an increase of $3.2 billion (4 percent) over the 2015 total. Property and Equipment increased by $1.6 billion (8 percent) from September 30, 2015. New buildings, structures and improvements accounted for $1.4 billion of this increase with the top eight New Embassy Compound projects and two annex projects accounting for $899 million of the increase (see table top right). Additionally, as part of the Property and Equipment increase, land increased by $197 million due to two acquisitions in Mexico City, Mexico for $120 million and Tegucigalpa, Honduras for $51 million.

ASSETS BY TYPE 2016 *(dollars in billions)*



Real Property Projects – 2016 Cost Activity
(dollars in millions)

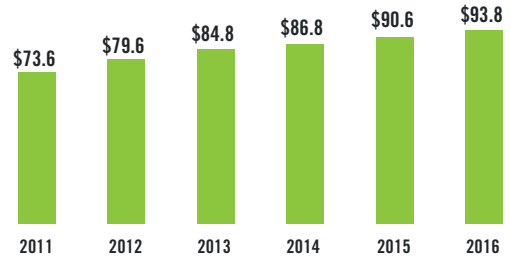
Project Name	Amount
London, United Kingdom	$ 176
Islamabad, Pakistan	123
Kabul, Afghanistan (New Annex Facility and Housing)	113
Ndjamena, Chad	89
Jakarta, Indonesia	81
Moscow, Russia (New Annex Facility)	80
Jeddah, Saudi Arabia	61
Harare, Zimbabwe	62
Taipei, Taiwan	58
Ashgabat, Turkmenistan	56
Total	$ 899

Other assets increased $910 million (58 percent) as a result of an increase in reimbursable agreements with USAID, Department of Energy, and other Federal agencies. In addition, the increases in Other Assets are driven by voluntary contributions for relief of refugees, real property rent, and advances on behalf of USAID. Fund Balance with Treasury increased $606 million (1 percent) as a result of increased balances in the Embassy Security, Construction, and Maintenance appropriation. Investments increased $204 million (1 percent) because contributions and appropriations received to support the Foreign Service Retirement and Disability Fund (FSRDF) were greater than benefit payments.

Fund Balance with Treasury, Investments, and Property and Equipment comprise 97 percent and 98 percent of total assets for 2016 and 2015, respectively.

The six-year trend in the Department's total assets is presented in the figure below. Total assets have increased an overall $20.2 billion (27 percent) since 2011. This upward trend

TREND IN TOTAL ASSETS (2011 – 2016)
(dollars in billions)

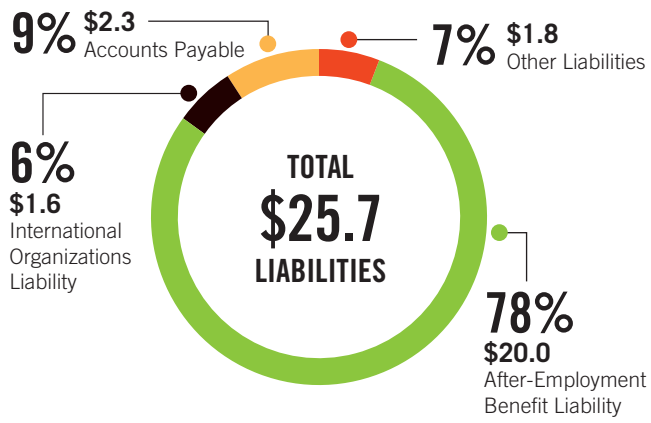


resulted primarily from a $10 billion increase in Fund Balance with Treasury, a $7 billion increase in Property and Equipment, and a $2 billion increase in Investments.

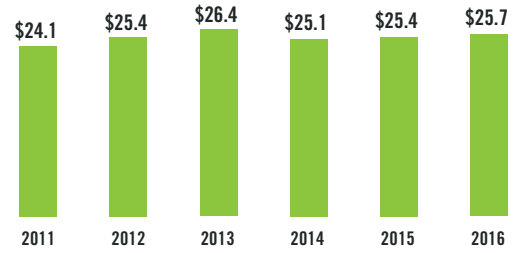
Many Heritage Assets, including art, historic American furnishings, rare books and cultural objects, are not reflected as assets on the Department's Balance Sheet. Federal accounting standards attempt to match costs to accomplishments in operating performance, and have deemed that the allocation of historical cost through depreciation of a national treasure or other priceless item intended to be preserved forever as part of our American heritage would not contribute to performance cost measurement. Thus the acquisition cost of heritage assets is expensed not capitalized. The maintenance costs of these heritage assets are expensed as incurred, since it is part of the government's role to maintain them in good condition. All of the embassies and other properties on the Secretary of State's Register of Culturally Significant Property, however, do appear as assets on the Balance Sheet, since they are used in the day-to-day operations of the Department.

Liabilities. The Department's total liabilities were $25.7 billion at September 30, 2016, an increase of $309 million (1 percent) between 2015 and 2016. Other liabilities increased by $247 million (15 percent) primarily due to increased Federal assistance liabilities reported in our Global Health Programs carried out by Health and Human Services and offset by a decrease in funded payroll, annual leave, and environmental liabilities. After-Employment Benefit Liability comprises 78 percent of total liabilities and increased $22 million (0 percent) from 2015.

LIABILITIES BY TYPE 2016 *(dollars in billions)*



TREND IN TOTAL LIABILITIES (2011 – 2016)
(dollars in billions)



The six-year trend in the Department's total liabilities from 2011 through 2016 is presented in the figure above. Over this period, total liabilities increased by $1.6 billion (7 percent). This change is principally due to the increase in the After-Employment Benefit Liability, a $1.4 billion increase. The increase is due to a higher number of Foreign Service employees enrolled in the plan and changes in the key economic indicators underlying the actuarial computation over time.

Ending Net Position. The Department's net position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, increased $2.9 billion (4 percent) between 2015 and 2016. Cumulative Results of Operations increased $1.9 billion and Unexpended Appropriations were up $1.0 billion due in part to the budgetary financing sources used to purchase property and equipment.

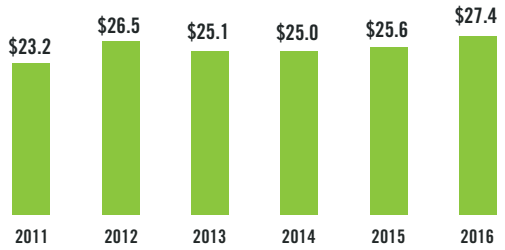
Statement of Net Cost: Yearly Results of Operations

The Statement of Net Cost presents the Department's net cost of operations by major program instead of strategic goal. The Department believes this is more consistent and transparent with its Congressional Budget submissions. Net cost is the total program cost incurred less any exchange (i.e., earned) revenue. The presentation of program results is based on the Department's major programs related to the major goals established pursuant to the Government Performance and Results Act (GPRA) of 1993, the GPRA Modernization Act of 2010, and the Department's Quadrennial Diplomacy and Development Review. As discussed in the Strategic Goals and Government-wide Management Initiatives section, the Department established new strategic goals and strategic priorities for 2014. The total net cost of operations in 2016 equaled $27.4 billion, an increase of $1.8 billion

(7 percent) from 2015. This increase of net costs was mainly due to increases in spending for Global Health Programs due to increased need in other countries and increases in spending for humanitarian efforts and security.

The six-year trend in the Department's net cost of operations from 2011 through 2016 is presented in the figure below. The $4.2 billion (18 percent) overall increase since 2011 generally reflects costs associated with new program areas related to countering security threats and sustaining stable states, as well as the higher cost of day-to-day operations such as inflation and increased global presence.

TREND IN NET COST OF OPERATIONS (2011 – 2016)
(dollars in billions)



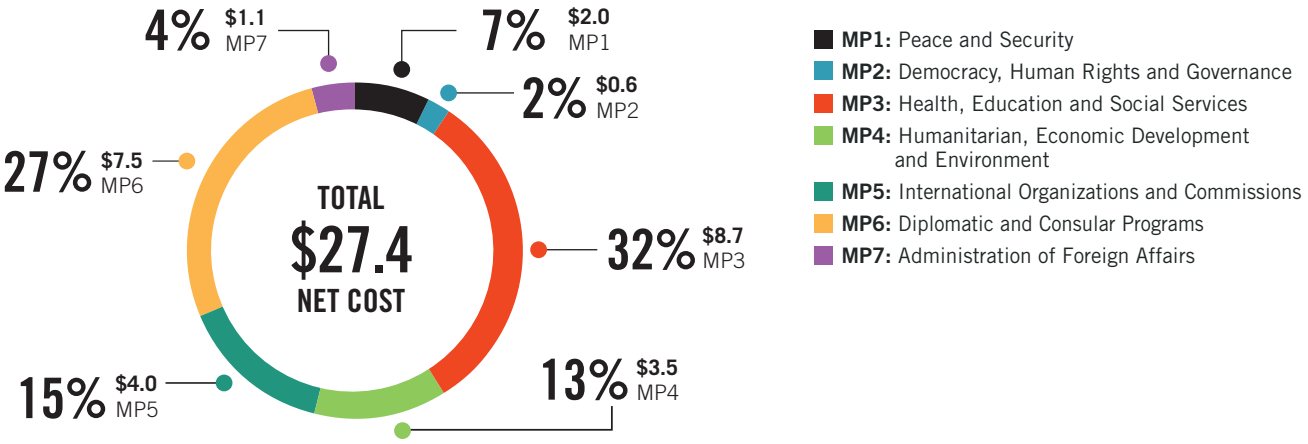
The figure below illustrates the comparative results of operations by major program, as reported on the Statement of Net Cost. As shown, net costs associated with two of the major programs (Health, Education and Social Services) and (Diplomatic and Consular Programs) represents the largest net costs in 2016 – a combined $16.2 billion (59 percent). The largest increase was in the Health, Education and Social Services program. This program increased by $1.6 billion as a result of increased spending on Global Health Programs. In the International Organizations and Commissions Program, net costs increased by $453 million as a result of timing differences in assessments received from the international organizations. There were more assessments received in 2016.

Earned Revenues

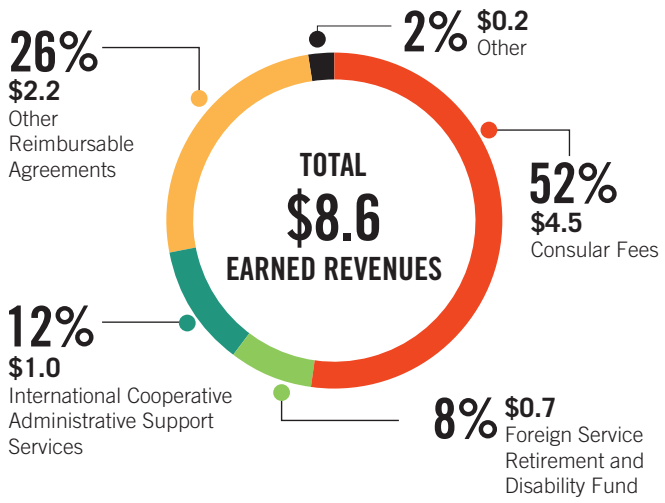
Earned revenues occur when the Department provides goods or services to another Federal entity or the public. The Department reports earned revenues regardless of whether it is permitted to retain the revenue or remit it to Treasury. Revenue from other Federal agencies must be established and billed based on actual costs, without profit. Revenue from the public, in the form of fees for service (e.g., visa issuance), is also without profit. Consular fees are established on a cost recovery basis and determined by periodic cost studies. Certain fees, such as the machine readable Border Crossing Cards, are determined statutorily. Revenue from reimbursable agreements is received to perform services overseas for other Federal agencies. The FSRDF receives revenue from employee/employer contributions, a U.S. Government contribution, and investment interest. Other revenues come from International Cooperative Administrative Support Services (ICASS) billings and Working Capital Fund earnings.

Earned revenues totaled $8.6 billion for the fiscal year ending September 30, 2016, and are depicted, by program source, in the figure on the next page. The major sources of

NET COST OF OPERATIONS BY MAJOR PROGRAM 2016
(dollars in billions)



EARNED REVENUES BY PROGRAM SOURCE 2016
(dollars in billions)



revenue were from consular fees ($4.5 billion or 52 percent), reimbursable agreements ($2.2 billion or 26 percent) and ICASS earnings ($1.0 billion or 12 percent). These revenue sources totaled $7.7 billion (90 percent). Overall, revenue increased by 10 percent – $0.8 billion from 2015 to 2016. This increase is primarily a result of an increase in surcharges from passports and an increase in reimbursable activity with other Federal agencies.

Statement of Changes in Net Position: Cumulative Overview

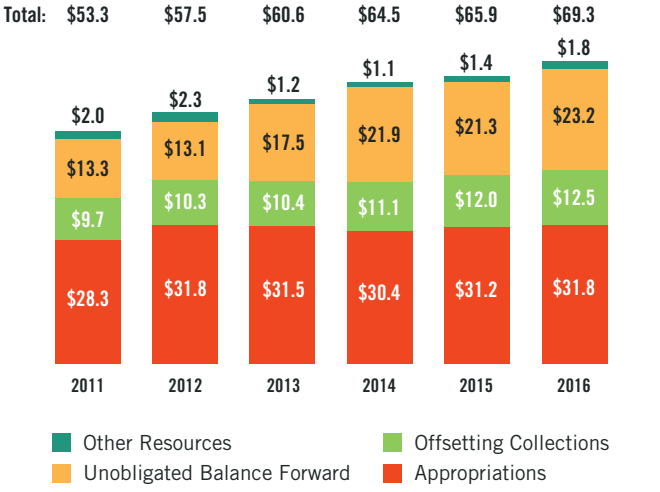
The Statement of Changes in Net Position identifies all financing sources available to, or used by, the Department to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals the Net Position at year-end. The Department's net position at the end of 2016 was $68.1 billion, a $2.9 billion (4 percent) increase from the prior fiscal year. This change resulted from the $1 billion increase in Unexpended Appropriations and a $1.9 billion increase in Cumulative Results of Operations.

Combined Statement of Budgetary Resources: Addressing Global Challenges Through Engagement and Partnership

The Combined Statement of Budgetary Resources (SBR) provides data on the budgetary resources available to the Department and the status of these resources at the fiscal year-end. The SBR displays the key budgetary equation: Total Budgetary Resources equals Total Status of Budgetary Resources.

The Department's budgetary resources consist primarily of appropriations, spending authority from offsetting collections, unobligated balances brought forward from prior years, and other resources. The figure below highlights the budgetary trend over the fiscal years 2011 through 2016. A comparison of the two most recent years shows a $3.4 billion (5 percent) increase in total resources since 2015. This change resulted mainly from increases in appropriations ($0.6 billion), offsetting collections ($0.5 billion), other resources ($0.4 billion), and unobligated balances ($1.9 billion).

TREND IN TOTAL BUDGETARY RESOURCES (2011 – 2016)
(dollars in billions)



The Department's Budgetary Position

The FY 2016 budget for the Department was funded by the FY 2016 Omnibus Appropriations Act (Public Law No. 114-113). The Department's budget is separated into two components: Enduring and Overseas Contingency Operations (OCO). While OCO has previously focused on extraordinary and temporary costs associated with operations in Iraq, Afghanistan, Pakistan, and Areas of Unrest, Public Law No. 114-113 shifted a significant amount of funding from enduring to OCO in order to comply with the spending limits set by the Bipartisan Budget Agreement of 2015. The Bureau of Budget and Planning manages the Diplomatic Engagement portion of the budget, and the Office of U.S. Foreign Assistance Resources manages Foreign Assistance.

Budgetary Position for Diplomatic Engagement

The FY 2016 Diplomatic Engagement budget totaled $15.5 billion. This includes $7.9 billion for Administration of Foreign Affairs, which constitutes the Department's operational funding. This funding supports the people and programs which carry out U.S. foreign policy and advance U.S. national security, political, and economic interests at over 270 posts in over 180 countries around the world. These funds also build, maintain, and secure the infrastructure of the U.S. diplomatic platform, from which most U.S. Government agencies operate overseas. Appropriations within the Administration of Foreign Affairs category enduring operations include Diplomatic and Consular Programs (D&CP) including Program Operations, Public Diplomacy and Worldwide Security Protection (WSP), the Capital Investment Fund (CIF), and Embassy Security, Construction, and Maintenance (ESCM) and Other Administration of Foreign Affairs appropriations. The remainder of the Diplomatic Engagement enduring operations budget is comprised of Contributions to International Organizations (CIO) and International Peacekeeping Activities (CIPA) ($2.0 billion), Related Programs ($204 million), and International Commissions ($123 million) appropriations.

Diplomatic Engagement also included $5.3 billion in OCO funding for D&CP, ESCM, the Office of Inspector General (OIG), CIO, and CIPA. OCO funding supports a range of temporary and/or extraordinary activities in areas of conflict and unrest. The Department's FY 2016 OCO funding expanded beyond the frontline states to address operational challenges presented in Syria, Somalia, and Central African Republic; as well as a number of active peacekeeping missions.

In addition to appropriated funds, the Department earns revenue from user fees. The largest portion of such revenues are derived from passport and visa charges, including Machine Readable Visa fees, Immigrant Visa fees, the Western Hemisphere Travel Surcharge, and others which support the Border Security Programs. The Border Security Programs provide protection to U.S. citizens overseas and contribute to national security and economic growth. These programs are a core element of the national effort to deny individuals who threaten the country entry into the United States while assisting and facilitating the entry of legitimate travelers, and promoting tourism.

In FY 2016, D&CP, the Department's principal operating appropriation totaled $8.2 billion, including enduring and OCO. Major elements of this funding included $4.4 billion in ongoing program operations, $956.6 million to support operations of the U.S. Mission in Iraq; $830.2 million for activities in Afghanistan; $124.7 million for key programs and activities in Pakistan; $3.4 billion for the WSP program to strengthen security for diplomatic personnel and facilities and to sustain investments in response to the Accountability Review Board report on Benghazi, Libya; and $501.3 million for public diplomacy programs to counter misinformation and secure support for U.S. policies abroad.

The Department's Information Technology (IT) Central Fund for FY 2016 investments in IT was a total of $329.9 million. This included $71.4 million from the Capital Investment Fund appropriation and $258.5 million in revenue from Expedited Passport fees. Investment priorities included modernization of the Department's global IT infrastructure to assure reliable access to foreign affairs applications, systems, and projects to facilitate collaboration and data sharing internally and with other agencies.

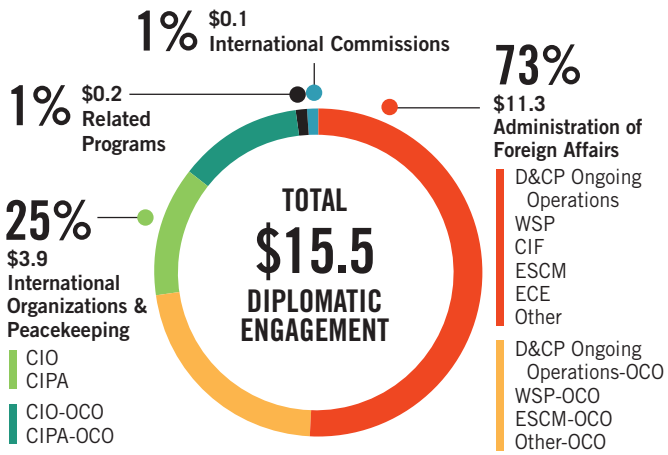
The ESCM appropriation was a total of $2.2 billion to provide U.S. missions overseas with secure, safe, and functional facilities. This supported maintenance and repairs

of the Department's real estate portfolio, which exceeds $80 billion in replacement value and includes over 23,000 properties. It included $101 million to support compound security projects and $1.2 billion to support the Capital Security Construction program, which was expanded in FY 2012 to include the maintenance cost sharing program. Other agencies with overseas staff under Chief of Mission authority also contributed $1.4 billion to capital security cost-sharing reimbursements for the construction of new diplomatic facilities.

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at $590.9 million. A key element of the Department's public diplomacy strategy are the educational and cultural exchange programs that engage foreign audiences to develop mutual understanding and build foundations for international cooperation. Major highlights of FY 2016 funding included: $325.7 million for academic programs, such as the J. William Fulbright Scholarship Program and English language teaching, and $207.7 million for professional and cultural exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program. This appropriation also funds over 400 employees of the Bureau of Educational and Cultural Affairs.

Looking ahead, the Department's FY 2017 budget request supports comprehensive U.S. engagement and implements the vision of U.S. global leadership articulated in the National Security Strategy. The FY 2017 Diplomatic Engagement budget request is a total of $16.1 billion. The enduring portion represents the Department's ongoing investment necessary to advance the U.S.'s security and economic interests around the world. It includes increases for D&CP's program operations, public diplomacy and WSP programs to meet new challenges in securing our posts overseas, and for ECE to strengthen the exchanges component of public diplomacy. The $5.3 billion requested in OCO in FY 2017 reflects the increased scope of countries and activities that have been supported with OCO funding in FY 2016 and continued in the FY 2017 request pursuant to the Bipartisan Budget Agreement. Accordingly, the FY 2017 OCO request includes $3.4 billion for D&CP and WSP, $1.8 billion for CIO and CIPA, $150 million for a proposed Mechanisms for Peace Operations Response (MPOR), $1.2 million for ESCM, and $54.9 million for Special Inspector General for Afghanistan Reconstruction. The majority of the D&CP OCO request continues to support the unique operating environment in Iraq, and the transition to a Kabul-centric presence in Afghanistan. The MPOR request would enable the United States to meet unanticipated funding commitments to UN peacekeeping mission that are established or expanded subsequent to the release of the President's Budget. The FY 2018 President's Budget will address the next Administration's strategy for continuing OCO at current levels, or normalizing such costs in the base.

DIPLOMATIC ENGAGEMENT BUDGET FY 2016
(dollars in billions)



To maximize our efficiency, the Department continues to focus on improving the way it does business and concentrates on innovative solutions and building cross-agency partnerships to achieve measurable results. In sum, the FY 2017 request will continue our diplomatic operations, programs, and initiatives that constitute an integrated strategy for renewing the U.S.'s global leadership and advancing vital U.S. national interests. With these resources, the United States can, must, and will continue to lead in the 21st Century.

Budgetary Position for Foreign Assistance

The FY 2016 Department of State Foreign Assistance budget totaled $17.9 billion. Foreign Assistance programs enable the U.S. Government to promote stability in key countries and regions, advance economic transformations, confront security challenges, respond to humanitarian crises, and encourage better governance, policies, and institutions.

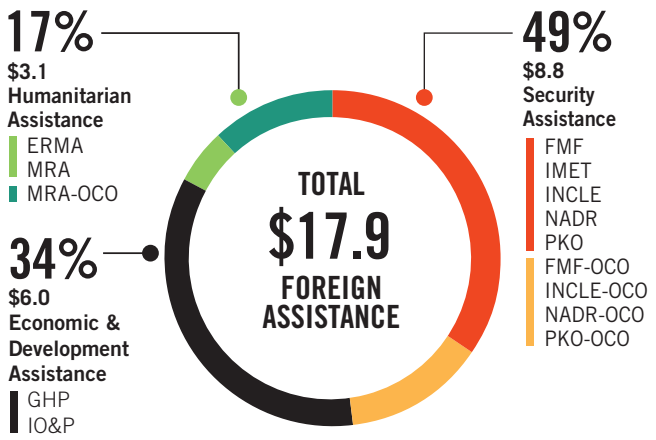
Foreign Assistance programs under the purview of the Department of State are the Democracy Fund; Foreign Military Financing; Global Health Programs; the Global Security Contingency Fund; International Military Education and Training; International Narcotics Control and Law Enforcement; International Organizations and Programs; Migration and Refugee Assistance; U.S. Emergency Refugee and Migration Assistance; Nonproliferation, Antiterrorism, Demining, and Related Programs; and Peacekeeping Operations. The Department also implements funds from the Assistance for Europe, Eurasia, and Central Asia account and the Economic Support Fund account.

An important aspect of the Department's FY 2016 budget is the Overseas Contingency Operations (OCO) component. OCO funds the extraordinary, but temporary, costs of the Department and USAID operations in Iraq, Afghanistan, and Pakistan, as well as other extraordinary contingency costs in places like Yemen, Syria, and Central African Republic. The Department's Foreign Assistance portion of the FY 2016 budget for OCO totaled $4.6 billion in Foreign Military Financing (FMF), International Narcotics Control and Law Enforcement (INCLE), Migration and Refugee Assistance (MRA), Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR), and Peacekeeping Operations (PKO).

The Democracy Fund appropriation totaled $150.5 million in FY 2016; the funds were split, however, between the Department and USAID. The Department was allocated $88.5 million to promote democracy in priority countries where egregious human rights violations occur, democracy and human rights advocates are under pressure, governments are not democratic or are in transition, where there is growing demand for human rights and democracy, and for programs promoting Internet Freedom.

The FY 2016 FMF appropriation totaled $6.0 billion, of which $1.3 billion is designated as OCO-related and $4.7 billion supports core programs. FMF furthers U.S. interests around the world by training and equipping coalition partners and friendly foreign governments that are working to achieve common security goals and shared burdens in joint missions. While the greatest proportion of FMF in FY 2016 was allocated to Israel, Egypt, Iraq, Jordan, and Pakistan, the remaining

FOREIGN ASSISTANCE BUDGET FY 2016
(dollars in billions)



funds were allocated strategically within regions to support ongoing efforts to incorporate the most recent North Atlantic Treaty Organization (NATO) members into the organization, support prospective NATO members and Coalition partners, and assist critical Coalition partners in Afghanistan.

In FY 2016, the portion of the Global Health Programs appropriation managed by the Department totaled $5.7 billion. This is the primary source of funding for the President's Emergency Plan for AIDS Relief (PEPFAR), the largest effort made by any nation to combat a single disease. These funds are used to achieve prevention, care, and treatment goals while also strengthening health systems, including new health care worker goals, and emphasizing country ownership to build a long-term sustainable response to the epidemic. The majority of the funds ($3.4 billion) continued to be allocated to the Africa region where the HIV/AIDS epidemic is the most widespread. There was also a $1.35 billion contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

For FY 2016, the Department did not receive a direct appropriation for the Global Security Contingency Fund appropriation. The account is used to support the Department's initiative which streamlines the way the U.S. Government provides assistance to military forces and other security forces responsible for conducting border and maritime security, internal security, and counterterrorism operations, as well as the government agencies responsible

for such forces in response to emergent challenges or opportunities. As decisions are made to fund particular programs, the Departments of State and Defense will transfer funds to the account for implementation.

The FY 2016 International Military Education and Training (IMET) appropriation totaled $108.1 million. IMET is a key component of U.S. security assistance that promotes regional stability and defense capabilities through professional military training and education. IMET students from allied and friendly nations receive valuable training and education on U.S. military practices and standards. IMET is an effective mechanism for strengthening military alliances and international coalitions critical to the global fight against terrorism.

The INCLE appropriation for FY 2016 totaled $1.2 billion, of which $349.2 million is OCO-related and $862.3 million is for core programs. INCLE supports bilateral and global programs critical to combating transnational crime and illicit threats, including efforts against terrorist networks in the illegal drug trade and illicit enterprises. INCLE programs strengthen law enforcement jurisdictions and institutions. In FY 2016, many INCLE resources were focused where security situations were most dire and where U.S. resources were used in tandem with host-country government strategies to maximize impact. INCLE resources were also targeted to countries having specific challenges in establishing a secure and stable environment.

The FY 2016 International Organizations and Programs appropriation totaled $339 million. It provided international organizations voluntary contributions that advanced U.S. strategic goals by supporting and enhancing international consultation and coordination. This approach is required in transnational areas where solutions to problems are best addressed globally, such as protecting the ozone layer or safeguarding international air traffic. In other areas, the United States can multiply its influence and effectiveness through support for international programs.

In FY 2016, the MRA appropriation totaled $3.1 billion, of which $2.1 billion was OCO and $931.9 million was for core programs. These funds provided humanitarian assistance and resettlement opportunities for refugees and conflict victims around the globe. In FY 2016, MRA contributed to key international humanitarian organizations and non-governmental organizations to address international humanitarian needs and refugee resettlement in the United States. A significant amount of funding was provided for assistance to Syrian refugees throughout the Middle East and North Africa.

Did You Know?

Daniel Webster, the 14th and 19th Secretary of State, was the only Secretary in U.S. history who served two terms, from 1841-1843 and from 1850-1852. He served under Presidents Harrison, Tyler and Fillmore. For a complete list of those who have served as U.S. Secretary of State, please refer to Appendix C of this report.

LEARN MORE

More information on former Secretaries can be found at: *https://history.state.gov/departmenthistory/people/secretaries*

The FY 2016 U.S. Emergency Refugee and Migration Assistance (ERMA) appropriation totaled $50.0 million. ERMA serves as a contingency fund from which the President can draw in order to respond effectively to humanitarian crises in an ever-changing international environment.

The NADR appropriation in FY 2016 totaled $885.5 million, of which $379.1 million is OCO-related and $506.4 million supported core programs. NADR funding is used to support U.S. strategic and humanitarian priority efforts, especially in the areas of nonproliferation and disarmament, export control, and other border security assistance; global threat-reduction programs, antiterrorism programs; and conventional weapons destruction.

The PKO appropriation totaled $600.6 million, of which $469.3 million was OCO and $131.3 million supported core programs. PKO is used to enhance international support for voluntary multinational stabilization efforts, including international missions not supported by the United Nations, and U.S. conflict-resolution activities. In FY 2016, the PKO

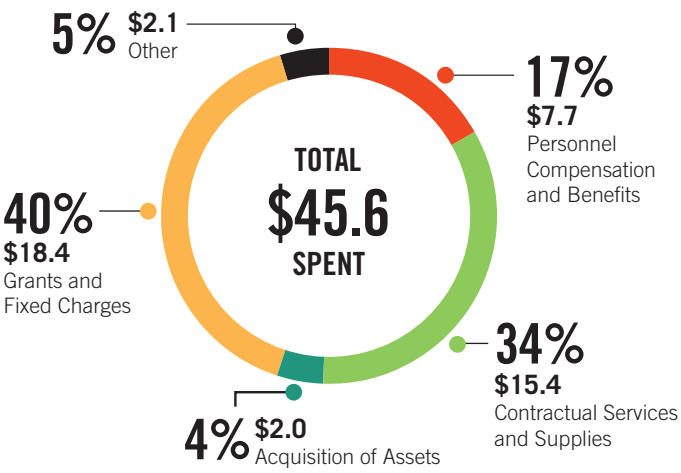
program supported ongoing requirements for the Global Peace Operations Initiative, security sector reform in Liberia, South Sudan, and the Democratic Republic of the Congo, as well as multinational peacekeeping and regional stability operations, particularly in Somalia.

The Department of State's FY 2017 budget request for Foreign Assistance is currently under congressional consideration. The request is for $16.9 billion, of which $13.1 billion supports core programs and another $3.8 billion is for OCO funding.

Budgetary Spending

The figure below presents the use of budgetary funds representing 2016 total obligations incurred, as reflected on the SBR. It shows how resources were spent in 2016, by category. As illustrated, the categories contractual services $15.4 billion (34 percent), grants and fixed charges $18.4 billion (40 percent), and personnel compensation and benefits $7.7 billion (17 percent) represent 91 percent of the agency's spending.

HOW WAS THE AGENCY'S MONEY SPENT 2016
(dollars in billions)



Resource Management Systems Summary

Other Information, Section III of this AFR, provides an overview of the Department's current and future resource management systems framework and systems critical to effective agency-wide financial management operations, financial reporting, internal controls, and interagency administrative support cost sharing. This summary presents the Department's resource management systems strategy and how it will improve financial and budget management across the agency. This overview also contains a synopsis of critical projects and remediation activities that are planned or currently underway. These projects are intended to modernize and consolidate Department resource management systems.

Limitation of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department of State pursuant to the requirements of Chapter 31 of the U.S. Code Section 3515(b). While these statements have been prepared from the books and records of the Department in accordance with FASAB standards using OMB Circular A-136, *Financial Reporting Requirements*, revised, and other applicable authority, these statements are in addition to the financial reports, prepared from the same books and records, used to monitor and control the budgetary resources. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

FOCUS

QDDR Implementation: Transforming Recommendations into Action and Impact

> *"I want the QDDR to be the blueprint for the next generation of American diplomacy. I want our diplomats and development professionals to have the technology and know-how to confront both the challenges and the opportunities."*
>
> *— Secretary of State, John Kerry*

Released April 2015, the 2015 Quadrennial Diplomacy and Development Review (QDDR) identified strategic policy priorities and institutional reforms for the State Department and the United States Agency for International Development (USAID) to ensure our foreign policy, assistance and organizations are agile, dynamic and advance our national interests.

Implementation of the 2015 Quadrennial Diplomacy and Development Review is underway and bringing real change across the QDDR's three thematic areas: global policy priorities, organizational reforms, and investments in our workforce. Since the report's release senior leaders from across the Department and USAID have created detailed plans to guide implementation of over 100 recommendations that were included in the QDDR and we are making tangible progress. Below is a sample of our recent accomplishments.

Secretary Kerry looks at Icebergs from the bridge of the HDMS Thetis after it pulled out of the port of Ilulissat, Greenland, June 17, 2016.
Department of State

Strengthening our ability to lead on global policy priorities – Building on the successful COP-21climate agreement and the President's Executive Order 13677 on climate resilient international development, we launched a climate capacity task force to improve institutional effectiveness and integrate climate-risk and resilience considerations into diplomacy and development efforts. The Department created the Global Engagement Center to better coordinate the U.S. Government's countering violent extremism communications as well as to build partnerships with governmental and non-governmental groups to counter ISIL and al-Qa'ida messaging.

Institutional reforms to make the Department more dynamic and agile – The Deputy Secretary for Management and Resources assembled a Knowledge Management Team to develop a design vision to improve the way employees communicate, collaborate, and share information. A new Risk Management Policy was developed and is integrated into Crisis Management and Leadership Training. A new toolkit was launched for Program Design and Performance Management to strengthen the Department's capacity to plan, implement, and manage programs, projects and processes. The Department launched a review of the challenges, lessons learned, and opportunities for effectively executing policy and programs in complex, dangerous posts.

Making the Department a better place to work for our employees – The Department created a Foreign Service Family Reserve Corps to accelerate and streamline family member hiring, strengthened mandatory leadership training, launched new work life wellness initiatives, and developed a diversity and inclusion strategic plan. Furthermore, programs providing greater work flexibility were expanded: voluntary leave bank, increased the number of telework agreements to enable employees to work domestically while living overseas, and extended leave without pay options.

These early successes are just the start. Additional reforms are underway to build a more strategic, dynamic and agile institution and workforce.

Visit the QDDR website: *http:/www.state.gov/qddr.*

Management Assurances and Other Financial Compliances

Management Assurances

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

Federal Managers' Financial Integrity Act

The Department of State's (the Department's) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The Department conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2016.

Management's responsibility for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets, is an important reporting requirement. The Department conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123. Based on the results of this assessment, the Department can provide reasonable assurance that its internal control over financial reporting was operating effectively and the Department found no material weaknesses in the design or operation of the internal control over financial reporting.

As a result of its inherent limitations, 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 the preparation and presentation of financial statements. 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.

John F. Kerry
Secretary of State
November 15, 2016

Departmental Governance

Management Control Program

The Federal Managers' Financial Integrity Act (FMFIA) requires the head of each agency to conduct an annual evaluation in accordance with prescribed guidelines, and provide a Statement of Assurance to the President and Congress. As such, the Department's management is responsible for managing risks and maintaining effective internal control.

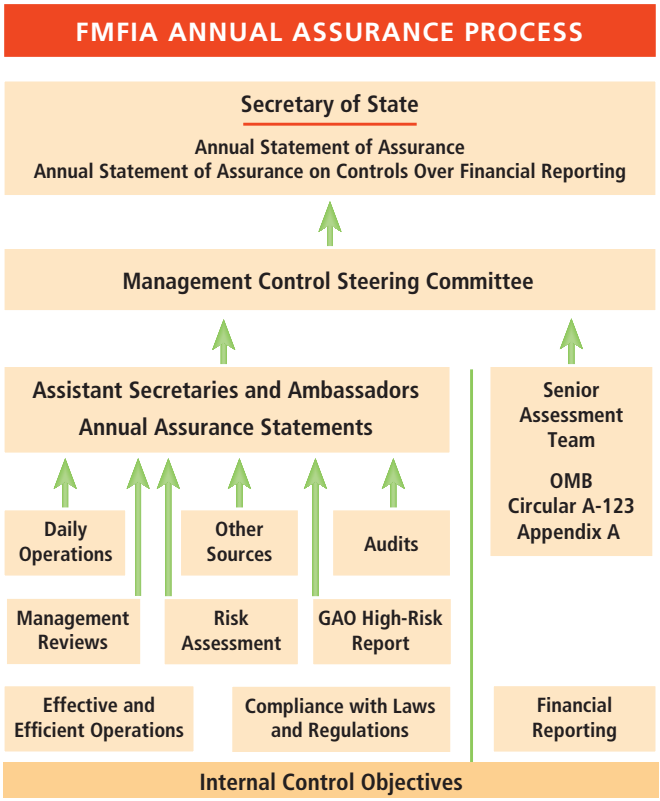
The FMFIA requires the GAO to prescribe standards of internal control in the Federal Government. Commonly known as the Green Book, these standards provide the internal control framework and criteria Federal managers must use in designing, implementing, and operating an effective system of internal control. The Green Book defines internal control as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity are achieved. These objectives and related risks can be broadly classified into one or more of the following categories:

- Effectiveness and efficiency of operations,
- Compliance with applicable laws and regulations, and
- Reliability of reporting for internal and external use.

On July 15, 2016, OMB issued the revised OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. This Circular provides implementation guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by identifying and managing risks, establishing requirements to assess, correct, and report on the effectiveness of internal controls. OMB Circular A-123 implements the FMFIA and Green Book requirements. FMFIA also requires the Statement of Assurance to include assurance on whether the agency's financial management systems comply with government-wide requirements. The financial management systems requirements are directed by Section 803 (a) of the FMFIA and Appendix D to OMB Circular A-123, *Compliance with the Federal Financial Management Improvement Act of 1996*.

The Secretary of State's 2016 Statement of Assurance for FMFIA is provided on the previous page. We have also provided a Summary of Financial Statement Audits and Management Assurances as required by OMB Circular A-136, *Financial Reporting Requirements*, revised, in the Other Information section of this report. In addition, there are no individual areas for the Department on GAO's bi-annual High-Risk List issued in February 2015.

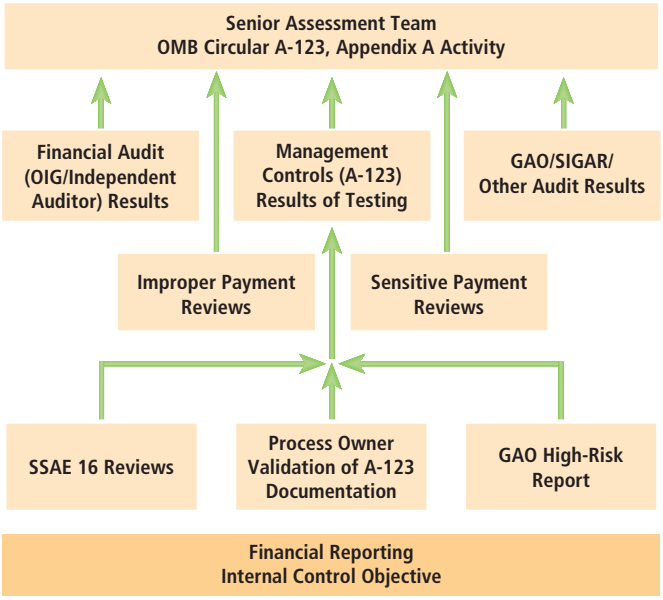
The Department's Management Control Steering Committee (MCSC) oversees the Department's management control program. The MCSC is chaired by the Comptroller, and is comprised of nine Assistant Secretaries [including the Inspector General (non-voting)], the Chief Information Officer, the Deputy Comptroller, the Deputy Legal Adviser, the Director for the Office of Budget and Planning, the Director for Human Resources, the Director for Management Policy, Rightsizing, and Innovation, and the Director for the Office of Overseas Buildings Operations. Individual statements of assurance from Ambassadors assigned overseas and Assistant Secretaries in Washington, D.C. serve as the primary basis for the Department's FMFIA statement of assurance issued by the Secretary. The statements of assurance are based on information gathered from various sources including



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, the Special Inspector General for Afghanistan Reconstruction, and the Government Accountability Office conduct reviews, audits, inspections, and investigations that are considered by management.

The Senior Assessment Team (SAT) provided oversight during 2016 for the internal control over financial reporting program in place to meet Appendix A to OMB Circular A-123 requirements. The SAT reports to the MCSC and is comprised of 16 senior executives from bureaus that have significant responsibilities relative to the Department's financial resources, processes, and reporting, and the Office of the Legal Adviser. An executive from the Office of Inspector General is also a non-voting member of the SAT. In addition, the Department's Office of Management Controls employs an integrated process to perform the work necessary to meet the requirements of Appendix A, Appendix C (regarding the Improper Payments Information Act), and the FMFIA. The Department employs a risk-based approach in evaluating internal controls over financial reporting on a multi-year rotating basis, which has proven to be efficient. Due to the broad knowledge of management involved with the Appendix A assessment, along with the extensive work performed by the Office of Management Controls, the Department evaluated issues on a detailed level. The 2016 Appendix A assessment did not identify any material weaknesses in the design or operation of the internal control over financial reporting. The assessment did identify several significant deficiencies in internal control over financial reporting that management is closely monitoring.

A-123, APPENDIX A PROCESS



The Department's management controls program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and various Federal laws and regulations. To that end, the Department has dedicated considerable resources to administer a successful management control program. The Department implemented the new, expanded requirements in OMB Circular A-123 during FY 2016 while working to evolve our existing internal control framework to be more value-added and provide for stronger risk management for the purpose of improving mission delivery. Some of A-123's expanded requirements required to be implemented within FY 2016 were defined in the revised Green Book and directly related to establishing entity-level controls as a primary step in operating an effective system of internal control. Entity-level controls are mostly within the control environment, risk assessment, control activities, information and communication, and monitoring components of internal control in the Green Book, which are further required to be analyzed by 17 underlying principles of internal control. For the Department, all 5 components and 17 principles are relevant for establishing an effective internal control system.

The Department also places emphasis on the importance of continuous monitoring. It is the Department's policy that any organization with a material weakness or significant deficiency must prepare and implement a corrective action plan to fix the weakness. The plan combined with the individual statements of assurance and Appendix A assessments provide the framework for monitoring and improving the Department's management controls on a continuous basis. Management will continue to direct and focus efforts to resolve significant deficiencies in internal control identified by management and auditors.

During FY 2016, the Department continued to take important steps to transform how the Department approaches risk management and develop the foundation for an Enterprise Risk Management (ERM) System. A principal element will be to integrate better risk management into our everyday work across all of our operations. The Department's Office

of Policy, Rightsizing, and Innovation (M/PRI) leads the Department's ERM implementation. M/PRI, in collaboration with the Office of Budget and Planning and the Office of the Comptroller, is currently coordinating with offices throughout the Department to establish the Department's risk profile in compliance with OMB Circular A-123. Additionally, M/PRI is working on an implementation plan with tools, training, and communication components that will establish a more structured approach to Risk Management.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that Federal agencies' financial management systems provide reliable financial data that complies with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level.

OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*, provides guidance the Department used in determining compliance with FFMIA. The Department considered results of OIG and GAO audit reports, annual financial statement audits, the Department's annual Federal Information Security Modernization Act Report, and other relevant information. The Department's assessment also relies upon evaluations and assurances under the Federal Managers' Financial Integrity Act of 1982 (FMFIA), including assessments performed to meet the requirements of OMB Circular A-123 Appendix A. When applicable, particular importance is given to any reported material weakness and material non-conformance identified during these internal control assessments. The Department has made it a priority to meet the objectives of the FFMIA.

In its Report on Compliance and Other Matters, the Independent Auditor reported that the Department's financial management systems did not substantially comply with certain Federal systems requirements and the USSGL at the transaction level. The Department acknowledges that the Independent Auditor has noted certain weaknesses in our financial management systems. OMB's Appendix D provides a revised compliance model that entails a risk-and outcome-based approach to assess FFMIA compliance. In our assessments and evaluations, the Department identified similar weaknesses. However, applying the guidance and the assessment framework noted in Appendix D to OMB Circular A-123, the Department considers them deficiencies versus substantial non-conformances relative to substantial compliance with the requirements of the FFMIA. The Department will continue to work with the Independent Auditor in 2017 and beyond to resolve these weaknesses.

Federal Information Security Modernization Act

The Federal Information Security Modernization Act of 2014 (FISMA) requires Federal Agencies to develop, document, and implement an agency-wide program to protect government information and information systems that support the operations and assets of the agency. The 2014 Act superseded the original Federal Information Security Management Act of 2002. The 2014 Act provided a leadership role for the Department of Homeland Security, created new cyber breach notification requirements, and modified the scope of reportable information from primarily policies and financial information to specific information about threats, security incidents, and compliance with security requirements.

The Department takes the responsibility of being compliant with FISMA very seriously. The five core functions as described in the National Institute of Standards and Technology Cybersecurity Framework outline activities to achieve cybersecurity outcomes and characterize the accomplishments to improve the state of cybersecurity at the Department.

Identify

- The Department procured a Governance, Risk Management, and Compliance tool to improve Authority to Operate and Plans of Action and Milestones management. Implementation has begun with deployment scheduled during 2017.
- The Department is codifying an information security risk management strategy, which identifies, assesses, responds to, and monitors information security risk at all levels of the organization.
- The Department established the Cloud Computer Governance Board to ensure appropriate and authorized use of cloud services.

Protect

- The Department improved identity and authentication management by requiring all OpenNet and ClassNet users of workstations to use 2-factor authentication to access those networks. This effort will expand to include deployment of privileged account management tools that limit the availability of those accounts.
- The Department reduced the number of stale accounts (accounts not logged into in the last 90 days) and misconfigured accounts (i.e., shared mailboxes not configured to use SmartCards) on the Department's network. Stale accounts dropped from 32,000 to 14,000 since January 2016.

Detect

- The Department continues to leverage the Department of Homeland Security's Continuous Diagnostics and Mitigation (CDM) Program. The CDM Program enhances our existing tools to ensure all hosts, regardless of operating system, are identified and monitored for vulnerabilities.
- The Department deployed a phishing awareness tool that tests and trains employees how to recognize and correctly respond to phishing attacks.

Response

- The Department established the Cybersecurity Integrity Center, under the Joint Security Operation Center concept, to further enhance cyber monitoring activities and the Department's ability to detect anomalous behavior on the network.

Recover

- The Department is onboarding mission critical applications to an alternate site and conducting high availability and disaster recovery tests, which will enable the Department to maintain operations in the event of a disaster or prolonged outage.
- The Department is working to strengthen its IT contingency plan program to ensure IT contingency plans are developed and tested properly.

Consistent with last year, in its FY 2016 FISMA Report, the OIG cites significant weaknesses to information systems security. The Department acknowledges the weaknesses identified by the OIG in its FISMA review but does not believe that any of the FISMA findings, either individually or collectively, rise to the level that requires reporting of a material weakness under FMFIA. The Department of State remains committed to adopting the best cybersecurity practices and embedding them into the Department's culture. As a result, we continue to improve our cybersecurity posture and provide transparency across the Department and with external partners.

Ambassador Power delivers remarks at the Pledging Conference in Support of Iraq, Washington, D.C., July 20, 2016. *Department of State*

Other Regulatory Requirements

The Department is required to comply with a number of other legal and regulatory financial requirements, including the Improper Payment Information Act (IPIA, as amended), the Debt Collection Improvement Act, and the Prompt Payment Act. The Department determined that none of its programs are risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. In addition, the Department does not refer a substantial amount of debts to Treasury for collection, and has successfully paid vendors timely over 97 percent of the time for the past three fiscal years. A detailed description of these compliance results and improvements is presented in the Other Information section of this report.

Secretary Kerry and Chilean President Bachelet examine a shark display at the Our Ocean Conference 2015 in Valparaiso, Chile, October 5, 2015. Department of State

SECTION II:

Financial Section

Message from the Comptroller

It is my sincere privilege to present the 2016 Agency Financial Report on behalf of the Department of State, including this year's audited Financial Statements. The AFR is more than a document with facts and figures. It is the cornerstone of our efforts to disclose our financial status and dedicated stewardship over the assets and resources entrusted to us. The financial information herein truly reflects the size and scope of our vital global foreign affairs mission. It reflects the work and diligence on an ongoing basis by dedicated professionals worldwide, in some of the most difficult operating environments. And most importantly, it speaks to the Department's commitment to the American public to transparently demonstrate our effective management and accountability over our finite resources.

I always feel compelled to note the immense scale and complexity of the Department's global operations and corresponding financial management programs and activities. It is an essential backdrop and context for our performance and challenges on the annual audit. The Department operates in over 270 embassies and consulates, located in more than 180 countries around the world. We conduct business on an around-the-clock basis in over 135 foreign currencies, account for more than 500 separate fiscal funds, maintain 214 bank accounts around the world, and manage real property assets with historical costs of more than $28 billion. We provide the shared administrative operating platform for more than 45 other U.S. Government entities overseas; and pay more than 100,000 Foreign and Civil Service, overseas local employees, and Foreign Service annuitants each month. These financial activities support and strengthen our ability to address a broad range of ongoing foreign policy challenges and engagements that will continue to demand our attention.

To further our global efforts, the Department's corporate finance Bureau, the Bureau of the Comptroller and Global Financial Services, continues to prudently implement a vision built on priority investments in modern transformative resource management systems; standardized enterprise-wide financial business processes; and providing accurate, timely, and actionable enterprise financial data. As an organization, we have emphasized our obligation to meet our day-to-day global financial services to our customers through our commitment to ISO-9001 certified operations and a Capability Maturity Model Integration (CMMI) standard for financial systems development. We have also strived to smartly integrate the ever-increasing audit and compliance requirements driven by OMB, Treasury, and the Congress. These include the implementation of the Digital Accountability and Transparency Act (DATA Act) to deliver integrated and detailed data on Department global operations while maintaining proactive cyber security efforts around our global financial resource systems. Over the next several years, there is no doubt that the use of data as a strategic resource will be central to our transformation efforts. This, together with the continuous assessment and enhancement of the cybersecurity for our financial systems and data, are two of the most critical challenges we face.

Improving Federal financial management is a key performance area, and we continue to strengthen our collaboration with partners across the Department's global platform to promote an environment and culture of strong management controls and improved financial management. As highlighted in the AFR, the Department does not have any programs at risk for making significant improper payments. Since 2012, we have implemented new initiatives for conducting payment risk assessments and recapture audits, as well as verifications against Treasury's Do Not Pay databases. In their annual assessment, the OIG found the Department's improper payments program to be in compliance with the Improper Payments Information Act, as amended. We received high marks on our financial survey benchmark, implemented by OMB as part of their Government-wide core agency operations benchmarking. In FY 2016, we signed an agreement with the Department of the Treasury for the use of an approved electronic Invoice Processing Platform, as required by OMB, which will ultimately transform our global payment efforts. Last year, in recognition of the exceptional quality of our AFR, the Association of Government Accountants awarded the Department the prestigious *Certificate of Excellence in Accountability Reporting.*

The external annual audit process is another essential part of our commitment to strong corporate governance and financial management diligence. The audited Financial Statements in the AFR represent the culmination of a year-round rigorous process with our partners, the Office of the Inspector General (OIG) and the Independent Auditor, Kearney & Company. While we may not always agree on all points with our audit partners, we fully recognize and appreciate the importance of this annual diligence. I would like to thank both parties for their collaborative and professional efforts throughout the audit process. In addition, I would like to sincerely thank and call attention to the Department's financial professionals, globally, who support this process and form the foundation for our success and strong financial stewardship.

To this end, I am pleased to report that the Department has received an unmodified ("clean") audit opinion on its FY 2016 Financial Statements, with no material weaknesses in internal controls over financial reporting identified by the Independent Auditor. In addition, the Department maintains a robust system of internal controls that are championed and validated by senior leadership. For FY 2016, no material weaknesses in internal controls were identified by senior leadership and no material weaknesses in internal controls over financial reporting were identified by the Senior Assessment Team or the Management Control Steering Committee. As a result, the Secretary was able to provide reasonable assurance on the effectiveness of the Department's overall internal controls and the internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act.

We are pleased with what has been accomplished this year, but we recognize that there are a number of items noted in the AFR and the Independent Auditor's Report that will require our continued attention and diligence. Having been a part of the Department's financial management team and financial audit process for more than two decades, I know there are new requirements, initiatives, issues and opportunities for improvement right around the corner. This is particularly true given the global and complex nature of our financial operations and the daily uncertainty of the world in which we operate. We understand and appreciate this context and are committed to addressing our recurring and new challenges as we strive to be the most efficient and effective stewards of the Department's limited resources in support of our vital mission.

Sincerely,

Christopher H. Flaggs
Comptroller
November 15, 2016

November 15, 2016

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Steve A. Linick

SUBJECT: Independent Auditor's Report on the U.S. Department of State 2016 and 2015 Financial Statements (AUD-FM-17-09)

An independent certified public accounting firm, Kearney & Company, P.C., was engaged to audit the consolidated financial statements of the U.S. Department of State (Department) as of September 30, 2016 and 2015, and for the years then ended; to provide a report on internal control over financial reporting; to report on whether the Department's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements it tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance.

In its audit of the Department's 2016 and 2015 financial statements, Kearney & Company found

- the consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2016 and 2015, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America;

- no material weaknesses[1] in internal control over financial reporting;

[1] A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

U.S. Department of State, Office of Inspector General, Washington, DC 20520-0308

- five significant deficiencies[2] in internal control, specifically in the areas of financial reporting, property and equipment, budgetary accounting, validity and accuracy of unliquidated obligations, and information technology; and

- three instances of reportable noncompliance with laws, regulations, contracts, and grant agreements tested, specifically the Antideficiency Act, the Prompt Payment Act, and FFMIA.

Kearney & Company is responsible for the attached auditor's report, which includes the Independent Auditor's Report, the Report on Internal Control Over Financial Reporting, and the Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements, dated November 15, 2016, and the conclusions expressed in the report. The Office of Inspector General (OIG) does not express an opinion on the Department's financial statements or conclusions on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements, including whether the Department's financial management systems substantially complied with FFMIA.

Comments on the auditor's report from the Bureau of the Comptroller and Global Financial Services are attached to the report.

OIG appreciates the cooperation extended to it and Kearney & Company by Department managers and staff during the audit.

Attachment: As stated

[2] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT
AUD-FM-17-09

To the Secretary and the Inspector General of the U.S. Department of State

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of State (Department), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2016 and 2015, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, condition assessment of Heritage Assets section, Combining Statement of Budgetary Resources, and Deferred Maintenance and Repairs section (hereinafter referred to as "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, "Financial Reporting Requirements," and the Federal Accounting Standards Advisory Board, which consider the information to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of making inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the Message from the Secretary, the Message from the Comptroller, the Introduction, Appendices, and the Other Information Section, as listed in the Table of Contents of the Department's Agency Financial Report, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on the information.

KEARNEY & COMPANY

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02, we have also issued reports, dated November 15, 2016, on our consideration of the Department's internal control over financial reporting and on our tests of the Department's compliance with provisions of applicable laws, regulations, contracts, and grant agreements for the year ended September 30, 2016. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 15, 2016

KEARNEY & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Secretary and the Inspector General of the U.S. Department of State

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2016, and have issued our report thereon dated November 15, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements."

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was also not designed to identify deficiencies in internal control that might be significant. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Department's internal control to be significant deficiencies.

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Significant Deficiencies

I. Financial Reporting

Weaknesses in controls over financial reporting have been reported as either a material weakness or a significant deficiency since the audit of the Department's FY 2009 financial statements. The Department has addressed certain control deficiencies reported in prior financial statement audit reports related to financial reporting and improved underlying data. However, financial reporting continues to be a significant deficiency because of issues with the preparation of the Statement of Budgetary Resources (SBR).

The SBR is derived predominantly from an entity's budgetary general ledger in accordance with budgetary accounting rules. Information on the SBR should reconcile to budget execution information reported to the Department of the Treasury on Standard Form (SF) 133, Report on Budget Execution and Budgetary Resources, and with information reported in the Budget of the United States Government to ensure the integrity of the information presented. Agencies must submit their financial information, including budgetary data, to the Department of the Treasury using the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

We found that the Department had made numerous adjustments related to budgetary resources outside the financial system, most of which were needed to pass GTAS automated edit checks. Further, we identified manual adjustments that were not supported as well as manual adjustments that were misclassified. The Department recorded adjustments to the SBR and related footnotes as a result of the audit procedures performed on the Department's SBR reporting process.

The Department did not enable the full functionality of its accounting systems to capture all budgetary accounting events and to automate budgetary reporting procedures. Although the Department took steps to standardize and document the process to prepare and input data into GTAS, the Department did not formalize or implement sufficient controls to ensure all manual budgetary adjustments were supported or that adjustments were consistently recorded when preparing the SBR. Manual adjustments require an increased measure of internal control and review, reduce the Department's ability to produce statements timely, and increase the likelihood of errors in the statements.

II. Property and Equipment

The Department reported over $21 billion in net property and equipment on its FY 2016 balance sheet. Real and leased property consisted primarily of facilities used for U.S. diplomatic missions abroad and capital improvements to these facilities. Personal property consisted of several asset categories, including aircraft, vehicles, security equipment, communication equipment, and software. Weaknesses in property and equipment were initially reported in the audit of the Department's FY 2005 consolidated financial statements and subsequent audits. In FY 2016, the Department's internal control structure continued to exhibit several deficiencies that negatively affected the Department's ability to account for real and personal property in a complete, accurate, and timely manner. We concluded that the combination of property-related control

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deficiencies was a significant deficiency. The individual deficiencies we identified are summarized as follows:

- Personal Property Acquisitions and Disposals – The Department uses several non-integrated systems to track, manage, and record personal property transactions, which are periodically merged or reconciled with the financial management system to centrally account for the acquisition, disposal, and transfer of personal property. We noted a significant number of personal property transactions from prior years that were not recorded until the current year. In addition, we noted that the acquisition value for a number of selected items could not be supported and that the gain or loss on personal property disposals was not recorded properly for numerous items. The Department's control structure did not ensure that personal property acquisitions, disposals, and transfers were recorded timely and accurately. In addition, the Department's monitoring activities were not always effective to ensure proper financial reporting for personal property. The errors resulted in misstatements to the Department's consolidated financial statements. The lack of effective control may result in the loss of accountability for asset custodianship, which could lead to undetected theft or waste.

- Real Property Acquisitions and Disposals – The Department operates at more than 270 posts in over 180 countries around the world and is primarily responsible for acquiring and managing real property in foreign countries on behalf of the U.S. Government. The Department's overseas real property inventory consists primarily of land and facilities overseas that are used for diplomatic missions and capital improvements to those facilities. We found several real property transactions that were not recorded by the Department in a timely manner. Each untimely transaction related to an event other than traditional purchases or sales, such as real property exchanges, transfers to a host government, and property demolitions. Although the Department has a process to identify real property transactions that need to be recorded in its accounting records, the process did not effectively identify transactions that occurred by means other than traditional sales and purchases of real property. The untimely processing of property transactions resulted in misstatements in the Department's property balances.

- Accounting for Leases – The Department manages over 16,700 real property leases throughout the world. The majority of the Department's leases are short-term operating leases. The Department must disclose the future minimum lease payments (FMLP) related to the Department's operating lease obligations in the footnotes to the consolidated financial statements. We found numerous recorded lease terms that did not agree with supporting documentation. We also found errors in the Department's FMLP calculations, despite using accurate lease data. In addition, we tested leases that were scheduled to expire and found multiple leases that had been renewed; however, the renewed lease terms were not included in the Department's FMLP calculations. Finally, we tested leases listed as being occupied by other agencies and found one misclassified lease that should have been included in the Department's FMLP calculation. The Department's processes to monitor lease information provided by posts and to ensure the accuracy of FMLP calculations were not always effective. The discrepancies identified in

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the Department's FMLP calculation methodology led to errors in the Department's financial statement footnote disclosure.

- Accounting for Prepaid Leases – For over 10,000 of the leases managed by the Department, the Department makes prepayments that cover multiple months of rent expenses (such as rent prepayments made on an annual, semi-annual, or quarterly basis). The Department reports certain prepaid expenses in the "Other Assets" line item on its annual financial statements, as required by Federal accounting standards. However, we found that the Department did not record the advance payments made for leases as an Other Asset. Although Department officials were generally aware of the accounting requirements relating to prepayments, the Department had not considered recording prepaid leases. Without a process to identify advance lease payments, the Department understated assets in its annual financial statements.

- Incomplete and Inaccurate Reporting of Software – Federal agencies use various types of software applications, called "internal use software" (IUS), to conduct business. Applications in the development phase are considered software in development (SID). Agencies are required to report software as general property in the financial statements. We identified numerous instances in which the data recorded for SID and IUS were inaccurate. We also identified several instances in which software projects were not reported as SID or IUS and other instances in which the Department did not provide evidence as to why some IT projects should not be reported as SID or IUS. Although the Department performs a quarterly data call to obtain software costs from bureau project managers, this process was not sufficient because it relied on the responsiveness and understanding of individual project managers. Additionally, the Department does not have an effective process to confirm that information provided during the quarterly data call is complete or accurate. Without an effective process to obtain information pertaining to software projects, the Department may continue to understate its property balances and overstate its expenses.

III. Budgetary Accounting

The Department lacked sufficient reliable funds control over its accounting and business processes to ensure budgetary transactions were properly recorded, monitored, and reported. Beginning in our report on the Department's FY 2010 consolidated financial statements, we identified budgetary accounting as a significant deficiency. During FY 2016, the audit continued to identify control limitations, and we concluded that the combination of control deficiencies remained a significant deficiency. The individual deficiencies we identified are summarized as follows:

- Support of Obligations – Obligations are definite commitments that create a legal liability of the Government for payment. The Department should record only legitimate obligations, which would include a reasonable estimate of potential future outlays. We identified a large number of low-value obligations for which the Department could not provide evidence of a binding agreement. The Department's financial system was designed to reject payments for invoices without established obligations. Because

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allotment holders were not always recording valid and accurate obligations prior to the receipt of goods and services, the Department established low-value obligations, which allowed invoices to be paid in compliance with the Prompt Payment Act but effectively bypassed system controls. The continued use of this practice could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

- Timeliness of Obligations – The Department should record an obligation in its financial management system when it enters into an agreement, such as a contract or a purchase order, to purchase goods and services. During our testing, we identified numerous obligations that were not recorded within 15 days of execution of the obligating document and obligations that were posted subsequent to the receipt of goods and services. We also identified obligations that were recorded in the financial management system prior to the formal execution of a contract. The Department did not have processes to ensure the accurate and timely creation and recording of obligations. Without an effective obligation process, controls to monitor funds and make timely payments may be compromised, which may lead to violations of the Antideficiency Act and the Prompt Payment Act.

- Capital Lease Obligations – The Department must obligate funds to cover the net present value of the Government's total estimated legal obligation over the life of a capital lease contract. However, the Department annually obligates funds equal to 1 year of the capital lease cost rather than the entire amount of the lease agreement. The Department obligated leases on an annual basis rather than the entire lease agreement period because that is the manner in which funds are budgeted and appropriated. Because of the unrecorded obligation, the Department's consolidated financial statements were misstated.

- Effectiveness of Allotment Controls – Federal agencies use allotments to allocate funds in accordance with statutory authority. Allotments provide authority to agency officials to incur obligations as long as those obligations are within the scope and terms of the allotment authority. We identified systemic issues in the Department's use of allotment overrides that allowed officials to exceed allotments. Certain Department systems did not have an automated control to prevent users from recording obligations that exceeded allotment amounts. Department management stated that an automated control is not reasonable because there are instances in which an allotment may need to be exceeded; however, the Department has not formally identified, documented, and communicated the circumstances under which an allotment override is acceptable. The Department has a process to identify instances in which an obligation exceeded a domestic allotment; however, this process does not include overseas allotments. Additionally, the process does not adequately confirm whether the override was consistent with Department policy, including whether the allotment holder determined whether sufficient funds were available or obtained approval from authorized officials or whether the override was acceptable under the circumstances. Overriding allotment controls could lead to a violation of the Antideficiency Act and increase the risk of fraud, misuse, and waste.

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IV. Validity and Accuracy of Unliquidated Obligations

Unliquidated obligations (ULO) represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services that were ordered have not been received or the goods and services have been received but for which payment has not yet been made. The Department's policies and procedures provide guidance related to the periodic review, analysis, and validation of the ULO balances posted to the general ledger. We identified a significant number of invalid ULOs that had not been identified by the Department's review process. The internal control structure was not operating effectively to comply with existing policy or facilitate the accurate reporting of ULO balances in the financial statements. The Department's internal controls were not effective to ensure that ULOs were consistently and systematically evaluated for validity and deobligation. As a result of invalid ULOs identified by our audit, the Department adjusted its financial statements. In addition, funds that could have been used for other purposes may have remained in unneeded obligations. Weaknesses in controls over ULOs were initially reported in the audit of the Department's FY 1997 consolidated financial statements and subsequent audits.

V. Information Technology

The Department's information systems and sensitive information rely on the confidentiality, integrity, and availability of the Department's comprehensive and interconnected information systems utilizing various technologies around the globe. Thus it is critical that the Department manage information security risk effectively throughout the organization. The Department uses several financial management systems to compile information for financial reporting purposes. The Department's general support system, a component of its information security program, is the gateway for all of the Department's systems, including its financial management systems. Generally, control deficiencies noted in the information security program are inherited by the systems that reside in it.

In accordance with the Federal Information Security Modernization Act of 2014 (FISMA), the Office of Inspector General (OIG) is responsible for the audit of the Department's information security program. In the FY 2016 FISMA report,[1] OIG reported security weaknesses that significantly impacted the Department's information security program. Specifically, OIG found weaknesses in all eight key FY 2016 Inspector General FISMA metric domains, which consist of risk management, contractor systems, configuration management, identity and access management, security and privacy training, information security continuous monitoring, incident response, and contingency planning. The Department did not have an effective information security program because the Department had not fully developed and implemented an organization-wide risk management strategy to identify, assess, respond to, and monitor information security risk at all levels of the organization.

Without an effective information security program, the Department is vulnerable to IT-centered attacks and threats. Information security program weaknesses can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by

[1] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-17-17, November 2016).

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unauthorized individuals or that financial transactions could be altered either accidentally or intentionally. Information security program weaknesses increase the risk that the Department will be unable to report financial data accurately.

The weaknesses reported by OIG as a result of the FISMA audit are considered to be a significant deficiency within the scope of our financial statement audit. We have reported weaknesses in IT security controls as a significant deficiency since our audit of the Department's FY 2009 financial statements.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to Department management in a separate letter.

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control Over Financial Reporting included in the audit report on the Department's FY 2015 financial statements,[2] we noted several issues that were related to internal control over financial reporting. The status of the FY 2015 internal control findings are summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2015 Status	FY 2016 Status
Financial Reporting	Significant Deficiency	Significant Deficiency
Property and Equipment	Significant Deficiency	Significant Deficiency
Budgetary Accounting	Significant Deficiency	Significant Deficiency
Validity and Accuracy of Unliquidated Obligations	Significant Deficiency	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

Department's Response to Findings

Department management provided its response to our findings in a separate memorandum included in this report as Appendix A. We did not audit management's response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of the Department's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of

[2] OIG, *Independent Auditor's Report on the U.S. Department of State 2015 and 2014 Financial Statements* (AUD-FM-16-09, November 2015).

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America, *Government Auditing Standards*, and OMB Bulletin No. 15-02, in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Alexandria, Virginia
November 15, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

To the Secretary and the Inspector General of the U.S. Department of State

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2016, and have issued our report thereon dated November 15, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements."

Compliance

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we performed tests of the Department's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material impact on the financial statement amounts, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA) that we determined were applicable. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests, exclusive of those related to FFMIA, disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 15-02 and which are summarized as follows:

- *Antideficiency Act*. This act prohibits the Department from (1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; (2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; and (3) making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations. Our audit procedures identified Department of the Treasury account fund symbols with negative balances that were potentially in violation of the Antideficiency Act. We also identified systemic issues in the Department's use of allotment overrides to exceed available allotment authority. Establishing obligations that exceed available allotment authority increases the risk of noncompliance with the Antideficiency Act. Conditions impacting the Department's compliance with the Antideficiency Act have been reported annually since our FY 2009 audit.

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- *Prompt Payment Act*. This act requires Federal agencies to make payments in a timely manner, pay interest penalties when payments are late, and take discounts only when payments are made within the discount period. We found that the Department did not pay interest penalties for overseas payments and did not always pay interest penalties for contributions to certain international organizations in accordance with the Prompt Payment Act. Conditions impacting the Department's compliance with the Prompt Payment Act have been reported annually since our FY 2009 audit.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Although we did not identify any instances of substantial noncompliance with Federal accounting standards, we did identify instances, when combined, in which the Department's financial management systems and related controls did not comply substantially with certain Federal financial management system requirements and the USSGL at the transaction level.

Federal Financial Management Systems Requirements

- The Department has longstanding weaknesses in its financial management systems regarding its capacity to account for and record financial information. For instance, the Department has significant deficiencies relating to financial reporting, property and equipment, budgetary accounting, and unliquidated obligations.
- During the annual audit of the Department's information security program, as required by the Federal Information Security Modernization Act of 2014 (FISMA), the Department's Office of Inspector General (OIG) reported control weaknesses in all eight IG FISMA metric domains.[1]
- The Department did not maintain effective administrative control of funds. Specifically, obligations were not created in a timely manner or were recorded in advance of an executed obligating document. In addition, systemic issues were identified in the Department's use of allotment overrides.
- Although we did not identify any reportable instances of noncompliance with the Antideficiency Act, we found seven Treasury Account Fund Symbols with negative fund balances either in Department of the Treasury reports or in the Department's general ledger system. A negative balance could indicate an Antideficiency Act violation, which the Department is required to report in a timely manner.
- The Department did not always minimize waste, loss, unauthorized use, or misappropriation of Federal funds. For example, OIG reported more than $45 million in questioned costs and funds put to better use during FY 2016.
- Interest was not paid on overdue overseas payments.

[1] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-17-17, November 2016).

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Standard General Ledger at the Transaction Level

- The Department's financial management systems did not consistently post transactions to USSGL-compliant accounts or track proprietary and budgetary account attributes consistent with the USSGL.
- General ledger account balances could not always be traced to discrete transactions. Further, discrete transactions could not always be traced to source documents.

The Department had not implemented and enforced systematic financial management controls to ensure substantial compliance with FFMIA. The Department had not developed and executed remediation plans to address instances of noncompliance or validate compliance against criteria. The Department's ability to meet Federal financial management system requirements and fully process transaction-level data in accordance with the USSGL was hindered by limitations in systems and processes. We have reported that the Department did not substantially comply with FFMIA annually since our FY 2009 audit.

During the audit, we noted certain additional matters involving compliance that we will report to Department management in a separate letter.

Department's Response to Findings

Department management provided its response to our findings in a separate memorandum included in this report as Appendix A. We did not audit management's response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02, in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2016

United States Department of State

Washington, D.C. 20520

November 15, 2016

UNCLASSIFIED

MEMORANDUM

TO: OIG – Steve A. Linick

FROM: CGFS – Christopher H. Flaggs

SUBJECT: Draft Report on the Department of State's Fiscal Year 2016 Financial Statements

This memo is in response to your request for comments on the Draft Report of the Independent Auditor's Report on Internal Control Over Financial Reporting, and Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements.

As the OIG is aware, the Department operates in over 270 locations and 180 countries in some of the most challenging environments. The scale and complexity of Department activities and corresponding financial management operations and requirements are immense. We understand and take this dynamic into account as we pursue an efficient, accountable, and transparent financial management platform that supports the Department's and broader U.S. Government's foreign affairs mission. Part of our accountability is the essential discipline of the annual external audit process and the issuance of the Department's annual audited financial statements. Few outside the financial community likely realize the time and effort that go into producing the audit and the Agency Financial Report, as we all work to demonstrate our commitment to strong financial management and to producing meaningful financial statements. It is a rigorous and exhaustive process. This year was no exception. It has been a concerted and dedicated effort by all stakeholders involved.

While we may not agree on every aspect of the process and findings, we certainly appreciate and extend our sincere thanks for the professionalism and commitment by all parties, including the Office of the Inspector General and Kearney & Company, to work together throughout the audit process. We know there will always be new challenges and concerns given our global operating environment and scope of compliance requirements. Nonetheless, we believe the overall results of the audit reflect the continuous improvement we strive to achieve in the Bureau of the Comptroller and Global Financial Services and across the Department's financial management community.

As expressed in the Independent Auditor's Report, we are pleased that the Department has received an unmodified ("clean") audit opinion on its FY 2016 and FY 2015 principal financial statements; with no material weaknesses reported by the Independent Auditor.

We remain committed to strong corporate governance and internal controls as demonstrated by our robust system of internal controls overseen by our Management Control Steering Committee (MCSC), Senior Assessment Team (SAT), and championed and validated by senior leadership. We appreciate the OIG participation in both the MCSC and SAT. For FY 2016, no material management control issues or material weaknesses in internal controls over financial reporting were identified by senior leadership. As a result, the Secretary was able to provide an unqualified Statement of Assurance for the Department's overall internal controls and internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act. We fully recognize that there is more to be done and that the items identified in the Draft Report will require our continued attention, action, and improvement. We look forward to working with you, Kearney & Company, and other stakeholders on addressing these issues in the coming year.

Introducing the Principal Financial Statements

The Principal Financial Statements (Statements) have been prepared to report the financial position and results of operations of the U.S. Department of State (Department). The Statements have been prepared from the books and records of the Department in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, *Financial Reporting Requirements,* revised. The Statements are in addition to financial reports prepared by the Department in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Department has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for 2015 are included.

The **Consolidated Balance Sheet** provides information on assets, liabilities, and net position similar to balance sheets reported in the private sector. Intra-departmental balances have been eliminated from the amounts presented.

The **Consolidated Statement of Net Cost** reports the components of the net costs of the Department's operations for the period. The net cost of operations consists of the gross cost incurred by the Department less any exchange (i.e., earned) revenue from our activities. Intra-departmental balances have been eliminated from the amounts presented.

The **Consolidated Statement of Changes in Net Position** reports the beginning net position, the transactions that affect net position for the period, and the ending net position. Intra-departmental transactions have been eliminated from the amounts presented.

The **Combined Statement of Budgetary Resources** provides information on how budgetary resources were made available and their status at the end of the year. Information in this statement is reported on the budgetary basis of accounting. Intra-departmental transactions have not been eliminated from the amounts presented.

Required Supplementary Information contains a Combining Statement of Budgetary Resources, the condition of heritage assets held by the Department, and information on deferred maintenance and repairs. The Combining Statement of Budgetary Resources provides additional information on amounts presented in the **Combined Statement of Budgetary Resources**.

CONSOLIDATED BALANCE SHEET

(dollars in millions)

As of September 30,	Notes	2016	2015
ASSETS	2		
Intragovernmental Assets:			
Fund Balance with Treasury	3	$ 50,655	$ 50,049
Investments, Net	4	18,397	18,193
Interest Receivable	4	141	149
Accounts Receivable, Net	5	94	145
Other Assets	8	1,452	957
Total Intragovernmental Assets		70,739	69,493
Accounts and Loans Receivable, Net	5	59	124
Cash and Other Monetary Assets	6	194	180
Property and Equipment, Net	7	21,797	20,227
Other Assets	8	1,026	611
Total Assets		$ 93,815	$ 90,635
Stewardship Property and Equipment; Heritage Assets	7		
LIABILITIES	9		
Intragovernmental Liabilities:			
Accounts Payable		$ 202	$ 207
Other Liabilities		193	218
Total Intragovernmental Liabilities		395	425
Accounts Payable		2,052	2,033
After-Employment Benefit Liability	10	20,052	20,030
International Organizations Liability	11	1,599	1,573
Other Liabilities	9,12	1,632	1,360
Total Liabilities		25,730	25,421
Contingencies and Commitments	13		
NET POSITION			
Unexpended Appropriations – Funds From Dedicated Collections		—	—
Unexpended Appropriations – Other Funds		40,816	39,827
Cumulative Results of Operations – Funds From Dedicated Collections	14	316	323
Cumulative Results of Operations – Other Funds		26,953	25,064
Total Net Position		68,085	65,214
Total Liabilities and Net Position		$ 93,815	$ 90,635

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED STATEMENT OF NET COST (NOTE 15)

(dollars in millions)

For the Year Ended September 30,	2016	2015
Peace and Security		
Total Cost	$ 2,072	$ 2,208
Earned Revenue	(60)	(47)
Net Program Costs	2,012	2,161
Democracy, Human Rights and Governance		
Total Cost	585	661
Earned Revenue	—	(6)
Net Program Costs	585	655
Health, Education and Social Services		
Total Cost	8,702	7,126
Earned Revenue	—	(4)
Net Program Costs	8,702	7,122
Humanitarian, Economic Development and Environment		
Total Cost	3,482	3,424
Earned Revenue	—	—
Net Program Costs	3,482	3,424
International Organizations and Commissions		
Total Cost	4,020	3,572
Earned Revenue	(6)	(11)
Net Program Costs	4,014	3,561
Diplomatic and Consular Programs		
Total Cost	14,071	13,488
Earned Revenue	(6,633)	(5,882)
Net Program Costs	7,438	7,606
Administration of Foreign Affairs		
Total Cost	3,166	2,748
Earned Revenue	(1,895)	(1,776)
Net Program Costs Before Assumption Changes	1,271	972
Actuarial (Gain)/Loss on Pension Assumption Changes (Notes 1 and 10)	(153)	140
Net Program Costs	1,118	1,112
Total Cost and Gain/Loss on Assumption Changes	**35,945**	**33,367**
Total Revenue	**(8,594)**	**(7,726)**
Total Net Cost	**$ 27,351**	**$ 25,641**

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

(dollars in millions)

For the Year Ended September 30,	2016			2015
	Funds From Dedicated Collections	All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ 323	$ 25,064	$ 25,387	$ 23,277
Budgetary Financing Sources:				
Appropriations Used	—	29,675	29,675	28,363
Non-exchange Revenue	—	—	—	1
Donations	19	—	19	25
Transfers in(out) without Reimbursement	48	(2)	46	31
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	—	168	168	150
Non-entity Collections	—	(675)	(675)	(819)
Total Financing Sources	**67**	**29,166**	**29,233**	**27,751**
Net Cost of Operations	(74)	(27,277)	(27,351)	(25,641)
Net Change	(7)	1,889	1,882	2,110
Total Cumulative Results of Operations	**316**	**26,953**	**27,269**	**25,387**
Unexpended Appropriations				
Beginning Balances	$ —	$ 39,827	$ 39,827	$ 38,428
Budgetary Financing Sources:				
Appropriations Received	—	30,828	30,828	30,018
Appropriations Transferred in(out)	—	44	44	(62)
Rescissions and Canceling Funds	—	(208)	(208)	(194)
Appropriations Used	—	(29,675)	(29,675)	(28,363)
Total Budgetary Financing Sources	—	989	989	1,399
Total Unexpended Appropriations	**—**	**40,816**	**40,816**	**39,827**
Net Position	**$ 316**	**$ 67,769**	**$ 68,085**	**$ 65,214**

The accompanying notes are an integral part of this financial statement.

COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 16)

(dollars in millions)

For the Year Ended September 30,	2016	2015
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 23,226	$ 21,344
Adjustment to unobligated balance brought forward, October 1 (+ or -)	—	(1)
Unobligated balance brought forward, October 1, as adjusted	23,226	21,343
Recoveries of unpaid prior year obligations	1,703	1,677
Other changes in unobligated balance (+ or -)	3	(244)
Unobligated balance from prior year budget authority, net	24,932	22,776
Appropriations (discretionary and mandatory)	31,829	31,159
Borrowing authority (discretionary and mandatory)	1	1
Spending authority from offsetting collections (discretionary and mandatory)	12,520	11,962
Total Budgetary Resources	**$ 69,282**	**$ 65,898**
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 45,620	$ 42,672
Unobligated balance, end of year:		
Apportioned, unexpired accounts	21,605	21,319
Exempt from apportionment, unexpired accounts	326	2
Unapportioned, unexpired accounts	516	689
Unexpired unobligated balance, end of year	22,447	22,010
Expired unobligated balance, end of year	1,215	1,216
Unobligated balance, end of year (total)	23,662	23,226
Total Budgetary Resources	**$ 69,282**	**$ 65,898**
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, October 1	$ 27,344	$ 26,711
Adjustments to unpaid obligations, start of year (+ or -)	—	1
New obligations and upward adjustments	45,620	42,672
Outlays (gross) (-)	(43,889)	(40,363)
Recoveries of prior year unpaid obligations (-)	(1,703)	(1,677)
Unpaid obligations, end of year	$ 27,372	$ 27,344
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, October 1 (-)	(488)	(379)
Adjustment to uncollected payments, Federal sources, start of year (+ or -)	—	1
Change in uncollected payments, Federal sources (+ or -)	199	(110)
Uncollected payments, Federal sources, end of year (-)	$ (289)	$ (488)
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -)	$ 26,856	$ 26,334
Obligated balance, end of year (+ or -)	$ 27,083	$ 26,856
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 44,350	$ 43,122
Actual offsetting collections (discretionary and mandatory) (-)	(12,840)	(11,947)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	199	(110)
Recoveries of prior year obligations (discretionary and mandatory)	122	95
Budget authority, net (total) (discretionary and mandatory)	$ 31,831	$ 31,160
Outlays, gross (discretionary and mandatory)	43,889	40,363
Actual offsetting collections (discretionary and mandatory) (-)	(12,840)	(11,947)
Outlays, net (total) (discretionary and mandatory)	31,049	28,416
Distributed offsetting receipts (-)	(232)	(408)
Agency outlays, net (discretionary and mandatory)	**$ 30,817**	**$ 28,008**

The accompanying notes are an integral part of this financial statement.

Notes to the Principal Financial Statements

Organization

Congress established the U.S. Department of State (Department of State or Department), the senior Executive Branch department of the United States Government in 1789. The Department advises the President in the formulation and execution of U.S. foreign policy. The head of the Department, the Secretary of State, is the President's principal advisor on foreign affairs.

1 Summary of Significant Accounting Policies

Fiscal Year

Unless otherwise designated all use of a year indicates fiscal year, e.g., 2016 equals Fiscal Year 2016.

Reporting Entity and Basis of Consolidation

The accompanying principal financial statements present the financial activities and position of the Department of State. The Statements include all General, Special, Revolving, Trust, and Deposit funds established at the Department of the Treasury (Treasury) to account for the resources entrusted to Department management, or for which the Department acts as a fiscal agent or custodian (except fiduciary funds, see Note 19).

Included in the Department's reporting entity is the U.S. Section of the International Boundary and Water Commission (IBWC). Treaties in 1848, 1853, and 1970 established the boundary between the United States and Mexico that extends 1,954 miles, beginning at the Gulf of Mexico, following the Rio Grande a distance of 1,255 miles and eventually ending at the Pacific Ocean below California. Established in 1889, the IBWC has responsibility for applying the boundary and water treaties between the United States and Mexico and settling differences that may arise in their application.

Basis of Presentation and Accounting

The statements are prepared as required by the Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994. They are presented in accordance with the form and content requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised.

The statements have been prepared from the Department's books and records, and are in accordance with the Department's Accounting Policies (the significant policies are summarized in this Note). The Department's Accounting Policies follow U.S. generally accepted accounting principles (GAAP) for Federal entities, as prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, incorporates the GAAP hierarchy into FASAB's authoritative literature.

Throughout the financial statements and notes, certain assets, liabilities, earned revenue, and costs have been classified as intragovernmental, which is defined as transactions made between two reporting entities within the Federal Government.

Transactions are recorded on both an accrual and budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to receipt or payment of cash. Budgetary accounting principles, on the other hand, are designed to facilitate compliance with legal requirements and controls over the use of Federal funds.

Revenues and Other Financing Sources

Department operations are financed through appropriations, reimbursement for the provision of goods or services to other Federal agencies, proceeds from the sale of property, certain consular-related and other fees, and donations. In addition, the Department collects passport, visa, and other consular fees that are not retained by the Department but are deposited directly to a Treasury account. The passport and visa fees are reported as earned revenues on the Statement of Net Cost and as non-entity collections in other financing sources on the Statement of Changes in Net Position.

Congress annually enacts one-year and multi-year appropriations that provide the Department with the authority to obligate funds within the respective fiscal years for necessary expenses to carry out mandated program activities. In addition, Congress enacts appropriations that are available until expended. All appropriations are subject to congressional restrictions and most appropriations are subject to OMB apportionment. For financial statement purposes, appropriations are recorded as a financing source (i.e., Appropriations Used) and reported on the Statement of Changes in Net Position at the time they are recognized as expenditures. Appropriations expended for capitalized property and equipment are recognized when the asset is purchased.

Work performed for other Federal agencies under reimbursable agreements is financed through the account providing the service and reimbursements are recognized as revenue when earned. Administrative support services at overseas posts are provided to other Federal agencies through the International Cooperative Administrative Support Services (ICASS). ICASS bills for the services it provides to agencies at overseas posts. These billings are recorded as revenue to ICASS and must cover overhead costs, operating expenses, and replacement costs for capital assets needed to carry on the operation. Proceeds from the sale of real property, vehicles, and other personal property are recognized as revenue when the proceeds are credited to the account that funded the asset. For non-capitalized property, the full amount realized is recognized as revenue. For capitalized property, revenue or loss is determined by whether the proceeds received were more or less than the net book value of the asset sold. The Department retains proceeds of sale, which are available for purchase of the same or similar category of property.

Under Secretary for Civilian Security, Democracy and Human Rights Sarah Sewall visits an Ebola treatment center in N'Zerekore, Guinea, April 2016. *Department of State*

The Department is authorized to collect and retain certain user fees for machine-readable visas, expedited passport processing, and fingerprint checks on immigrant visa applicants. The Department is also authorized to credit the respective appropriations with (1) fees for the use of Blair House; (2) lease payments and transfers from the International Center Chancery Fees Held in Trust to the International Center Project; (3) registration fees for the Office of Defense Trade Controls; (4) reimbursement for international litigation expenses; and (5) reimbursement for training foreign government officials at the Foreign Service Institute.

Generally, donations received in the form of cash or financial instruments are recognized as revenue at their fair value in the period received. Contributions of services are recognized if the services received (1) create or enhance non-financial assets, or (2) require specialized skills that are provided by individuals possessing those skills, which would typically need to be purchased if not donated. Works of art, historical treasures, and similar assets that are added to collections are not recognized at the time of donation. If subsequently sold, proceeds from the sale of these items are recognized in the year of sale. More information on earned revenues can be found in Note 15.

Allocation Transfers

Allocation transfers are legal delegations by one Federal agency of its authority to obligate budget authority and outlay funds to another agency. The Department processes allocation transfers with other Federal agencies as both a transferring (parent) agency of budget authority to a receiving (child) entity and as a receiving (child) agency of budget authority from a transferring (parent) entity. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. Subsequent obligations and outlays incurred by the child agency are charged to this allocation account as they execute the delegated activity on behalf of the parent agency.

Generally, all financial activities related to allocation transfers (i.e., budget authority, obligations, outlays) are reported in the financial statements of the parent agency. Transfers from the Executive Office of the President, for which the Department is the receiving agency, is an exception to this rule. Per OMB guidance, the Department reports all activity relative to these allocation transfers in its financial statements. The Department allocates funds, as the parent, to the Departments of Defense, Labor (DOL), Treasury, Health and Human Services (HHS); the Peace Corps; Millennium Challenge Corporation; and the U.S. Agency for International Development (USAID). In addition, the Department receives allocation transfers, as the child, from USAID.

Fund Balance with Treasury and Cash and Other Monetary Assets

The Fund Balance with Treasury is available to pay accrued liabilities and finance authorized commitments relative to goods, services, and benefits. The Department does not maintain cash in commercial bank accounts for the funds reported in the Consolidated Balance Sheet, except for the Emergencies in the Diplomatic and Consular Services, Foreign Service National Defined Contributions Retirement Fund, and the Chancery Development Trust Account. Treasury processes domestic cash receipts and disbursements on behalf of the Department and the Department's accounting records are reconciled with those of Treasury on a monthly basis.

The Department operates two Financial Service Centers located in Bangkok, Thailand and Charleston, South Carolina. These provide financial support for the Department and other Federal agencies' operations overseas. The U.S. Disbursing Officer at each Center has the delegated authority to disburse funds on behalf of the Treasury. See Notes 3 and 6.

Accounts and Loans Receivable

Accounts and Loans Receivable consist of Intragovernmental Accounts Receivable and non-Federal Accounts and Loans Receivable. Intragovernmental Accounts Receivable are amounts owed the Department principally from other Federal agencies for ICASS services, reimbursable agreements, and Working Capital Fund services. Accounts and Loans Receivable from non-Federal entities primarily consist of amounts owed the Department for civil monetary fines and penalties, Value Added Tax (VAT) reimbursements not yet received, repatriation loans due, and IBWC receivables for Mexico's share of IBWC activities. Civil monetary fines and penalties are assessed on individuals for such infractions as violating the terms and munitions licenses, exporting unauthorized defense articles and services, and violation of manufacturing licenses agreements. VAT receivables are for taxes paid on purchases overseas in which the Department has reimbursable agreements with the country for taxes it pays. The U.S. and Mexican governments generally share the total costs of IBWC projects in proportion to their respective benefits in cases of projects for mutual control and utilization of the waters of a boundary river, unless the Governments have predetermined by treaty the division of costs according to the nature of a project.

The Department provides repatriation loans for destitute American citizens overseas whereby the Department becomes the lender of last resort. These loans provide assistance to pay for return transportation, food and lodging, and medical expenses. The borrower executes a promissory note without collateral. Consequently, the loans are made anticipating a low rate of recovery. Interest, penalties, and administrative fees are assessed if the loan becomes delinquent.

Accounts and Loans Receivable from non-Federal entities are subject to the full debt collection cycle and mechanisms, e.g., salary offset, referral to collection agents, and Treasury offset. In addition, Accounts Receivable from non-Federal entities are assessed interest, penalties, and administrative fees if they become delinquent. Interest and penalties are assessed at the Current Value of Funds Rate established by Treasury. Accounts Receivable is reduced to net realizable value by an Allowance

for Uncollectible Accounts. This allowance is recorded using aging methodologies based on an analysis of past collections and write-offs. See Note 5 for more information on Accounts and Loans Receivable, Net.

Interest Receivable

Interest earned on investments, but not received as of September 30, is recognized as interest receivable.

Advances and Prepayments

Payments made in advance of the receipt of goods and services are recorded as advances or prepayments, and recognized as expenses when the related goods and services are received. Prepayments are made principally to other Federal entities or lease holders for future services. Advances are made to Department employees for official travel, salary advances to Department employees transferring to overseas assignments, and other miscellaneous prepayments and advances for future services. Advances and prepayments are reported as Other Assets on the Consolidated Balance Sheet. Typically, USAID federal assistance results in a net advance in Other Assets. Additional information may be found in Note 8.

Investments

The Department has several accounts that have the authority to invest cash resources. For these accounts, the cash resources not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. These investments consist of U.S. Treasury special issues and securities. Special issues are unique public debt obligations for purchase exclusively by the Foreign Service Retirement and Disability Fund and for which interest is computed and paid semi-annually on June 30 and December 31. They are purchased and redeemed at par, which is their carrying value on the Consolidated Balance Sheet.

Investments by the Department's Gift, Israeli Arab Scholarship, Eisenhower Exchange Fellowship, and Middle Eastern-Western Dialogue accounts are in U.S. Treasury securities. Interest on these investments is paid semi-annually at various rates. These investments are reported at acquisition cost, which equals the face value net of unamortized discounts or premiums. Discounts and premiums are amortized over the life of the security

The Sheikh Zayed Grand Mosque stands on the horizon as dusk settles over Abu Dhabi, United Arab Emirates, June 8, 2016. *Department of State*

using the straight-line method for Gift Funds investments, and effective interest method for the other accounts. Additional information on Investments can be found in Note 4.

Property and Equipment

Real Property

Real property assets primarily consist of facilities used for U.S. diplomatic missions abroad and capital improvements to these facilities, including unimproved land; residential and functional-use buildings such as embassy/consulate office buildings; office annexes and support facilities; and construction-in-progress. Title to these properties is held under various conditions including fee simple, restricted use, crown lease, and deed of use agreement. Some of these properties are considered historical treasures and are considered multi-use heritage assets. These items are reported on the Consolidated Balance Sheet, in Note 7 to the financial statements, and in the Heritage Assets Section.

The Department also owns several domestic real properties, including the National Foreign Affairs Training Center (Arlington, Va.); the International Center (Washington, D.C.); the Charleston Financial Services Center (S.C.); the Beltsville Information Management Center (Md.); the Florida Regional Center (Ft. Lauderdale); and consular centers in Charleston, S.C., Portsmouth, N.H., and Williamsburg, Ky. The Foreign

Missions Act authorizes the Department to facilitate the secure and efficient operation in the United States of foreign missions. The Act established the Office of Foreign Missions to manage acquisitions, including leases, additions, and sales of real property by foreign missions. In certain cases, based on reciprocity, the Department owns real property in the United States that is used by foreign missions for diplomatic purposes. The IBWC owns buildings and structures related to its boundary preservation, flood control, and sanitation programs.

Buildings and structures are carried at either actual or estimated historical cost. The Department capitalizes all costs for constructing new buildings and building acquisitions regardless of cost, and all other improvements of $1 million or more. Costs incurred for constructing new facilities, major rehabilitations, or other improvements in the design or construction stage are recorded as construction-in-progress. After these projects are completed, costs are transferred to Buildings and Structures or Leasehold Improvements, as appropriate. Depreciation is computed on a straight-line basis over the asset's estimated life and begins when the property is placed into service. The estimated useful lives for real property are as follows:

Asset Category	Estimated Useful Life
Land Improvements	30 years
Buildings and Structures	10 to 50 years
Assets Under Capital Lease	Lease term or 30 years
Leasehold Improvements	Lesser of lease term or 10 years

Personal Property

Personal property consists of several asset categories including aircraft, vehicles, security equipment, communication equipment, automated data processing (ADP) equipment, reproduction equipment, and software. The Department holds title to these assets, some of which are operated in unusual conditions, as described below.

The Department's Bureau of International Narcotics and Law Enforcement (INL) uses aircraft to help eradicate and stop the flow of illegal drugs. To accomplish its mission, INL maintains an aircraft fleet that is one of the largest Federal, nonmilitary fleets. Most of the aircraft are under direct INL air wing management. However, a number of aircraft are managed by host-countries. The Department holds title to most of the aircraft under these programs and requires congressional notification to transfer title for any aircraft to foreign governments. INL contracts with firms to provide maintenance support depending on whether the aircraft are INL air wing managed or host-country managed. INL air wing managed aircraft are maintained to Federal Aviation Administration standards that involve routine inspection, as well as scheduled maintenance and replacements of certain parts after given hours of use. Host-country managed aircraft are maintained to host-country requirements, which are less than Federal Aviation Administration standards.

The Department also maintains a large vehicle fleet that operates overseas. Many vehicles require armoring for security reasons. For some locations, large utility vehicles are used instead of conventional sedans. In addition, the Department contracts with firms to provide support in strife-torn areas, such as Iraq and Afghanistan. Contractor support includes the purchase and operation of armored vehicles. Under the terms of the contracts, the Department has title to the contractor-held vehicles.

Personal property and equipment with an acquisition cost of $25,000 or more, and a useful life of two or more years, is capitalized at cost. Additionally, all vehicles are capitalized, as well as internal use software with cost of $500,000 or more. Except for contractor-held vehicles in Iraq and Afghanistan, depreciation is calculated on a straight-line basis over the asset's estimated life and begins when the property is placed into service. Contractor-held vehicles in Iraq and Afghanistan, due to the harsh operating conditions, are depreciated on a double-declining balance basis. The estimated useful lives for personal property are as follows:

Asset Category	Estimated Useful Life
Aircraft:	
INL air wing managed	10 years
Host-country managed	5 years
Vehicles:	
Department managed	3 to 6 years
Contractor-held in Iraq and Afghanistan	2 $^1/_2$ years
Security Equipment	3 to 15 years
Communication Equipment	3 to 20 years
ADP Equipment	3 to 6 years
Reproduction Equipment	3 to 15 years
Internal Use Software	Estimated useful life or 5 years

See Note 7, *Property and Equipment, Net,* for additional information.

Capital Leases

Leases are accounted for as capital leases if they meet one of the following criteria: (1) the lease transfers ownership of the property by the end of the lease term; (2) the lease contains an option to purchase the property at a bargain price; (3) the lease term is equal to or greater than 75 percent of the estimated useful life of the property; or (4) at the inception of the lease, the present value of the minimum lease payment equals or exceeds 90 percent of the fair value of the leased property. The initial recording of a lease's value (with a corresponding liability) is the lesser of the net present value of the lease payments or the fair value of the leased property. Capital leases that meet criteria (1) or (2) are depreciated over the useful life of the asset (30 years). Capital leases that meet criteria (3) or (4) are depreciated over the term of the lease. Capital lease liabilities are amortized over the term of the lease; if the lease has an indefinite term, the term is capped at 50 years. Additional information on capital leases is disclosed in Note 12, *Leases*.

Stewardship Property and Equipment

Stewardship Property and Equipment, or Heritage Assets, are assets that have historical or natural significance; are of cultural, educational, or artistic importance; or have significant architectural characteristics. They are generally considered priceless and are expected to be preserved indefinitely. As such, these assets are reported in terms of physical units rather than cost or other monetary values. See Note 7.

Grants

The Department awards educational, cultural exchange, and refugee assistance grants to various individuals, universities, and non-profit organizations. Budgetary obligations are recorded when grants are awarded. Grant funds are disbursed in two ways: grantees draw funds commensurate with their immediate cash needs via HHS' Payments Management System; or grantees request reimbursement for their expenditures.

Accounts Payable

Accounts payable represent the amounts accrued for contracts for goods and services received but unpaid at the end of the fiscal year and unreimbursed grant expenditures. In addition to accounts payables recorded through normal business activities, unbilled payables are estimated based on historical data.

Accrued Annual, Sick, and Other Leave

Annual leave is accrued as it is earned by Department employees, and the accrual is reduced as leave is taken. Throughout the year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. The amount of the adjustment is recorded as an expense. Current or prior year appropriations are not available to fund annual leave earned but not taken. Funding occurs in the year the leave is taken and payment is made. Sick leave and other types of non-vested leave are expensed as taken.

Employee Benefit Plans

Retirement Plans: Civil Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Members of the Foreign Service participate in either the Foreign Service Retirement and Disability System (FSRDS) or the Foreign Service Pension System (FSPS).

Employees covered under CSRS contribute 7 percent of their salary; the Department contributes 7 percent. Employees covered under CSRS also contribute 1.45 percent of their salary to Medicare insurance; the Department makes a matching contribution. On January 1, 1987, FERS went into effect pursuant to Public Law No. 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to join FERS or remain in CSRS. Employees participating in FERS contribute 0.8 or 3.1 percent (depending on date of hire) of their salary, with the Department making contributions of 13.7 percent. FERS employees also contribute 6.2 percent to Social Security and 1.45 percent to Medicare insurance. The Department makes matching contributions to both. A primary feature of FERS is that it offers a Thrift Savings Plan (TSP) into which the Department automatically contributes 1 percent of pay and matches employee contributions up to an additional 4 percent.

Foreign Service employees hired prior to January 1, 1984 participate in FSRDS, with certain exceptions. FSPS was established pursuant to Section 415 of Public Law No. 99-335, which became effective June 6, 1986. Foreign

Service employees hired after December 31, 1983 participate in FSPS with certain exceptions. FSRDS employees contribute 7.25 percent of their salary; the Department contributes 7.25 percent. FSPS employees contribute 1.35 percent of their salary; the Department contributes 20.22 percent. FSRDS and FSPS employees contribute 1.45 percent of their salary to Medicare; the Department matches their contribution. FSPS employees also contribute 6.2 percent to Social Security; the Department makes a matching contribution. Similar to FERS, FSPS also offers the TSP.

Foreign Service National (FSN) employees at overseas posts who were hired prior to January 1, 1984, are covered under CSRS. FSN employees hired after that date are covered under a variety of local government plans in compliance with the host country's laws and regulations. In cases where the host country does not mandate plans or the plans are inadequate, employees are covered by plans that conform to the prevailing practices of comparable employers.

Health Insurance: Most American employees participate in the Federal Employees Health Benefits Program (FEHBP), a voluntary program that provides protection for enrollees and eligible family members in cases of illness and/or accident. Under FEHBP, the Department contributes the employer's share of the premium as determined by the U.S. Office of Personnel Management (OPM).

Life Insurance: Unless specifically waived, employees are covered by the Federal Employees Group Life Insurance Program (FEGLIP). FEGLIP automatically covers eligible employees for basic life insurance in amounts equivalent to an employee's annual pay, rounded up to the next thousand dollars plus $2,000. The Department pays one-third and employees pay two-thirds of the premium. Enrollees and their family members are eligible for additional insurance coverage, but the enrollee is responsible for the cost of the additional coverage.

Other Post Employment Benefits: The Department does not report CSRS, FERS, FEHBP, or FEGLIP assets, accumulated plan benefits, or unfunded liabilities applicable to its employees; OPM reports this information. As required by SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the Department reports the full cost of employee benefits for the programs that OPM administers. The Department recognizes an expense and imputed financing source for the annualized unfunded portion of CSRS, post-retirement health benefits, and life insurance for employees covered by these programs. The additional costs are not owed or paid to OPM, and thus are not reported on the Consolidated Balance Sheet as a liability. Instead, they are reported as an imputed financing source from costs absorbed from others on the Consolidated Statement of Changes in Net Position.

Future Workers' Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover Federal employees injured on the job or who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to job-related injury or occupational disease. The DOL administers the FECA program. DOL initially pays valid claims and bills the employing Federal agency. DOL calculates the actuarial liability for future workers' compensation benefits and reports to each agency its share of the liability.

Foreign Service Retirement and Disability Fund

The Department manages the Foreign Service Retirement and Disability Fund (FSRDF). To ensure it operates on a sound financial basis, the Department retains an actuarial firm to perform a valuation to project if the Fund's assets together with the expected future contributions are adequate to cover the value of future promised benefits. To perform this valuation the actuary projects the expected value of future benefits and the stream of expected future employer and employee contributions. The valuation serves as a basis for the determination of the needed employer contributions to the retirement fund and is based on a wide variety of economic assumptions, such as assumed investment returns, and demographic assumptions, such as rates of mortality. Since both the economic and demographic experience change over time, it is essential to conduct periodic reviews of the actual experience and to adjust the assumptions in the valuation, as appropriate. To reflect the most recent experience and future expectations, approximately every five years, including 2014, the actuary is retained to conduct this review, known as an Actuarial Experience Study.

Foreign Service Nationals' After-Employment Benefits

Defined Contributions Fund (DCF) – This fund provides retirement benefits for FSN employees in countries where the Department has made a public interest determination to discontinue participation in the Local Social Security System. Title 22, Foreign Relations and Intercourse, Section 3968, Local Compensation Plans, provides the authority to the Department to establish such benefits as part of a total compensation plan for these employees.

Defined Benefit Plans – The Department has implemented various arrangements for defined benefit pension plans in other countries, for the benefit of some FSN employees. Some of these plans supplement the host country's equivalent to U.S. social security, others do not. While none of these supplemental plans are mandated by the host country, some are substitutes for optional tiers of a host country's social security system. The Department accounts for these plans under the provisions and guidance contained in International Accounting Standard (IAS) No. 19, *Employee Benefits*. IAS No. 19 provides a better structure for the reporting of these plans which are established in accordance with local practices in countries overseas.

Lump Sum Retirement and Severance – Under some local compensation plans, FSN employees are entitled to receive a lump-sum separation payment when they resign, retire, or otherwise separate through no fault of their own. The amount of the payment is generally based on length of service, rate of pay at the time of separation, and the type of separation.

International Organizations Liability

The United States is a member of the United Nations (UN) and other international organizations and supports UN peacekeeping operations. As such, the United States either contributes to voluntary funds or an assessed share of the budgets and expenses of these organizations and activities. These payments are funded through congressional appropriations to the Department. The purpose of these appropriations is to ensure continued American leadership within those organizations and activities that serve important U.S. interests. Funding by appropriations for dues assessed for certain international organizations is not received until the fiscal year following assessment. These commitments are regarded as funded only when monies are authorized and appropriated by Congress. For financial reporting purposes, the amounts assessed, pledged, and unpaid are reported as liabilities of the Department. Additional information is disclosed in Note 11.

The new U.S. Embassy, situated on an 8.9-acre site in the Ezulwini Valley, Mbabane, Swaziland, was dedicated on June 27, 2016.

Department of State/OBO

Contingent Liabilities

Contingent liabilities are liabilities where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The Department recognizes contingent liabilities when the liability is probable and reasonably estimable. See Note 13.

Net Position

The Department's net position contains the following components:

Unexpended Appropriations – Unexpended appropriations is the sum of undelivered orders and unobligated balances. Undelivered orders represent the amount of obligations incurred for goods or services ordered, but not yet received. An unobligated balance is the amount available after deducting cumulative obligations from total budgetary resources. As obligations for goods or services are incurred, the available balance is reduced.

Cumulative Results of Operations – The cumulative results of operations include the accumulated difference between revenues and financing sources less expenses since inception and donations.

Net position of funds from dedicated collections (formerly "earmarked funds") is separately disclosed. See Note 14.

Foreign Currency

Accounting records for the Department are maintained in U.S. dollars, while a significant amount of the Department's overseas expenditures are in foreign currencies. For accounting purposes, overseas obligations and disbursements are recorded in U.S. dollars based on the rate of exchange as of the date of the transaction. Foreign currency payments are made by the U.S. Disbursing Office.

Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. The Department's fiduciary activities are not recognized on the principal financial statements, but are reported on schedules as a note to the financial statements. The Department's fiduciary activities include receiving contributions from donors for the purpose of providing compensation for certain claims within the scope of an established agreement, investment of contributions into Treasury securities, and disbursement of contributions received within the scope of the established agreement. See Note 19.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, and exercise judgment that affects the reported amounts of assets, liabilities, net position, and disclosure of contingent liabilities as of the date of the financial statements, and the reported amounts of revenues, financing sources, expenses, and obligations incurred during the reporting period. These estimates are based on management's best knowledge of current events, historical experience, actions the Department may take in the future, and various other assumptions that are believed to be reasonable under the circumstances. Due to the size and complexity of many of the Department's programs, the estimates are subject to a wide range of variables, including assumptions on future economic and financial events. Accordingly, actual results could differ from those estimates.

Comparative Data

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

2 Assets

The Department's assets are classified as entity or non-entity. Entity assets are those assets that the Department has authority to use for its operations. Non-entity assets are those held by the Department that are not available for use in its operations. Total non-entity assets at both September 30, 2016 and 2015, were $15 million, for amounts in the Chancery Development Trust Account. These items are included in Cash and Other Monetary Assets (See Note 6, *Cash and Other Monetary Assets* for further information).

3 Fund Balance with Treasury

Fund Balance with Treasury at September 30, 2016 and 2015, is summarized below *(dollars in millions)*.

Fund Balances	2016	2015
Appropriated Funds	$ 47,222	$ 46,747
Revolving Funds	2,803	2,590
Trust Funds	397	415
Special Funds	173	165
Deposit and Receipt Funds	60	132
Total	$ 50,655	$ 50,049

Status of Fund Balance with Treasury	2016	2015
Unobligated Balances Available	$ 21,931	$ 21,321
Unobligated Balances Unavailable	1,731	1,905
Obligated Balances not yet Disbursed	26,933	26,691
Total Unobligated and Obligated	50,595	49,917
Deposit and Receipt Funds	60	132
Total	$ 50,655	$ 50,049

Built in 1929, U.S. Embassy Tirana, by architects Wyeth and Sullivan, is reported to be one of the first American Legations constructed under the 1926 Porter Legislation. ***Department of State/OBO***

4 INVESTMENTS

Investments at September 30, 2016 and 2015, are summarized below *(dollars in millions)*. All investments are classified as Intragovernmental Securities.

At September 30, 2016:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	$ 18,346	$ 18,346	2017–2028	1.375% – 5.25%	$ 141
Subtotal	18,346	18,346			141
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2017–2018	0.750%	—
Eisenhower Exchange Fellowship Fund	8	8	2017–2019	3.625% – 8.875%	—
Middle Eastern-Western Dialogue Fund	14	14	2016–2020	1.000% – 1.750%	—
Gift Funds, Treasury Bills	20	20	2016–2018	1.375% – 3.125%	—
Foreign Service National Defined Contribution Retirement Fund	4	4	2017–2043	0.500% – 2.875%	—
Subtotal	51	51			—
Total Investments	$ 18,397	$ 18,397			$ 141

At September 30, 2015:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	$ 18,144	$ 18,144	2016–2028	1.375% – 5.625%	$ 149
Subtotal	18,144	18,144			149
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2017–2018	0.750%	—
Eisenhower Exchange Fellowship Fund	8	8	2016–2019	4.750% – 8.875%	—
Middle Eastern-Western Dialogue Fund	15	15	2015–2019	1.250%	—
Gift Funds, Treasury Bills	21	21	2016–2018	1.125% – 1.375%	—
Subtotal	49	49			—
Total Investments	$ 18,193	$ 18,193			$ 149

The Department's activities that have the authority to invest cash resources are Funds from Dedicated Collections (see Note 14). The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections are deposited in the Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Department as evidence of its receipts. Treasury securities are an asset to the Department and a liability to the Treasury. Because the Department and the Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

(continued on next page)

NOTE 4: Investments (continued)

Treasury securities provide the component entity with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the Department requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. The Government finances most expenditures in this way.

5 Accounts and Loans Receivable, Net

The Department's Accounts Receivable and Loans Receivable, Net at September 30, 2016 and 2015, are summarized here *(dollars in millions)*. All are entity receivables.

	2016			2015		
	Entity Receivables	Allowance for Uncollectible	Net Receivables	Entity Receivables	Allowance for Uncollectible	Net Receivables
Intragovernmental Accounts Receivable	$ 118	$ (24)	$ 94	$ 175	$ (30)	$ 145
Non-Intragovernmental Accounts and Loans Receivable	95	(36)	59	161	(37)	124
Total Receivables	$ 213	$ (60)	$ 153	$ 336	$ (67)	$ 269

The allowances for uncollectible accounts are recorded using aging methodologies based on analysis of historical collections and write-offs.

The total accounts and loans receivable for 2016, net of allowance for uncollectible accounts, is $153 million. This balance consists of $118 million in Federal intragovernmental reimbursable agreements for providing goods and services to other Federal agencies. The $95 million in Accounts and Loans Receivables due from non-Federal entities (see Accounts and Loans Receivable in Note 1) consists mainly of $93 million of civil monetary fines and penalties and Value Added Taxes. The remaining $2 million is repatriation loans and associated administration fees.

Secretary Kerry and Kyrgyz Foreign Minister Erlan Abdyldaev dedicate the new U.S. Embassy building in Bishkek, Kyrgyzstan, October 31, 2015. *Department of State*

6 Cash and Other Monetary Assets

The Cash and Other Monetary Assets at September 30, 2016 and 2015, are summarized below *(dollars in millions)*. There are no restrictions on entity cash. Non-entity cash is restricted as discussed below.

	2016			2015		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
After-Employment Benefit Assets	$ 174	$ —	$ 174	$ 159	$ —	$ 159
Emergencies in the Diplomatic and Consular Service	5	—	5	6	—	6
Chancery Development						
Trust Accounts:						
Treasury Bills, at par	—	15	15	—	15	15
Unamortized Discount	—	—	—	—	—	—
Total	$ 179	$ 15	$ 194	$ 165	$ 15	$ 180

Foreign Service National After-Employment Benefit Assets

The Defined Contributions Fund (FSN DCF) provides retirement benefits for FSN employees in countries where the Department has made a public interest determination to discontinue participation in the Local Social Security System (LSSS). Title 22, Foreign Relations and Intercourse, Section 3968, Local Compensation Plans, provides the authority to the Department to establish such benefits and identifies as part of a total compensation plan for these employees. The FSN DCF is administered by a third party who invests excess funds in Treasury securities on behalf of the Department. The other monetary assets reported for the FSN DCF is $174 million and $159 million as of September 30, 2016 and 2015, respectively.

Chancery Development Trust Account

Lease fees collected from foreign governments by the Department for the International Chancery Center are deposited into an escrow account called the Chancery Development Trust Account. The funds are unavailable to the Department at time of deposit, and do not constitute expendable resources until funds are necessary for additional work on the Center project. The Chancery Development Trust account invests in six-month marketable Treasury bills issued at a discount and redeemable for par at maturity. A corresponding liability for the amounts is reflected as Funds Held in Trust and Deposit amounts.

7 Property and Equipment, Net

Property and Equipment, Net balances at September 30, 2016 and 2015, are shown in the following table *(dollars in millions)*.

	2016			2015		
Major Classes	**Cost**	**Accumulated Depreciation**	**Net Value**	**Cost**	**Accumulated Depreciation**	**Net Value**
Real Property:						
Overseas –						
Land and Land Improvements	$ 2,651	$ (82)	$ 2,569	$ 2,450	$ (73)	$ 2,377
Buildings and Structures	19,872	(7,499)	12,373	18,384	(6,825)	11,559
Construction-in-Progress	3,820	—	3,820	3,276	—	3,276
Assets Under Capital Lease	175	(58)	117	146	(41)	105
Leasehold Improvements	573	(360)	213	537	(331)	206
Domestic –						
Structures, Facilities and Leaseholds	1,372	(489)	883	1,355	(451)	904
Construction-in-Progress	197	—	197	153	—	153
Land and Land Improvements	81	(8)	73	81	(8)	73
Total – Real Property	28,741	(8,496)	20,245	26,382	(7,729)	18,653
Personal Property:						
Aircraft	789	(432)	357	887	(422)	465
Vehicles	972	(585)	387	991	(538)	453
Communication Equipment	29	(20)	9	28	(19)	9
ADP Equipment	261	(126)	135	188	(110)	78
Reproduction Equipment	9	(6)	3	9	(6)	3
Security Equipment	268	(106)	162	239	(89)	150
Internal Use Software	265	(202)	63	455	(381)	74
Software-in-Development	205	—	205	160	—	160
Other Equipment	351	(120)	231	302	(120)	182
Total – Personal Property	3,149	(1,597)	1,552	3,259	(1,685)	1,574
Total Property and Equipment, Net	$ 31,890	$ (10,093)	$ 21,797	$ 29,641	$ (9,414)	$ 20,227

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NOTE 7: Property and Equipment, Net (continued)

Stewardship Property and Equipment; Heritage Assets

The Department maintains collections of art, furnishings and real property (Culturally Significant Property) that are held for public exhibition, education and official functions for visiting chiefs of State, heads of government, foreign ministers and other distinguished foreign and American guests. As the lead institution conducting American diplomacy, the Department uses this property to promote national pride and the distinct cultural diversity of American artists, as well as to recognize the historical, architectural and cultural significance of America's holdings overseas.

There are nine separate collections of art and furnishings: the Diplomatic Reception Rooms Collection, the Art Bank Program, the Art in Embassies Program, the Cultural Heritage Collection, the Library Rare and Special Book Collection, the Secretary of State's Register of Culturally Significant Property, the U.S. Diplomacy Center, the Blair House, and the International Boundary and Water Commission. The collections, activity of which is shown in the following table and described more fully in the Required Supplementary Information and Other Information sections of this report, consist of items that were donated, purchased using donated or appropriated funds. The Department provides protection and preservation services to maintain all Heritage Assets in good condition forever as part of America's history.

HERITAGE ASSETS
For the Years Ended September 30, 2015 and 2016

	Diplomatic Reception Rooms Collection	Art Bank Program	Art in Embassies Program	Cultural Heritage Collection	Library Rare & Special Book Collection
Description	**Collectibles – Art and furnishings from the period 1750 to 1825**	**Collection of American works of art on paper**	**Collectibles – American works of art**	**Collections include fine and decorative arts and other cultural objects**	**Collectibles – Rare books and other publications of historic value**
Acquisition and Withdrawal	Acquired through donation or purchase using donated funds. Excess items are sold.	Acquired through purchase. Excess items are transferred.	Acquired through purchase or donation. Excess items are sold.	The program provides assessment, preservation, and restoration as needed.	Acquired through donation.
Condition	Good to excellent	Good to excellent	Good to excellent	Good to excellent	Poor to good
Number of Assets – 9/30/2014	1,732	2,500	1,070	18,206	1,112
Acquisitions	14	54	17	126	19
Adjustments	104			235	
Disposals	26		18	158	1
Number of Assets – 9/30/2015	1,824	2,554	1,069	18,409	1,130
Deferred Maintenance – 9/30/2015	N/A	N/A	N/A	N/A	N/A
Acquisitions	9	46	56	46	64
Adjustments	41		25	245	
Disposals	56		1	362	3
Number of Assets – 9/30/2016	1,818	2,600	1,149	18,338	1,191
Deferred Maintenance – 9/30/2016	N/A	N/A	N/A	N/A	N/A

(continued on next page)

The Athens Chancery, by architect Walter Gropius, one of the famed Bauhaus School, is a modern tribute to ancient Greek architecture.

Department of State/OBO

HERITAGE ASSETS *(continued)*
For the Years Ended September 30, 2015 and 2016

	Secretary of State's Register of Culturally Significant Property	U.S. Diplomacy Center	Blair House	International Boundary and Water Commission
Description	Noncollection – Buildings of historic, cultural, or architectural significance	Collectibles – Historic artifacts, art and other cultural objects	Collections of fine and decorative arts, furnishings, artifacts, other cultural objects, rare books and archival materials in national historic landmark buildings	Monuments that mark the international boundary between the United States and Mexico, Falcon International Dam and Power Plant
Acquisition and Withdrawal	Acquired through purchase. Excess items are sold.	Acquired through donation or transfer. Excess items are transferred.	Acquired through purchase, donation or transfer. Excess items are transferred or disposed of via public sale.	The monuments were constructed to mark the international boundary. The dam and power plant were constructed by the United States and Mexico pursuant to Water Treaty of 1944.
Condition	Poor to excellent	Good to excellent	Good to excellent	Poor to good
Number of Assets – 9/30/2014	26	3,088	2,619	
Acquisitions		184	4	
Adjustments		9	1	
Disposals			10	
Number of Assets – 9/30/2015	26	3,281	2,614	140
Deferred Maintenance – 9/30/2015	$3,679,000	N/A	N/A	$278,485
Acquisitions	7	575		
Adjustments		247	66	
Disposals		67	75	
Number of Assets – 9/30/2016	33	4,036	2,605	140
Deferred Maintenance – 9/30/2016	$2,996,000	N/A	N/A	$974,000

8 Advances, Prepayments, and Other Assets

The Department's Other Assets include advances and prepayments in support of programs including Global Health and Child Survival, Pakistan Counterinsurgency Capability, Overseas Buildings Operations, and Migration and Refugee Assistance. Advances and prepayments are made for salary/travel to employees, future services with other Federal entities, real property rent, and inventory. The Department's Other Assets as of September 30, 2016 and 2015, are summarized to the right *(dollars in millions)*.

	2016	2015
Intragovernmental Assets:		
Other Advances and Prepayments	$ 1,452	$ 957
Non-Intragovernmental Advances:		
Salary Advances	8	8
Travel Advances	14	13
Other Advances and Prepayments	982	573
Inventory	22	17
Total Other Assets	$ 2,478	$ 1,568

9 Other Liabilities

The Department's Other Liabilities at September 30, 2016 and 2015, are summarized below *(dollars in millions)*.

	2016			2015		
	Current	Non-Current	Total	Current	Non-Current	Total
Intragovernmental						
Deferred Revenue	$ 135	$ —	$ 135	$ 154	$ —	$ 154
Custodial Liability	10	—	10	16	—	16
Other Liabilities	48	—	48	48	—	48
Total Intragovernmental	193	—	193	218	—	218
Federal Employees Compensation Act Benefits	92	—	92	88	—	88
Capital Lease Liability	15	84	99	15	83	98
Accrued Salaries Payable	198	—	198	288	—	288
Contingent Liability	—	9	9	—	13	13
Pension Benefits Payable	61	—	61	61	—	61
Accrued Annual Leave	—	386	386	—	369	369
Funds Held in Trust and Deposit Accounts	—	15	15	—	15	15
Environmental Liability	—	97	97	—	130	130
Other Liabilities	642	—	642	267	—	267
Deferred Revenues	33	—	33	31	—	31
Subtotal	1,041	591	1,632	750	610	1,360
Total Other Liabilities	$ 1,234	$ 591	$ 1,825	$ 968	$ 610	$ 1,578

Environmental Liability associated with Asbestos Cleanup and Other

The Department has estimated both friable, $8 million, and nonfriable, $88 million, asbestos-related cleanup costs and recognized a liability and related expense for those costs that are both probable and reasonably estimable as of September 30, 2016, consistent with the current guidance in the Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*; SFFAS No. 6, *Accounting for Property, Plant, and Equipment, Chapter 4: Cleanup Costs*; and Technical Release (TR) 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*. The remaining $1 million in environmental liability is non-asbestos related cleanup costs for lead based paint.

NOTE 9: Other Liabilities (continued)

Liabilities Not Covered by Budgetary Resources

The Department's liabilities are classified as covered by budgetary resources or not covered by budgetary resources. Liabilities not covered by budgetary resources result from the receipt of goods and services, or occurrence of eligible events in the current or prior periods, for which revenue or other funds to pay the liabilities have not been made available through appropriations or current earnings of the Department. The liabilities in this category at September 30, 2016 and 2015 are summarized in the Schedule of Liabilities Not Covered by Budgetary Resources *(dollars in millions)*.

Liabilities Not Covered by Budgetary Resources	2016	2015
Intragovernmental Liabilities		
Unfunded FECA Liability	$ 22	$ 20
Custodial Liability	10	16
Total Intragovernmental Liabilities	32	36
International Organizations Liability	1,133	1,112
After-Employment Benefit Liability:		
Foreign Service Retirement Actuarial Liability	920	1,262
Foreign Service Nationals (FSN):		
Defined Contributions Fund	178	160
Defined Benefit Plans	68	68
Lump Sum Retirement and Voluntary Severance	326	301
Total After-Employment Benefit Liability	1,492	1,791
Accrued Annual Leave	386	369
Environmental Liability	97	130
Capital Lease Liability	99	98
Contingent Liability	9	13
Other Liabilities	463	93
Total Liabilities Not Covered by Budgetary Resources	3,711	3,642
Total Liabilities Covered by Budgetary Resources	22,019	21,779
Total Liabilities	$ 25,730	$ 25,421

10 After-Employment Benefit Liability

The Department of State provides after-employment benefits to both Foreign Service Officers (FSOs) and Foreign Service Nationals (FSNs). FSOs participate in the Foreign Service Retirement and Disability pension plans. FSN employees participate in a variety of plans established by the Department in each country based upon prevailing compensation practices in the host country. The table below summarizes the liability associated with these plans *(dollars in millions)*.

For the Year Ended September 30,	2016	2015
Foreign Service Officer		
Foreign Service Retirement and Disability Fund	$ 19,480	$ 19,501
Foreign Service Nationals		
Defined Contributions Fund	178	160
Defined Benefit Plans	68	68
Lump Sum Retirement and Voluntary Severance	326	301
Total FSN	572	529
Total After-Employment Benefit Liability	$ 20,052	$ 20,030

Details for these plans are presented as follows.

Foreign Service Retirement and Disability Fund

The FSRDF finances the operations of the FSRDS and the FSPS. The FSRDS and the FSPS are defined-benefit, single-employer plans. FSRDS was originally established in 1924; FSPS in 1986. The FSRDS is a single-benefit retirement plan. Retirees receive a monthly annuity from FSRDS for the rest of their lives. FSPS provides benefits from three sources: a basic benefit (annuity) from FSPS, Social Security, and the Thrift Savings Plan.

The Department's financial statements present the Pension Actuarial Liability of the Foreign Service Retirement and Disability Program (the "Plan") as the actuarial present value of projected plan benefits, as required by the SFFAS No. 33, *Pensions, Other Retirement Benefits, and other Post Employment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The Pension Actuarial Liability represents the future periodic payments provided for current employee and retired Plan

participants, less the future employee and employing Federal agency contributions, stated in current dollars.

Future periodic payments include benefits expected to be paid to (1) retired or terminated employees or their beneficiaries; (2) beneficiaries of employees who have died; and (3) present employees or their beneficiaries, including refunds of employee contributions as specified by Plan provisions. Total projected service is used to determine eligibility for retirement benefits. The value of voluntary, involuntary, and deferred retirement benefits is based on projected service and assumed salary increases. The value of benefits for disabled employees or survivors of employees is determined by multiplying the benefit the employee or survivor would receive on the date of disability or death, by a ratio of service at the valuation date to projected service at the time of disability or death.

The Pension Actuarial Liability is calculated by applying actuarial assumptions to adjust the projected plan benefits to reflect the discounted time value of money and the probability of payment (by means of decrements such as death, disability, withdrawal or retirement) between the valuation date and the expected date of payment. The Plan uses the aggregate entry age normal actuarial cost method, whereby the present value of projected benefits for each employee is allocated on a level basis (such as a constant percentage of salary) over the employee's service between entry age and assumed exit age. The portion of the present value allocated to each year is referred to as the normal cost.

The table below presents the normal costs for 2016 and 2015.

Normal Cost:	2016	2015
FSRDS	33.20%	35.28%
FSPS	25.97%	26.12%

Demographic assumptions include the set of rates that predict certain events occurring to a group of employees or annuitants. Events of significance to a retirement system are those that result in a commencement or termination of a benefit payment. The events affecting active employees include reasons for leaving the service such as retirement, becoming disabled, terminating service, or death. The events affecting annuitants include, first and foremost, mortality.

The demographic assumption changes included revision of assumptions applicable to active employees to predict the likelihood of their future separation from service, including their probability of withdrawal, retirement, or becoming disabled. Also warranted was a change to adopt gender specific mortality rates for active employees as well as disabled, survivor, and child survivor annuitants.

The assumption changes for interest rate, inflation and other items are not from the experience study. These changes arise in connection with the annual valuation and follow the guidelines of SFFAS No. 33. The changes from assumptions for 2016 and 2015 can be seen in the table on the following page.

Actuarial assumptions are based on the presumption that the Plan will continue. If the Plan terminates, different actuarial assumptions and other factors might be applicable for determining the actuarial present value of accumulated plan benefits. The following table presents the calculation of the combined FSRDS and FSPS Pension Actuarial Liability and the assumptions used in computing it for the year ended September 30, 2016 and 2015 *(dollars in millions)*.

For the Year Ended September 30,	2016	2015
Pension Actuarial Liability, Beginning of Year	$ 19,501	$ 19,091
Pension Expense:		
Normal Cost	466	442
Interest on Pension Liability	769	786
Actuarial (Gains) or Losses:		
From Experience	(160)	(31)
From Assumption Changes		
Interest Rate	495	443
Experience Study	—	—
Other	(648)	(303)
Prior Year Service Costs	—	—
Other	(2)	(1)
Total Pension Expense	920	1,336
Less Payments to Beneficiaries	941	926
Pension Actuarial Liability, End of Year	19,480	19,501
Less: Net Assets Available for Benefits	18,560	18,239
Actuarial Pension Liability – Unfunded	$ 920	$ 1,262

For the Year Ended September 30,	2016	2015
Actuarial Assumptions:		
Rate of Return on Investments	3.79%	3.99%
Rate of Inflation	1.71%	2.13%
Salary Increase	1.96%	2.38%

Net Assets Available for Benefits at September 30, 2016 and 2015, consist of the following *(dollars in millions).*

At September 30,	2016	2015
Fund Balance with Treasury	$ —	$ —
Accounts and Interest Receivable	292	173
Investments in U.S. Government Securities	18,346	18,144
Total Assets	18,638	18,317
Less: Liabilities Other Than Actuarial	78	78
Net Assets Available for Benefits	$ 18,560	$ 18,239

Foreign Service Nationals' After-employment Benefit Liabilities

The Department of State operates overseas in over 180 countries and employs a significant number of local nationals, currently over 51,000, known as Foreign Service Nationals (FSNs).

FSNs do not qualify for any Federal civilian benefits (and therefore cannot participate) in any of the Federal civilian pension systems (e.g., Civil Service Retirement System (CSRS), FSRDS, Thrift Savings Plan (TSP), etc.). By statute, the Department is required to establish compensation plans for FSNs in its employ in foreign countries. The plans are based upon prevailing wage and compensation practices in the locality of employment, unless the Department makes a public interest determination to do otherwise. In general, the Department follows host country (i.e., local) practices and conventions in compensating FSNs. The end result of this is that compensation for FSNs is often not in accord with what would otherwise be offered or required by statute and regulations for Federal civilian employees.

In each country, FSN after-employment benefits are included in the Post's Local Compensation Plan. Depending on the local practice, the Department offers defined benefit plans, defined contribution plans, and retirement and voluntary severance lump sum payment plans. These plans are typically in addition to or in lieu of participating in the host country's LSSS. These benefits form an important part of the Department's total compensation and benefits program that is designed to attract and retain highly skilled and talented FSN employees.

FSN Defined Contributions Fund (FSN DCF)

The Department's FSN Defined Contributions Fund provides after-employment benefits for FSN employees in countries where the Department has made a public interest determination to discontinue participation in the LSSS. Title 22, Foreign Relations and Intercourse, Section 3968, Local Compensation Plans, provides the authority to the Department to establish such benefits and identifies as part of a total compensation plan for these employees. The Department contributes 12 percent of each participant's base salary to the Fund. Participants are not allowed to make contributions to the Fund. The amount of after-employment benefit received by the employee is determined by the amount of the contributions made by the Department along with investment returns and administrative fees. The Department's obligation is determined by the contributions for the period, and no actuarial assumptions are required to measure the obligation or the expense. The FSN DCF is administered by a third party who invests contributions in U.S. Treasury securities on behalf of the Department. Payroll contributions are sent to the third party administrator, while separation benefits are processed by the Department upon receipt of funds from the third party. As of September 30, 2016, approximately 13,000 FSNs in 29 countries participate in the FSN DCF.

The Department records expense for contributions to the FSN DCF when the employee renders service to the Department, coinciding with the cash contributions to the FSN DCF. Total contributions by the Department in 2016 and 2015 were $26.5 million and $25.0 million, respectively. Total liability reported for the FSN DCF is $175 million and $160 million as of September 30, 2016 and 2015, respectively.

As of September 30, 2016, the Voluntary Contribution Plan administered by the FSN Defined Contribution Fund reported $3 million in employee and employer contributions and a $3 million liability for the Plan.

Local Defined Contribution Plans

In 51 countries, the Department has implemented various local arrangements, primarily with third party providers, for defined contribution plans for the benefit of FSNs. Total contributions to these plans by the Department in 2016 and 2015 were $23.8 million and $23.1 million, respectively.

Defined Benefit Plans

In 12 countries, involving over 3,600 FSNs, the Department has implemented various arrangements for defined benefit pension plans for the benefit of FSNs. Some of these plans supplement the host country's equivalent to U.S. social security, others do not. While none of these supplemental plans is mandated by the host country, some are substitutes for optional tiers of a host country's social security system. Such arrangements include (but are not limited to) conventional defined benefit plans with assets held in the name of trustees of the plan who engage plan administrators, investment advisors and actuaries, and plans offered by insurance companies at predetermined rates or with annual adjustments to premiums. The Department deposits funds under various fiduciary-type arrangements, purchases annuities under group insurance contracts or provides reserves to these plans. Benefits under the defined benefit plans are typically based either on years of service and/or the employee's compensation (generally during a fixed number of years immediately before retirement). The range of assumptions that are used for the defined benefit plans reflect the different economic and regulatory environments within the various countries.

As discussed in Note 1, the Department accounts for these plans under guidance contained in International Accounting Standards (IAS) No. 19, *Employee Benefits*. In accordance with IAS No. 19, the Department reported the net defined benefit liability of $68 million as of September 30, 2016 and 2015, respectively. There was no change in 2016 and an increase of $17 million in 2015.

The material FSN defined benefit plans include plans in Germany and the United Kingdom (UK) which represent 72 percent of total assets, 74 percent of total projected benefit obligations, and 90 percent of the net defined benefit liability as of September 30, 2016. The Germany Plan's most recent evaluation report, dated October 21, 2016, is as of July 1, 2016. The UK Plan's most recent evaluation, dated December 10, 2015, is as of November 1, 2015.

For the Germany Plan the change in the net defined benefit liability was an increase of $2 million in 2016 and a decrease of $8 million in 2015, while for the UK plan there was no change in 2016 and an increase of $30 million in 2015.

For Germany in 2016, the increase in the net defined benefit liability was primarily due to losses from a change in the financial assumption of the discount rate. The decrease in 2015 was primarily due to an increase in the retirement age assumption from 63 to 65 years of age.

For the UK Plan in 2016, the decrease in the net defined benefit liability was primarily due to a combination of gains from changes in the financial assumptions, mainly the discount rate, as well as currency exchange rates. The increase in 2015 was due to changes in the financial assumptions, mainly the discount rate.

The tables below show the changes in the projected benefit obligation and plan assets during 2016 and 2015 for the Germany and UK plans *(dollars in millions)*.

Change in Benefit Obligations:	2016	2015
Benefit obligations beginning of year	$ 341	$ 322
Service Cost	2	3
Interest Cost	4	6
Actuarial (gain) loss	(7)	22
Other	(11)	(12)
Benefit obligations end of year	$ 329	$ 341

Change in Plan Assets:	2016	2015
Fair value of plan assets beginning of year	$ 282	$ 285
Return on plan assets	(1)	18
Contributions less Benefits Paid	17	6
Other	(30)	(27)
Fair value of plan assets end of year	268	282
Net Defined Benefit Liability	$ 61	$ 59

The table below shows the allocation of the plan assets by category during 2016 and 2015 for the German and UK plans.

	2016	2015
Insurance Policies	40%	37%
Equity Securities	35%	33%
Money Market and Cash	2%	7%
Debt Securities	23%	23%
Total	100%	100%

The principal actuarial assumptions used for 2016 and 2015 for the Germany and UK plans are presented below:

Actuarial Assumptions:	2016	2015
Discount Rate	3.20% – 5.50%	3.40% – 5.20%
Salary Increase Rate	2.25% – 4.60%	2.25% – 4.50%
Pension Increase Rate	1.75% – 3.30%	1.75% – 3.20%

Retirement and Voluntary Severance Lump Sum Payments

In 73 countries, FSN employees are provided a lump-sum separation payment when they resign, retire, or otherwise separate through no fault of their own. The amount of the payment is generally based on length of service, rate of pay at the time of separation, and the type of separation. As of September 30, 2016, approximately 24,000 FSNs participate in such plans.

The cost method used for the valuation of the liabilities associated with these plans is the Projected Unit Credit actuarial cost method. The participant's benefit is first determined using both their projected service and salary at the retirement date. The projected benefit is then multiplied by the ratio of current service to projected service at retirement in order to determine an allocated benefit. The Projected Benefit Obligation (PBO) for the entire plan is calculated as the sum of the individual PBO amounts for each active member.

Further, this calculation requires certain actuarial assumptions be made, such as voluntary withdraws, assumed retirement age, death and disability, as well as economic assumptions. For economic assumptions, available market data was scarce for many of the countries where eligible posts are located. Due to the lack of creditable global market data, an approach consistent with that used for the September 30, 2016, FSRDF valuations under SFFAS No. 33 was adopted. Using this approach, the economic assumptions used for the Retirement and Voluntary Severance Lump Sum Payment liability as of September 30, 2016 and 2015, are:

	2016	2015
Discount Rate	3.24%	3.48%
Rate of inflation	1.74%	2.07%
Salary Increase	3.30%	3.26%

Based upon the projection, the total liability reported for the Retirement and Voluntary Severance Lump Sum Payment is $326 million and $301 million as of September 30, 2016 and 2015, respectively, as shown below *(dollars in millions)*:

At September 30,	2016	2015
Retirement	$ 101	$ 94
Voluntary Severance	225	207
Total	$ 326	$ 301

The table below shows the changes in the projected benefit obligation during 2016 and 2015 *(dollars in millions)*:

Changes in Benefit Obligations:	2016	2015
Benefit obligations beginning of year	$ 301	$ 299
Normal Cost	22	22
Benefit Payments	(51)	(50)
Interest Cost	10	11
Actuarial (gain) loss on assumptions	4	(1)
Actuarial (gain) loss due to experience	39	20
Other	1	—
Benefit obligations end of year	$ 326	$ 301

11 International Organizations Liability

The Department's Bureau of International Organization Affairs (IO) is responsible for the administration, development, and implementation of the United States' policies in the United Nation (UN), international organizations, and UN peacekeeping operations. The United States contributes either to voluntary funds or an assessed share of the budgets and expenses of these organizations and activities. These missions are supported through Congressional appropriation to the Department's Contributions to International Organizations (CIO), Contributions for International Peacekeeping Activities (CIPA), and International Organizations and Programs Accounts (IO&P).

A liability is established for assessments received and unpaid and for pledges made and accepted by an international organization. Congress in the past has mandated withholding of dues payments because of policy restrictions or caps on the percentage of the organization's operating costs financed by the United States. Without authorization from Congress, the Department cannot pay certain arrears in dues. The amounts assessed that will likely not be authorized to be paid do not appear as liabilities on the Balance Sheet of the Department.

Amounts presented in this Note represent amounts that are paid through the CIO, CIPA, and IO&P Accounts and administered by IO. Payables to international organizations by the Department that are funded through other appropriations are included in Accounts Payable to the extent such payables exist at September 30, 2016 and 2015.

Further information about the Department's mission to the UN is at *www.usunnewyork.usmission.gov*. Details of the IO Liability follow *(dollars in millions)*:

As of September 30,	2016	2015
Regular Membership Assessments Payable to UN	$ 786	$ 813
Dues Payable to UN Peacekeeping Missions	426	369
International Organizations Liability	1,073	1,081
	2,285	2,263
Less Amounts not Authorized to be Paid	686	690
International Organizations Liability	$ 1,599	$ 1,573
Funded Amounts	$ 466	$ 461
Unfunded Amounts	1,133	1,112
Total International Organizations Liability	$ 1,599	$ 1,573

12 Leases

The Department is committed to over 10,000 leases, which cover office and functional properties, and residential units at diplomatic missions overseas. The majority of these leases are short-term operating leases. In most cases, management expects that the leases will be renewed or replaced by other leases. Personnel from other U.S. Government agencies occupy some of the leased facilities (both residential and non-residential). These agencies reimburse the Department for the use of the properties. Reimbursements are received for approximately $89.7 million of the lease costs.

Capital Leases

The Department has various leases for overseas real property that meet the criteria as a capital lease in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. Assets that meet the definition of a capital lease and their related lease liability are initially recorded at the present value of the future minimum lease payments or fair market value, whichever is lower. In general, capital leases are depreciated over the estimated useful life or lease terms depending upon which capitalization criteria the capital leases meet

at inception. The related liability is amortized over the term of the lease, which can result in a different value in the asset versus the liability.

The following is a summary of Net Assets under Capital Lease and Future Minimum Lease payments as of September 30, 2016 and 2015 *(dollars in millions)*. Lease liabilities are not covered by budgetary resources.

	2016	2015
Net Assets under Capital Leases:		
Buildings	$ 175	$ 146
Accumulated Depreciation	(58)	(41)
Net Assets under Capital Leases	$ 117	$ 105

Future Minimum Lease Payments:

2016

Fiscal Year	Lease Payments
2017	$ 15
2018	15
2019	15
2020	14
2021	14
2022 and thereafter	150
Total Minimum Lease Payments	223
Less: Amount Representing Interest	(124)
Liabilities under Capital Leases	$ 99

2015

Fiscal Year	Lease Payments
2016	$ 15
2017	13
2018	13
2019	13
2020	14
2021 and thereafter	163
Total Minimum Lease Payments	231
Less: Amount Representing Interest	(133)
Liabilities under Capital Leases	$ 98

Operating Leases

The Department leases real property in overseas locations under operating leases. These leases expire in various years. Minimum future rental payments under operating leases have remaining terms in excess of one year as of September 30, 2016 and 2015 for each of the next 5 years and in aggregate are as follows *(dollars in millions)*:

Year Ended September 30, 2016	Operating Lease Amounts
2017	$ 420
2018	329
2019	231
2020	153
2021	96
2022 and thereafter	363
Total Minimum Future Lease Payments	$ 1,592

Year Ended September 30, 2015	Operating Lease Amounts
2016	$ 423
2017	293
2018	209
2019	144
2020	102
2021 and thereafter	338
Total Minimum Future Lease Payments	$ 1,509

13 Contingencies and Commitments

Contingencies

The Department is a party in various material legal matters (litigation, claims, assessments, including pending or threatened litigation, unasserted claims, and claims that may derive from treaties or international agreements) brought against it. We periodically review these matters pending against us. As a result of these reviews, we classify and adjust our contingent liability when we think it is probable that there will be an unfavorable outcome and when a reasonable estimate of the amount can be made.

Additionally, as part of our continuing evaluation of estimates required in the preparation of our financial statements, we evaluated the materiality of cases determined to have a reasonably possible chance of an adverse outcome. These cases involve contract disputes, claims related to embassy construction, Equal Employment Opportunity Commission claims, and international claims made against the United States being litigated by the Department. As a result of these reviews, the Department believes these claims could result in potential estimable losses of $3 to $686 million if the outcomes were adverse to the Department; these amounts are considered by management to be immaterial to our financial statements taken as a whole.

Certain legal matters to which the Department is a party are administered and, in some instances, litigated and paid by other U.S. Government agencies. Generally, amounts to be paid under any decision, settlement, or award pertaining to these legal matters are funded from the Judgment Fund.

None of the amounts paid under the Judgment Fund on behalf of the Department in 2016 and 2015 had a material effect on the financial position or results of operations of the Department.

As a part of our continuing evaluation of estimates required for the preparation of our financial statements, we recognize settlements of claims and lawsuits and revised other estimates in our contingent liabilities. Management and the Legal Adviser believe we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.

Commitments

In addition to the future lease commitments discussed in Note 12, *Leases*, the Department is committed under obligations for goods and services which have been ordered but not yet received at fiscal year end. These are termed undelivered orders – see Note 16, *Statement of Budgetary Resources*.

Rewards Programs: Under 22 U.S.C. 2708, the Department has the authority to operate rewards programs that are critical to combating international terrorism, narcotics trafficking, war crimes, and transnational organized crime. The Rewards for Justice Program offers rewards for information leading to the arrest or conviction in any country of persons responsible for acts of international terrorism against U.S. persons or property, or to the location of key terrorist leaders. See further details at *www.rewardsforjustice.net*. The Narcotics Rewards Program has the authority to offer rewards for information leading to the arrest or conviction in any country of persons committing major foreign violations of U.S. narcotics laws or the killing or kidnapping of U.S. narcotics law enforcement officers or their family members. The War Crimes Rewards Program offers rewards for information leading to the arrest, transfer, or conviction of persons indicted by a judge of the International Criminal Tribunal for the former Yugoslavia, the International Criminal Tribunal for Rwanda, or the Special Court of Sierra Leone for serious violations of international humanitarian law. The Transnational Organized Crime Rewards Program offers rewards for information leading to the arrest or conviction of significant members of transnational criminal organizations involved in activities that threaten national security, such as human trafficking, and trafficking in arms or other illicit goods.

Pending reward offers under the four programs total $893 million. Under the programs, we have paid out $241 million since 2003. Reward payments are funded from Diplomatic and Consular Programs prior year expired, unobligated balances using available transfer authorities as necessary. Management and the Legal Adviser believe there is adequate funding for the amounts that may become due under the Rewards Program.

14 Funds from Dedicated Collections

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes, and must be accounted for separately from the Government's general revenues. There are no intra-departmental transactions between the various funds from dedicated collections.

The Department administers nine funds from dedicated collections as listed below.

Treasury Fund Symbol	Description	Statute
19X5515	H-1B and L Fraud Prevention and Detection	118 Stat. 3357
19X8166	American Studies Endowment Fund	108 Stat. 425
19X8167	Trust Funds	22 U.S.C. 1479
19X8271	Israeli Arab Scholarship Programs	105 Stat. 696, 697
19X8272	Eastern Europe Student Exchange Endowment Fund	105 Stat. 699
19X8813	Center for Middle Eastern-Western Dialogue Trust Fund	118 Stat. 84
19X8821	Unconditional Gift Fund	22 U.S.C. 809, 1046
19X8822	Conditional Gift Fund	22 U.S.C. 809, 1046
95X8276	Eisenhower Exchange Fellowship Program Trust Fund	Public Law No. 101-454

The table below displays the dedicated collection amounts as of September 30, 2016 and 2015 *(dollars in millions)*.

	2016	2015
Balance Sheet as of September 30		
Assets:		
Fund Balance with Treasury	$ 173	$ 179
Investments	47	48
Other Assets	96	96
Total Assets	**$ 316**	**$ 323**
Net Position:		
Cumulative Results of Operations	$ 316	$ 323
Total Liabilities and Net Position	**$ 316**	**$ 323**
Statement of Net Cost for the Year Ended September 30		
Gross Program Costs	$ 74	$ 67
Less: Earned Revenues	—	—
Net Program Costs	74	67
Net Cost of Operations	**$ 74**	**$ 67**
Statement of Changes in Net Position for the Year Ended September 30		
Net Position Beginning of Period	$ 323	$ 317
Budgetary Financing Sources	67	73
Net Cost of Operations	(74)	(67)
Change in Net Position	(7)	6
Net Position End of Period	**$ 316**	**$ 323**

15 STATEMENT OF NET COST

The Consolidated Statement of Net Cost is presented by major program instead of strategic goal. The Department believes this is more consistent and transparent with its Congressional Budget submissions. The net cost of operations is the gross (i.e., total) cost incurred by the Department, less any exchange (i.e., earned) revenue. In the Financial Summary and Highlights section of the Management Discussion and Analysis, a table is presented to show the relationship between the Department's strategic goals described in the Strategic Plan and the major programs used to present the Consolidated Statement of Net Cost and related disclosures.

The Consolidating Schedule of Net Cost categorizes costs and revenues by major program and responsibility segment. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. For the Department, a Bureau (e.g., Bureau of African Affairs) is considered a responsibility segment. For presentation purposes, Bureaus have been summarized and reported at the Under Secretary level (e.g., Under Secretary for Political Affairs).

CONSOLIDATING SCHEDULE OF NET COST

For the Year Ended September 30, 2016
(dollars in millions)

	Under Secretary for							
MAJOR PROGRAM	**Arms Control, Int'l Security**	**Economic Growth, Energy and Environment**	**Civilian Security, Democracy and Human Rights**	**Political Affairs**	**Public Diplomacy and Public Affairs**	**Management-Consular Affairs**	**Intra-Departmental Eliminations**	**Total**
Peace and Security								
Total Cost	$ 572	$ —	$ 923	$ 581	$ —	$ —	$ (4)	$ 2,072
Earned Revenue	(53)	—	(3)	(8)	—	—	4	(60)
Net Program Costs	519	—	920	573	—	—	—	2,012
Democracy, Human Rights and Governance								
Total Cost	—	—	565	22	—	—	(2)	585
Earned Revenue	—	—	(2)	—	—	—	2	—
Net Program Costs	—	—	563	22	—	—	—	585
Health, Education and Social Services								
Total Cost	—	—	749	7,953	—	—	—	8,702
Earned Revenue	—	—	—	—	—	—	—	—
Net Program Costs	—	—	749	7,953	—	—	—	8,702
Humanitarian, Economic Development and Environment								
Total Cost	—	—	3,330	152	—	—	—	3,482
Earned Revenue	—	—	—	—	—	—	—	—
Net Program Costs	—	—	3,330	152	—	—	—	3,482
International Organizations and Commissions								
Total Cost	1	37	—	3,982	—	—	—	4,020
Earned Revenue	—	—	—	(6)	—	—	—	(6)
Net Program Costs	1	37	—	3,976	—	—	—	4,014
Diplomatic and Consular Programs								
Total Cost	219	82	123	7,095	282	8,201	(1,931)	14,071
Earned Revenue	(65)	—	—	(745)	(3)	(7,689)	1,869	(6,633)
Net Program Costs	154	82	123	6,350	279	512	(62)	7,438
Administration of Foreign Affairs								
Total Cost	—	—	467	4,916	1,738	31	(3,986)	3,166
Earned Revenue	—	—	(53)	(688)	(5,028)	(103)	3,977	(1,895)
Net Program Costs Before Assumption Changes	—	—	414	4,228	(3,290)	(72)	(9)	1,271
Actuarial Gain on Pension Assumption Changes	—	—	(10)	(105)	(37)	(1)		(153)
Net Program Costs	—	—	404	4,123	(3,327)	(73)	(9)	1,118
Total Cost	792	119	6,147	24,596	1,983	8,231	(5,923)	35,945
Total Revenue	(118)	—	(58)	(1,447)	(5,031)	(7,792)	5,852	(8,594)
Total Net Cost	$ 674	$ 119	$ 6,089	$ 23,149	$ (3,048)	$ 439	$ (71)	$ 27,351

The presentation of program results is based on the Department's major programs related to the major goals established pursuant to the Government Performance and Results Act (GPRA) of 1993 and the GPRA Modernization Act of 2010. The Department's strategic goals and strategic priorities are defined in Management's Discussion and Analysis section of this report.

The Administration of Foreign Affairs program relates to high-level executive direction (e.g., Office of the Secretary, Office of the Legal Adviser), general management, and certain administrative support costs. For the years ended September 30, 2016 and 2015, these consist of costs and earned revenue summarized below *(dollars in millions)*:

	2016			2015		
Administration of Foreign Affairs	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**
Costs:						
Administration of Foreign Affairs – Other	$ 1,566	$ 60	$ 1,506	$ 1,405	$ 60	$ 1,345
FSRDF	1,073	591	482	1,196	571	625
ICASS	3,233	2,307	926	3,088	2,431	657
Working Capital Fund	1,280	1,028	252	1,283	1,162	121
Total Costs	7,152	3,986	3,166	6,972	4,224	2,748
Less Earned Revenue:						
Administration of Foreign Affairs – Other	85	58	27	67	59	8
FSRDF	1,262	591	671	1,272	571	701
ICASS	3,327	2,300	1,027	3,311	2,425	886
Working Capital Fund	1,198	1,028	170	1,342	1,161	181
Total Earned Revenue	5,872	3,977	1,895	5,992	4,216	1,776
Actuarial (Gain)/Loss on Pension Assumption Changes	(153)	—	(153)	140	—	140
Total Net Cost for Administration of Foreign Affairs	$ 1,127	$ 9	$ 1,118	$ 1,120	$ 8	$ 1,112

Diplomatic and Consular Programs support essential diplomatic personnel and programs worldwide. It also supports the infrastructure for U.S. Government agencies and employees at diplomatic and consular posts around the globe. For the years ended September 30, 2016 and 2015, these consist of costs and earned revenue summarized below *(dollars in millions)*:

	2016			2015		
Diplomatic and Consular Programs	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**
Costs:						
Diplomatic Programs and Other	$ 4,736	$ 1,519	$ 3,217	$ 4,300	$ 1,598	$ 2,702
Overseas Buildings Operations	1,604	296	1,308	1,597	360	1,237
Central Salaries and Benefits	4,377	—	4,377	4,299	—	4,299
Diplomatic Security	2,690	109	2,581	3,452	15	3,437
Consular Affairs	2,595	7	2,588	1,839	26	1,813
Total Costs	16,002	1,931	14,071	15,487	1,999	13,488
Less Earned Revenue:						
Diplomatic Programs and Other	2,082	1,459	623	2,138	1,545	593
Overseas Buildings Operations	1,694	294	1,400	1,410	358	1,052
Diplomatic Security	316	109	207	208	15	193
Consular Affairs	4,410	7	4,403	4,070	26	4,044
Total Earned Revenue	8,502	1,869	6,633	7,826	1,944	5,882
Total Net Cost for Diplomatic and Consular Programs	$ 7,500	$ 62	$ 7,438	$ 7,661	$ 55	$ 7,606

Since the costs incurred by the Under Secretary for Management and the Secretariat are primarily support costs, these costs were distributed to the other Under Secretaries to show the full costs under the responsibility segments that have direct control over the Department's programs. One exception within the Under Secretary for Management is the Bureau of Consular Affairs, which is responsible for the Achieving Consular Excellence program. As a result, these costs were not allocated and continue to be reported as the Under Secretary for Management.

The Under Secretary for Management/Secretariat costs (except for the Bureau of Consular Affairs) were allocated to the other Department responsibility segments based on the percentage of total costs by organization for each program. The allocation of these costs to the other Under Secretaries and to the Bureau of Consular Affairs in 2016 and 2015 was as follows *(dollars in millions)*:

Under Secretary	2016	2015
Political Affairs	$ 15,604	$ 15,162
Management (Consular Affairs)	5,625	4,910
Public Diplomacy and Public Affairs	1,237	1,353
Arms Control, International Security Affairs	206	245
Civilian Security, Democracy and Human Rights	1,118	1,091
Economic Growth, Energy and Environment	56	68
Total	$ 23,846	$ 22,829

Inter-Entity Costs and Imputed Financing: Full cost includes the costs of goods or services received from other Federal entities (referred to as inter-entity costs) regardless if the Department reimburses that entity. To measure the full cost of activities, SFFAS No. 4, *Managerial Cost Accounting*, requires that total costs of programs include costs that are paid by other U.S. Government entities, if material. As provided by SFFAS No. 4, OMB issued a Memorandum in April 1998, entitled "Technical Guidance on the Implementation of Managerial Cost Accounting Standards for the Government." In that Memorandum, OMB established that reporting entities should recognize inter-entity costs for (1) employees' pension benefits; (2) health insurance, life insurance, and other benefits for retired employees; (3) other post-retirement benefits for retired, terminated and inactive employees, including severance payments, training and counseling, continued health care, and unemployment and workers' compensation under the Federal Employees' Compensation Act; and (4) payments made in litigation proceedings.

The Department recognizes an imputed financing source on the Statement of Changes in Net Position for the value of inter-entity costs paid by other U.S. Government entities. This consists of all inter-entity amounts as reported below, except for the Federal Workers' Compensation Benefits (FWCB). For FWCB, the Department recognizes its share of the change in the actuarial liability for FWCB as determined by the Department of Labor (DOL). The Department reimburses DOL for FWCB paid to current and former Department employees.

The following inter-entity costs and imputed financing sources were recognized in the Statement of Net Cost and Statement of Changes in Net Position, for the years ended September 30, 2016 and 2015 *(dollars in millions)*:

Inter-Entity Costs	2016	2015
Other Post-Employment Benefits:		
Civil Service Retirement Program	$ 23	$ 29
Federal Employees Health Benefits Program	144	120
Federal Employees Group Life Insurance Program	1	1
Litigation funded by Treasury Judgment Fund	—	—
Subtotal – Imputed Financing Source	168	150
Future Workers' Compensation Benefits	18	18
Total Inter-Entity Costs	$ 186	$ 168

Intra-departmental Eliminations: Intra-departmental eliminations of cost and revenue were recorded against the program that provided the service. Therefore, the full program cost was reported by leaving the reporting of cost with the program that received the service.

Intragovernmental Costs and Earned Revenues

Intragovernmental costs and earned revenues are transactions between the Department and another reporting entity within the Federal Government. Costs and earned revenues with the public are transactions between the Department and a non-Federal entity. If a Federal entity purchases goods or services from another Federal entity, the related costs are classified as intragovernmental. If the Federal entity sells them to the public, the earned revenues are classified as with the public. For the years ended September 30, 2016 and

2015, intragovernmental costs and earned revenues were as follows *(dollars in millions)*:

	2016	2015
Gross Cost:		
Intragovernmental	$ 3,213	$ 3,094
With the Public	32,732	30,273
Total Gross Cost	35,945	33,367
Less Earned Revenue:		
Intragovernmental	3,882	3,441
With the Public	4,712	4,285
Total Earned Revenue	8,594	7,726
Total Net Cost of Operations	$ 27,351	$ 25,641

Assistant Secretary Malinowski responds to questions after Secretary Kerry released the 2015 Human Rights Report in Washington, D.C., April 13, 2016. ***Department of State***

Earned Revenues

Earned revenues occur when the Department provides goods or services to the public or another Federal entity. Earned revenues are reported regardless of whether the Department is permitted to retain all or part of the revenue. Specifically, the Department collects, but does not retain passport, visa, and certain other consular fees. Earned revenues for the years ended September 30, 2016 and 2015, consist of the following *(dollars in millions)*:

	2016			2015		
Earned Revenues	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**
Consular Fees:						
Passport, Visa and Other Consular Fees	$ 725	$ —	$ 725	$ 863	$ —	$ 863
Machine Readable Visa	2,123	—	2,123	2,102	—	2,102
Expedited Passport	233	—	233	207	—	207
Passport, Visa and Other Surcharges	1,378	—	1,378	939	—	939
Fingerprint Processing, Diversity Lottery, and Affadavit of Support	19	—	19	19	—	19
Subtotal – Consular Fees	4,478	—	4,478	4,130	—	4,130
FSRDF	1,262	591	671	1,272	571	701
ICASS	3,327	2,300	1,027	3,311	2,425	886
Other Reimbursable Agreements	4,069	1,887	2,182	3,760	1,967	1,793
Working Capital Fund	1,198	1,028	170	1,342	1,161	181
Other	112	46	66	83	48	35
Total	$ 14,446	$ 5,852	$ 8,594	$ 13,898	$ 6,172	$ 7,726

Pricing Policies

Generally, a Federal agency may not earn revenue from outside sources unless it obtains specific statutory authority. Accordingly, the pricing policy for any earned revenue depends on the revenue's nature, and the statutory authority under which the Department is allowed to earn and retain (or not retain) the revenue. Earned revenue that the Department is not authorized to retain is deposited into the Treasury's General Fund.

The FSRDF finances the operations of the FSRDS and the FSPS. The FSRDF receives revenue from employee/employer contributions, a U.S. Government contribution, and interest on investments. By law, FSRDS participants contribute 7.25 percent of their base salary, and each employing agency contributes 7.25 percent; FSPS participants contribute 1.35 percent of their base salary and each employing agency contributes 20.22 percent. Employing agencies report employee/employer contributions biweekly. Total employee/employer contributions for 2016 and 2015 were $378 million and $368 million, respectively.

The FSRDF also receives a U.S. Government contribution to finance (1) FSRDS benefits not funded by employee/employer contributions; (2) interest on FSRDS unfunded liability; (3) FSRDS disbursements attributable to military service; and (4) FSPS supplemental liability payment. The U.S. Government contributions for 2016 and 2015 were $295 million and $283 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2016 and 2015 were $589 million and $620 million, respectively.

Did You Know?

John Quincy Adams, who served (1817–1825) under President James Monroe, was considered one of the best Secretaries. Stern, cerebral, conscientious, and articulate, he negotiated the acquisition of Florida from Spain in 1819 and collaborated with the President in formulating the Monroe Doctrine. For a complete list of those who have served as U.S. Secretary of State, please refer to Appendix C of this report.

LEARN MORE

More information on former Secretaries can be found at: *https://history.state.gov/departmenthistory/people/secretaries*

Consular Fees are established primarily on a cost recovery basis and are determined by periodic cost studies. Certain fees, such as the machine readable Border Crossing Cards, are determined statutorily. Reimbursable Agreements with Federal agencies are established and billed on a cost-recovery basis. ICASS billings are computed on a cost recovery basis; billings are calculated to cover all operating, overhead, and replacement costs of capital assets, based on budget submissions, budget updates, and other factors. In addition to services covered under ICASS, the Department provides administrative support to other agencies overseas for which the Department does not charge. Areas of support primarily include buildings and facilities, diplomatic security (other than the local guard program), overseas employment, communications, diplomatic pouch, receptionist and selected information management activities. The Department receives direct appropriations to provide this support.

16 Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources reports information on how budgetary resources were made available and their status as of and for the years ended September 30, 2016 and 2015. Intra-departmental transactions have not been eliminated in the amounts presented.

The Budgetary Resources section presents the total budgetary resources available to the Department. For the years ended September 30, 2016 and 2015, the Department received approximately $69.3 billion and $65.9 billion in budgetary resources, respectively, primarily consisting of the following:

Source of Budgetary Resources
(dollars in billions)

	2016	2015
Budget Authority:		
Direct or related appropriations	$ 30.8	$ 30.2
Authority financed from Trust Funds	1.0	1.0
Spending authority from providing goods and services	12.5	12.0
Unobligated Balances – Beginning of Year	23.2	21.3
Other	1.8	1.4
Total Budgetary Resources	$ 69.3	$ 65.9

Apportionment Categories of Obligations Incurred
(dollars in millions)

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2016			
Obligations Apportioned Under			
Category A	$ 3,316	$ 3,888	$ 7,204
Category B	28,899	7,398	36,297
Category A/B	—	789	789
Exempt from Apportionment	1,319	11	1,330
Total	$ 33,534	$ 12,086	$ 45,620

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2015			
Obligations Apportioned Under			
Category A	$ 4,546	$ 3,853	$ 8,399
Category B	25,222	7,018	32,240
Category A/B	—	811	811
Exempt from Apportionment	1,222	—	1,222
Total	$ 30,990	$ 11,682	$ 42,672

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, revised, or direction from OMB. Category A obligations represent resources apportioned for calendar quarters. Category B obligations represent resources apportioned for other time periods; for activities, projects, and objectives or for a combination, thereof.

Status of Undelivered Orders

Undelivered Orders (UDO) represents the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

The amount of budgetary resources obligated for UDO for all activities as of September 30, 2016 and 2015, was approximately $26.4 billion and $25.4 billion, respectively. This includes amounts of $1.6 billion for September 30, 2016, and $1.6 billion for September 30, 2015, pertaining to revolving funds, trust funds, and substantial commercial activities.

Permanent Indefinite Appropriations

A permanent indefinite appropriation is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount. The Department received permanent indefinite appropriations of $136.4 million and $124.0 million for 2016 and 2015, respectively. The permanent indefinite appropriation provides payments to the FSRDF to finance the interest on the unfunded pension liability for the year, Foreign Service Pension System, and disbursements attributable to liability from military service.

Reconciliation of the Combined Statement of Budgetary Resources to the Budget of the United States Government

The reconciliation of the Combined Statement of Budgetary Resources and the actual amounts reported in the Budget of the United States Government (Budget) as of September 30, 2015 is presented in the table below. Since these financial statements are published before the Budget, this reconciliation is based on the FY 2015 Combined Statement of Budgetary Resources because actual amounts for FY 2015 are in the most recently published Budget (i.e., FY 2017). The Budget with actual numbers for September 30, 2016 will be published in the FY 2018 Budget and available in early February 2017. The Department of State's Budget Appendix includes this information and is available on OMB's website (*http://www.whitehouse.gov/omb/budget*).

As shown in the table below, Expired Funds are not included in the Budget of the United States. Additionally, International Assistance Program, included in these financial statements, is reported separately in the Budget of the United States. Other differences represent financial statement adjustments, timing differences, and other immaterial differences between amounts reported in the Department's Combined SBR and the Budget of the United States.

For the Fiscal Year Ended September 30, 2015 *(dollars in millions)*	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (SBR)	$ 65,898	$ 42,672	$ 408	$ 28,008
Distributed Offsetting Receipts			(408)	408
Funds not Reported in the Budget:				
Expired Funds	(1,257)	—	—	—
International Assistance Program	(2,652)	(1,602)	—	(1,454)
Undelivered Orders Adjustment	(240)	—	—	—
Other and Rounding errors	(53)	(1)	—	1
Budget of the United States	$ 61,696	$ 41,069	$ —	$ 26,963

17 Custodial Activity

The Department administers certain activities associated with the collection of non-exchange revenues, which are deposited and recorded directly to the General Fund of the Treasury. The Department does not retain the amounts collected. Accordingly, these amounts are not considered or reported as financial or budgetary resources for the Department. At the end of each fiscal year, the accounts are closed and the balances are brought to zero by Treasury. Specifically, the Department collects interest, penalties and handling fees on accounts receivable; fines, civil penalties and forfeitures; and other miscellaneous receipts. In 2016 and 2015, the Department collected $29 million and $22 million, respectively, in custodial revenues that were transferred to Treasury.

18 Reconciliation of Net Cost of Operations to Budget

The reconciliation of budgetary obligations and nonbudgetary resources available to the reporting entity with its net cost of operations is required by SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. Budgetary accounting used to prepare the Statement of Budgetary Resources and proprietary accounting used to prepare the other principal financial statements are complementary, but both types of information about assets, liabilities, net cost of operations and the timing of their recognition are different. The reconciliation of budgetary resources obligated during the current period to the net cost of operations explains the difference between the sources and uses of resources as reported in the budgetary reports and in the net cost of operations.The first section of the reconciliation below presents total resources used in the period to incur obligations. Generally, those resources are appropriations, net of offsetting collections and receipts. The second section adjusts the resources. Some resources are used for items that will be reflected in future net cost. Some are used for assets that are reported on the Balance Sheet, not as net cost. The final section adds or subtracts from total resources those items reported in net cost that do not require or generate resources. As an example, the Department collects regular passport fees that are reported as revenue on the Statement of Net Cost. However, these fees are not shown as a resource because they are returned to Treasury and cannot be obligated or spent by the Department.

For the Year Ended September 30, ***(dollars in millions)***	**2016**	**2015**
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 45,620	$ 42,672
Spending Authority from Offsetting Collections and Recoveries	(14,223)	(13,734)
Offsetting Receipts	(232)	(408)
Net Obligations	31,165	28,530
Imputed Financing	168	150
Other Resources	15	5
Total Resources Used to Finance Activities	**31,348**	**28,685**
Resources Used to Finance Items not Part of Net Cost:		
Resources Obligated for Future Costs – goods ordered but not yet provided	(245)	275
Resources that Finance the Acquisition of Assets	(2,770)	(2,373)
Resources that Fund Expenses Recognized in Prior Periods	(850)	(938)
Other	(19)	(25)
Total Resources Used to Finance Items not Part of Net Cost	**(3,884)**	**(3,061)**
Total Resources Used to Finance the Net Cost of Operations	**27,464**	**25,624**
Components of the Net Cost of Operations that will not require or generate Resources in the Current Period:		
Increase in Actuarial Liability	(21)	410
Passport Fees Reported as Revenue Returned to Treasury General Fund	(675)	(819)
Depreciation and Amortization	1,085	985
Interest Income of Trust Funds	(589)	(621)
Other	87	62
Total Components of the Net Cost of Operations that will not require or generate Resources in the Current Period	**(113)**	**17**
Net Cost of Operations	**$ 27,351**	**$ 25,641**

19 Fiduciary Activities

The Resolution of the Iraqi Claims deposit fund 19X6038, Libyan Claims deposit fund 19X6224, the Saudi Arabia Claims deposit fund 19X6225, the France Holocaust Deportation Claims deposit fund 19X6226, and the Belgium Pension Claims Settlement deposit fund 19X6227 are presented in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*, and OMB Circular A-136, *Financial Reporting Requirements*, revised. These deposit funds were authorized by claims settlement agreements between the United States of America and the Governments of Iraq, Libya, Saudi Arabia, France, and Belgium. The agreements authorized the Department to collect contributions from donors for the purpose of providing compensation for certain claims within the scope of the agreements, investment of contributions into Treasury securities, and disbursement of contributions received in accordance with the agreements. As specified in the agreements, donors could include governments, institutions, entities, corporations, associations, and individuals. The Department manages these funds in a fiduciary capacity and does not have ownership rights against its contributions and investments; the assets and activities summarized in the schedules below do not appear in the financial statements. The Department's fiduciary activities are disclosed in this footnote.

Schedule of Fiduciary Activity

As of September 30, *(dollars in millions)*	2016						2015					
	19X6038	19X6224	19X6225	19X6226	19X6227	Total	19X6038	19X6224	19X6225	19X6226	19X6227	Total
Fiduciary Net Assets, Beginning of Year	$ 101	$ —	$ 2	$ —	$ —	$ 103	$ 102	$ —	$ 31	$ —	$ —	$ 133
Contributions	—	—	36	60	3	99	—	—	57	—	—	57
Disbursements to and on behalf of beneficiaries	—	—	(27)	(10)	—	(37)	(1)	—	(86)	—	—	(87)
Increases/(Decreases) in Fiduciary Net Assets	—	—	9	50	3	62	(1)	—	(29)	—	—	(30)
Fiduciary Net Assets, End of Year	$ 101	$ —	$ 11	$ 50	$ 3	$ 165	$ 101	$ —	$ 2	$ —	$ —	$ 103

Fiduciary Net Assets

As of September 30, *(dollars in millions)*	2016						2015					
Fiduciary Assets	19X6038	19X6224	19X6225	19X6226	19X6227	Total	19X6038	19X6224	19X6225	19X6226	19X6227	Total
Cash & Cash Equivalents	$ 3	$ —	$ 11	$ 19	$ —	$ 33	$ 3	$ —	$ 2	$ —	$ —	$ 5
Investments	98	—	—	31	3	132	98	—	—	—	—	98
Total Fiduciary Net Assets	$ 101	$ —	$ 11	$ 50	$ 3	$ 165	$ 101	$ —	$ 2	$ —	$ —	$ 103

FOCUS

Annual Fiscal Transparency Report: Fostering Greater Government Accountability

On July 28, 2016, the State Department released the 2016 Fiscal Transparency Report pursuant to section 7031(b) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016 (Division K, Public Law No. 114-113) ("the Act"). The Report reviews 140 governments, during the review period of January 1 – December 31, 2015. The Report provides opportunities to dialogue with governments on the importance of fiscal transparency. Fiscal transparency is a critical element of effective public financial management, helps in building market confidence, and underpins economic sustainability.

To comply with the Act, the Department reviewed the minimum requirements of fiscal transparency in consultation with other relevant Federal agencies, and updated and strengthened those requirements. The Department then assessed the fiscal transparency of the 140 governments originally identified as recipients of assistance in the 2014 Fiscal Transparency Report, considering the public availability, substantial completeness, and reliability of budget documents, as well as the transparency of processes for awarding government contracts and licenses for natural resource extraction. The Department determined whether the minimum requirements were met for each government, and for those that did not, whether they made significant progress toward meeting the requirements. In reaching determinations, the Department considered information from U.S. embassies and consulates, other U.S. Government agencies, international organizations, and civil society organizations. The report found that 76 of 140 governments reviewed by the Department met the minimum requirements of fiscal transparency. Of the 64 governments that did not meet the minimum requirements, eight made significant progress toward meeting the minimum requirements of fiscal transparency.

Fiscal Transparency Innovation Fund

The Act appropriates funds to be made available for programs and activities to assist governments identified in the Fiscal Transparency Report to improve budget transparency and to support civil society organizations that promote fiscal transparency. In response to a similar requirement, the Department and USAID created the Fiscal Transparency Innovation Fund (FTIF) in FY 2012.

The Department and USAID will soon be requesting proposals for programming a planned total of $4.5 million in FY 2016 Economic Support Funds through the FTIF. FY 2015 funds supported 12 FTIF projects in the following countries: Bangladesh, Benin, Côte d'Ivoire, Democratic Republic of the Congo, Guinea, Guyana, Haiti, Kenya, Mali, Serbia, Sierra Leone, and Ukraine. The projects further efforts by government and civil society to enhance fiscal transparency and public financial management practices, and to improve public awareness and involvement in the expenditure of public resources. Examples of projects include $50,000 to build the capacity of civil society organizations in Bangladesh to advocate for fiscal transparency, and $375,000 to strengthen the ability of auditors and the legislature in Côte d'Ivoire to perform budget oversight.

LEARN MORE

The full report and further details can be found on the Department's website at: *http://www.state.gov/e/eb/ifd/oma/fiscaltransparency/*

LEARN MORE

Information about the Fiscal Transparency Innovation Fund can be found on the Department's website at: *http://www.state.gov/e/eb/ifd/oma/ftif/index.htm*

Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2016 ***(dollars in millions)***

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budgetary Resources:						
Unobligated balance brought forward, October 1	$ 11,312	$ 329	$ 93	$ 1,146	$10,346	$23,226
Adjustment to unobligated balance brought forward, October 1 (+ or -)	—	—	—	—	—	—
Unobligated balance brought forward, October 1, as adjusted	11,312	329	93	1,146	10,346	23,226
Recoveries of unpaid prior year obligations	1,377	7	6	(18)	331	1,703
Other changes in unobligated balance (+ or -)	98	(4)	(0)	(52)	(39)	3
Unobligated balance from prior year budget authority, net	12,787	332	99	1,076	10,638	24,932
Appropriations (discretionary and mandatory)	12,638	3,906	124	1,847	13,314	31,829
Borrowing authority (discretionary and mandatory)	1	—	—	—	—	1
Spending authority from offsetting collections (discretionary and mandatory)	12,424	—	10	64	22	12,520
Total Budgetary Resources	**$ 37,850**	**$ 4,238**	**$ 233**	**$ 2,987**	**$23,974**	**$69,282**
Status of Budgetary Resources:						
New obligations and upward adjustments (total)	$ 25,170	$ 3,874	$ 141	$ 1,690	$14,745	$45,620
Unobligated balance, end of year:						
Apportioned, unexpired accounts	11,432	358	82	918	8,815	21,605
Exempt from apportionment, unexpired accounts	60	—	—	266	—	326
Unapportioned, unexpired accounts	188	6	3	24	295	516
Unexpired unobligated balance, end of year	11,680	364	85	1,208	9,110	22,447
Expired unobligated balance, end of year	1,000	—	7	89	119	1,215
Unobligated balance, end of year (total)	12,680	364	92	1,297	9,229	23,662
Total Budgetary Resources	**$ 37,850**	**$ 4,238**	**$ 233**	**$ 2,987**	**$23,974**	**$69,282**
Change in Obligated Balance:						
Unpaid Obligations:						
Unpaid obligations, brought forward, October 1	$ 13,567	$ 122	$ 64	$ 1,298	$12,293	$27,344
Adjustments to unpaid obligations, start of year (+ or -)	—	—	—	—	—	—
New obligations and upward adjustments	25,170	3,874	141	1,690	14,745	45,620
Outlays (gross) (-)	(24,384)	(3,838)	(133)	(1,546)	(13,988)	(43,889)
Recoveries of prior year unpaid obligations (-)	(1,377)	(7)	(6)	18	(331)	(1,703)
Unpaid obligations, end of year	**$ 12,976**	**$ 151**	**$ 66**	**$ 1,460**	**$12,719**	**$27,372**
Uncollected payments:						
Uncollected payments, Federal sources, brought forward, October 1 (-)	$ (435)	$ —	$ (1)	$ (1)	$ (51)	$ (488)
Adjustments to uncollected payments, Federal sources, start of year (+ or -)	—	—	—	—	—	—
Change in uncollected payments, Federal sources (+ or -)	200	—	(3)	1	1	199
Uncollected payments, Federal sources, end of year (-)	**$ (235)**	**$ —**	**$ (4)**	**$ —**	**$ (50)**	**$ (289)**
Memorandum (non-add) entries:						
Obligated balance, start of year (+ or -)	13,132	122	63	1,297	12,242	26,856
Obligated balance, end of year (+ or -)	12,741	151	62	1,460	12,669	27,083

(continued on next page)

COMBINING STATEMENT OF BUDGETARY RESOURCES *(continued)*

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budget Authority and Outlays, Net:						
Budget authority, gross (discretionary and mandatory)	$ 25,063	$ 3,906	$ 134	$ 1,911	$13,336	$44,350
Actual offsetting collections (discretionary and mandatory) (-)	(12,723)	—	(8)	(68)	(41)	(12,840)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	200	—	(3)	1	1	199
Recoveries of prior year obligations (discretionary and mandatory)	99	—	1	4	18	122
Budget authority, net (total) (discretionary and mandatory)	12,639	3,906	124	1,848	13,314	31,831
Outlays, gross (discretionary and mandatory)	24,384	3,838	133	1,546	13,988	43,889
Actual offsetting collections (discretionary and mandatory) (-)	(12,723)	—	(8)	(68)	(41)	(12,840)
Outlays, net (total) (discretionary and mandatory)	11,661	3,838	125	1,478	13,947	31,049
Distributed offsetting receipts (-)	(232)	—	—	—	—	(232)
Agency outlays, net (discretionary and mandatory)	**$ 11,429**	**$ 3,838**	**$ 125**	**$ 1,478**	**$13,947**	**$30,817**

HERITAGE ASSETS

The condition of the Department's heritage assets is based on professional conservation standards. The Department performs periodic condition surveys to ensure heritage assets are documented and preserved for future generations. Once these objects are conserved, regular follow-up inspections and periodic maintenance treatments are essential for their preservation. The categories of condition are Poor, Good, and Excellent.

CONDITION OF HERITAGE ASSETS
As of September 30, 2016

Category	Number of Assets	Condition
Diplomatic Reception Rooms Collection	1,818	Good to Excellent
Art Bank Program	2,600	Good to Excellent
Art in Embassies Program	1,149	Good to Excellent
Cultural Heritage Collection	18,338	Good to Excellent
Library Rare & Special Book Collection	1,191	Poor to Good
Secretary of State's Register of Culturally Significant Property	33	Poor to Excellent
U.S. Diplomacy Center	4,036	Good to Excellent
Blair House	2,605	Good to Excellent
International Boundary and Water Commission	140	Poor to Good

DEFERRED MAINTENANCE AND REPAIRS

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when they should have been, that were scheduled and not performed, or that were delayed for a future period. Maintenance and repairs are activities directed towards keeping Property, Plant, and Equipment (PP&E) in acceptable operating condition. These activities include preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance and repairs exclude activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater, than those originally intended.

The Department occupies more than 3,000 government-owned or long-term leased real properties at more than 270 overseas locations, numerous domestic locations, and at the IBWC.

Deferred Maintenance and Repairs Policy – Measuring, Ranking and Prioritizing

The Department's process to identify deferred maintenance for Overseas Real Property begins with an Annual Facility

Condition Survey (AFCS) of all properties whether capitalized or not or fully depreciated. The facility manager at each post conducts the AFCS, examining all facilities, building systems, and equipment to determine if their current condition and capacity achieves their intended function. Deficient facilities or systems are identified, specifics about the deficiencies are documented, and recommendations for addressing the deficiencies and corresponding cost estimates for labor and materials are included in the survey. The facility manager obtains cost estimates of the maintenance.

These repair and improvement requests submitted by posts are reviewed by Area Management Officers and then evaluated using 14 factors to prioritize and assign the items a score based on life safety, security, functionality and business sense. An ensuing review is conducted by subject matter experts before they are included in the Repair & Improvement (R&I) spending plan, which is the first piece of the overall deferred maintenance calculation. If a requirement is not funded in the fiscal year in which it was originally scheduled, it becomes a "deferred maintenance requirement" and is rescheduled for remediation in a future year. Posts are also able to send maintenance requests at any point during the year in case of an emergency.

In addition to funding repair projects from the R&I account, the Department allots each post an amount of "routine maintenance and repair" funding each year. This is to accomplish preventive maintenance activities, repairs due to normal wear and tear, and recurring maintenance (e.g., painting and weather stripping) for work that does not require a review and which is exempt from permitting requirements. These are bulk allotments for routine maintenance activities described above that are not considered "projects" and therefore do not go through the prioritization process. These funds are adjusted for type of space (e.g., office vs. residential), condition of the facility (using the annual Facility Condition Index as the baseline), and overseas location.

The sum of each post's calculated allocation is the total worldwide routine maintenance requirement. The difference between this global routine maintenance and repair funding requirement and the amount of the routine maintenance funding available in a given year is considered deferred maintenance.

Factors Considered in Determining Acceptable Condition

The Department's PP&E mission is to provide secure, safe, functional, and sustainable facilities that represent the U.S. Government and provide the physical platform for U.S. Government employees at our embassies, consulates and domestic locations as they work to achieve U.S. foreign policy objectives. Domestic real property and equipment are maintained and managed in a safe and effective manner and required maintenance and repairs are adequately funded such that DM&R is insignificant.

Due to the widely varying conditions and strategic objectives of U.S. missions overseas, each post is essentially unique. The facility management of U.S. diplomatic and consular facilities overseas is a complex endeavor, in which the impact of the failure of facilities and infrastructure on human life, welfare, morale, safety, and the provision of essential operations and services is widely recognized. Also, facilities conditions have a large impact on the environment and on budgets, requiring a facility management approach that is neither reactive nor passive, but results in buildings and infrastructure that are efficient, reliable, cost effective, and sustainable over their life cycle. This occurs at facilities of varying age, configuration, and construction quality in every climate and culture in the world. Some posts have the task of keeping an aging or historic facility in good working order; others must operate a complex new building that may be the most technologically advanced in the country.

Fundamentally, the Department considers all of its overseas facilities to be in an "acceptable condition" in that they serve their required mission. Adopting standard criteria for a classification of acceptable condition is difficult due to the complex environment in which the Department operates.

Deferred Maintenance and Repairs
(dollars in millions)

Asset Category	2016 Ending Balance DM&R	2016 Beginning Balance DM&R
General PP&E	$ 92	$ 184
Heritage Assets	4	4
Total	$ 96	$ 188

FOCUS

Myths and Facts on Refugees, Migration, and Humanitarian Assistance

MYTH: The United States is not doing much to help refugees.

FACT: The United States is the largest single humanitarian donor, providing billions of dollars per year to provide millions of the world's most vulnerable people with life-saving assistance. The State Department's Bureau of Population, Refugees, and Migration provides protection, eases suffering, and works to resolve the plight of persecuted and uprooted people around the world. We do this on behalf of the American people by providing life-sustaining assistance, working through multilateral systems to build global partnerships, promoting best practices in humanitarian response, ensuring that humanitarian principles are thoroughly integrated into U.S. foreign and national security policy, and encouraging other countries to do the same.

MYTH: The United States is really not helping Syrian refugees

FACT: The United States is the largest single donor to the Syrian crisis response. We have provided nearly $6 billion in humanitarian assistance since the start of the crisis. With this humanitarian funding, the United States provides food, shelter, water, medical care, humanitarian protection, and other urgent relief to millions of people suffering inside Syria and more than 4.8 million refugees from Syria in the region. The humanitarian assistance supports the operations of the United Nations, other international organizations, and non-governmental organizations. Through these organizations, the United States is able to provide assistance in all 14 governorates of Syria, helping the people who need it most – and ultimately saving lives and alleviating suffering amid daily threats of violence and deprivation.

U.S. Ambassador to Nepal Alaina B. Teplitz met with, and bid farewell to the 90,000th Bhutanese refugee resettled to the United States from Nepal, September 20, 2016. *Department of State*

MYTH: The United States does not bring refugees to our country, no matter how desperate their situation.

FACT: The U.S. Refugee Admissions Program embodies the United States' values of compassion, generosity, and leadership in serving vulnerable populations. The United States is the largest refugee resettlement country in the world, having welcomed more than three million refugees since 1975, helping them build new lives in all 50 states. The U.S. Refugee Admissions Program welcomed 85,000 refugees from around the world in 2016. This is the highest number of vulnerable people fleeing the horror of persecution to be resettled in the United States in the last 15 years. Looking forward to next year, President Obama has determined the United States should welcome up to 110,000 refugees in 2017. These refugees have added an immeasurable amount to the richness of American culture, contributed to our economic strength and honored the core values engraved on our Statue of Liberty.

U.K. Foreign Secretary Hammond listens as Secretary Kerry addresses reporters in London shortly after the "Brexit" vote by the British people, London, U.K., June 27, 2016. Department of State

SECTION III:

Other Information

Combined Schedule of Spending

The Combined Schedule of Spending (SOS) presents an overview of how much money is available to spend and how or on what that money was spent. The term "spend", as used in this report, means obligated. Obligation means a legally binding agreement that will result in outlays, immediately or in the future. In layman's terms, obligations are incurred when you place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another. It does not equate to expenses as reported in the Statement of Net Cost. The data used to prepare this report is the same underlying data used to prepare the Combined Statement of Budgetary Resources (SBR).

The Office of Management and Budget (OMB) makes available a searchable website, *www.USAspending.gov*, that provides information on Federal awards of contracts and grants and is accessible to the public at no cost. When comparing USAspending.gov data to the SOS one must take into account that the website has a fundamentally different purpose and, as such, there are differences that include but are not limited to personnel compensation, travel, utilities and leases, intra-departmental and interagency spending, and various other categories of financial awards. As a result, USAspending.gov data will differ from the Combined Schedule of Spending.

The Department's total resources for the year were $69.3 billion of which $45.6 billion were spent as below.

COMBINED SCHEDULE OF SPENDING *(dollars in millions)*

For the Year Ended September 30,	2016						2015
	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total	Total
What Money is Available to Spend?							
Total Resources	$ 37,850	$ 4,238	$ 233	$ 2,987	$ 23,974	$ 69,282	$ 65,898
Less Amount Available but Not Agreed to be Spent	11,492	358	82	1,184	8,815	21,931	21,321
Less Amount Not Available to be Spent	1,188	6	10	113	414	1,731	1,905
Total Amounts Agreed to be Spent	$ 25,170	$ 3,874	$ 141	$ 1,690	$ 14,745	$ 45,620	$ 42,672
How was the Money Spent/Issued?							
Personnel Compensation & Benefits	$ 7,327	$ —	$ 26	$ 13	$ 332	$ 7,698	$ 7,557
Contractual Services & Supplies	12,839	—	68	685	1,864	15,456	14,835
Acquisition of Assets	1,905	—	2	4	100	2,011	2,222
Grants and Fixed Charges	1,717	3,867	36	912	11,836	18,368	15,673
Other	1,382	7	9	76	613	2,087	2,385
Total Amounts Agreed to be Spent	$ 25,170	$ 3,874	$ 141	$ 1,690	$ 14,745	$ 45,620	$ 42,672
Who did the Money Go To?							
Federal Agencies	$ 8,374	$ 2	$ 13	$ 284	$ 774	$ 9,447	$ 10,728
For Profit	7,169	—	61	486	747	8,463	7,642
Grantees and Non Profits	1,718	3,871	35	887	11,860	18,371	14,915
Individuals	2,705	—	1	11	253	2,970	4,531
Other	5,204	1	31	22	1,111	6,369	4,856
Total Amounts Agreed to be Spent	$ 25,170	$ 3,874	$ 141	$ 1,690	$ 14,745	$ 45,620	$ 42,672

Inspector General's Statement on the Department's Major Management and Performance Challenges

The Reports Consolidation Act of 2000 (Public Law No. 106–531) requires that inspectors general summarize and assess the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. The Reports Consolidation Act also requires that the Department of State place the final version of this statement in its annual *Agency Financial Report*.

Inspector General, Steve A. Linick

In FY 2016, the Office of Inspector General considers the most serious management challenges for the Department to be in the following areas:

1. Protection of People and Facilities
2. Managing Posts and Programs in Conflict Areas
3. Information Security and Management
4. Oversight of Contracts and Grants
5. Financial Management

These management and performance challenges are discussed in the following pages. OIG will continue to assist the Department in identifying the wide range of management issues it faces and recommend solutions to improve performance and accountability.

1 Protection of People and Facilities

The protection of people and facilities overseas remains a significant management challenge for the Department of State (Department). Although the Department is committed to protecting its personnel and property (including information), the Office of Inspector General (OIG) continues to find deficiencies related to personnel safety overseas and emergency planning and preparedness. We list examples below of OIG work addressing these issues.

Personnel Safety Overseas

OIG determined that, despite recent improvements, the Department's management and oversight of security personnel is still lacking at posts overseas. For example, local guard forces failed to perform contractually required duties, such as conducting access control, delivery, and mail screening.[1]

OIG found deficiencies in seismic risk mitigation in embassy residences[2] and occupational safety and health approvals in overseas housing agreements.[3] During an audit of the vehicle-fueling controls and operations and maintenance contract, OIG determined that, in violation of Bureau of Overseas Buildings Operations (OBO) safety standards, the fuel station building had only one exit, located directly above the bulk fuel storage for the fueling station.[4]

OIG also identified inconsistencies in motor vehicle policies that resulted in a lack of proper training for personnel serving in countries with an elevated risk of car accidents and fatalities.[5] OBO statistics show that of the 773 armored vehicle mishaps that have occurred at overseas posts within the last 5 years, 469 (about 60 percent) were deemed preventable. The Department has recognized that driver behavior contributes to vehicle fatalities and that "solutions must center on … providing an effective initial and refresher training program."[6] OIG recommended that the Department establish

[1] OIG, *Audit of Local Guard Force Contractors at Critical- and High-Threat Posts* (AUD-SI-16-33, April 2016).

[2] OIG, *Inspection of Embassy Tashkent* (ISP-I-16-12A, March 2016); OIG, *Inspection of Embassy Ashgabat* (ISP-I-16-13A, March 2016).

[3] OIG, *Inspection of Embassy Kinshasa* (ISP-I-16-19A, June 2016).

[4] OIG, *Improvements Needed to Strengthen Vehicle-Fueling Controls and Operations and Maintenance Contract at Embassy Kabul, Afghanistan* (AUD-MERO-16-35, April 2016).

[5] OIG, *Inspection of Embassy Ashgabat* (ISP-I-16-13A, March 2016).

[6] OIG, *Management Assistance Report: Armored Vehicle Training* (ISP-16-17, July 2016).

a mandatory training requirement on armored vehicle safe-driving techniques for all overseas professional chauffeurs and incidental drivers who operate such vehicles.[7]

Maintaining sufficient physical security at overseas facilities is a fundamental component of protecting U.S. Government employees. Physical security relates to physical measures—such as locked doors, perimeter fences, and other barriers—to protect against unauthorized access (including attackers or intruders) and to safeguard personnel working in those facilities.[8] In recent years, the Department has developed new tools to identify and track physical security deficiencies overseas but still needs to take additional actions. For example, OIG concluded in a December 2015 report that, until the Department fully implements OIG's recommendations intended to improve the process to request and prioritize physical security needs, it will be unable to identify and address all physical security-related deficiencies.[9]

Emergency Action Planning and Preparedness

During FY 2016, OIG identified several issues with the Department's emergency action planning and preparedness. For example, OIG found that chiefs of mission were unaware of the U.S. military assets available during emergency situations.[10] OIG also identified shortcomings in the Department's crisis management training and emergency action plans, including at embassies in the Middle East and Africa. For example, OIG found that consular sections in several posts were unfamiliar with their roles and responsibilities leading up to and during a crisis.[11] OIG also found that emergency action plans were out of date, lacked key information, included erroneous points of contact, or were improperly certified by leadership.[12]

2 Managing Posts and Programs in Conflict Areas

In addition to the overall challenge of protecting its people and facilities, the Department faces a much more specific challenge in managing its posts and programs that are located in conflict areas, including areas affected by overseas contingency operations. The Department's FY 2017 congressional budget justification requested $14.9 billion in overseas contingency operations funds to address a number of continuing and emerging challenges, including response to the crisis in Syria, efforts to counter the Islamic State in Iraq and the Levant (ISIL), and operations in Afghanistan and Pakistan. Given both the ongoing challenge and the resources involved, OIG continues to focus closely on Department operations in unstable environments. Again, we list below several examples of OIG's work on this subject.

Conflict areas are typically marked by violence, humanitarian crises, political instability, physical insecurity, weak governance, and rampant corruption. As a result, programs and posts operating in these areas must adapt to constant change, pervasive security concerns, dramatic swings in personnel and funding, and widespread reliance on contractors and grantees. Recognizing the particular difficulties of managing posts and programs in conflict areas as well as the fact that the Department has invested billions of dollars to do so, OIG continues to focus closely on the complex issues affecting Department operations in unstable environments.

Post Infrastructure and Logistical Support

OIG identified during this reporting period inventory control and safety deficiencies in fuel storage and refueling operations at Embassy Kabul.[13] OIG issued a management assistance report to alert the Department to a potential safety

[7] Ibid.

[8] OIG, *Compliance Follow-up Audit of the Process to Request and Prioritize Physical Security-Related Activities at Overseas Posts* (AUD-ACF-16-20, December 2015).

[9] OIG, *Compliance Follow-up Audit of the Process to Request and Prioritize Security-Related Activities at Overseas Posts* (AUD-ACF-16-20, December 2015).

[10] *OIG, Inspection of Bureau of Diplomatic Security, Directorate of International Programs* (ISP-I-16-07, February 2016).

[11] OIG, *Inspection of Embassy Kinshasa* (ISP-I-16-19A, June 2016); OIG, *Inspection of Embassy Cairo* (ISP-I-16-15A, April 2016).

[12] OIG, *Inspection of Embassy Kinshasa* (ISP-I-16-19A, June 2016); OIG, *Inspection of Embassy Cairo* (ISP-I-16-15A, April 2016); OIG, *Inspection of Bureau of Energy Resources* (ISP-I-16-06, February 2016).

[13] OIG, *Improvements Needed to Strengthen Vehicle-Fueling Controls and Operations and Maintenance Contract at Embassy Kabul, Afghanistan* (AUD-MERO-16-35, April 2016).

risk that could result in severe injury or death involving electrical current; this issue was identified by the U.S. Army Corps of Engineers during the course of an ongoing audit of construction of the new office and residential apartment buildings at Embassy Kabul.[14]

Managing Contracts, Grants, and Cooperative Agreements in Conflict Areas

Conflict areas present unique obstacles to effective management of contracts and grants that go beyond those identified in the separate management challenge discussed subsequently. Although the problems that occur in conflict areas are often substantively similar to those that occur elsewhere, the ramifications of those problems may be amplified because of stresses particular to conflict areas (for example, the quick turnover of government personnel or the increased cost of operations). In recent years, the Department has focused efforts on improving management of contracts, grants, and cooperative agreements in these areas, but heavy reliance on contractors and grantees remains a necessity in conflict areas, and OIG continues to find instances of insufficient oversight. We include examples of these issues below.

OIG inspected the Bureau of Diplomatic Security's (DS) Directorate of International Programs, which is responsible for the oversight of more than $1.6 billion in 90 local guard contracts around the world (including conflict areas), approximately 80 personal services agreements for local guard forces, and 8 task orders for the Worldwide Protective Services contract that provides security for Embassy Baghdad and consulates throughout Iraq. OIG found that the Department's efforts to provide DS with contract administration assistance were hampered by the lack of service-level agreements and uniform operating procedures. This led to misunderstandings about staff roles and responsibilities.[15]

Audits of contracts in Iraq revealed over $20 million in questioned and unsupported costs and unallowable fees. An audit of task orders awarded under the Operations and Maintenance Support Services contract found that Department officials did not prepare comprehensive planning documents, formally assign oversight personnel, or ensure that oversight personnel adequately documented the contractor's performance. In addition, the Department did not comply with statutory and Department requirements for timely agreement on contract terms, specifications, and the price of the task orders, resulting in the contractor being paid more than $500,000 in unallowable fees.[16]

In an audit of the Baghdad Life Support Services contract, OIG found that the Department acted contrary to the Federal Acquisitions Regulations (FAR) by awarding four task orders that provided overtime or incentive pay to contractors whose labor costs were established as firm-fixed-price in the contract. The Department's decision to award these task orders was not accompanied by a cost-benefit analysis, validated need, or written justification. As a result, OIG found that the Department paid the contractor $184,400 for overtime that was contrary to the FAR and questioned $2.8 million paid to the contractor in incentive fees without a documented benefit for the Department.[17]

Audits of security services contracts for Embassy Baghdad and Consulate Erbil identified insufficient review of supporting documentation for contractor invoices by contracting officer representatives (CORs), leading to over $17 million in questioned and unsupported costs.[18]

OIG's inspection of the Bureau of Democracy, Human Rights, and Labor (DRL) programs in Iraq noted all 12 grants that were active between October and November 2015 (with a total award value of more than $42 million) had the necessary monitoring plans, performance indicators, and risk assessment

[14] OIG, *Management Alert: Hazardous Electrical Current in Office and Residential Buildings Presents Life, Health, and Safety Risks at U.S. Embassy Kabul, Afghanistan* (MA-16-01, April 2016).

[15] OIG, *Inspection of the Bureau of Diplomatic Security, Directorate of International Programs* (ISP-I-16-07, February 2016).

[16] OIG, *Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract* (AUD-MERO-16-41, July 2016).

[17] OIG, *Management Assistance Report: Improper Use of Overtime and Incentive Fees under the Department of State Baghdad Life Support Services (BLiSS) Contract* (AUD-MERO-16-08, November 2015).

[18] OIG, *Audit of Bureau of Diplomatic Security Worldwide Protective Services Contract Task Order 3—Baghdad Embassy Security Force* (AUD-MERO-16-28, February 2016); OIG, *Audit of Bureau of Diplomatic Security Worldwide Protective Services Contract Task Order 8 – Security Services at U.S. Consulate Erbil* (AUD-MERO-16-30, March 2016).

or contingency plans.[19] However, given security restrictions, neither DRL employees nor Embassy Baghdad employees had conducted site visits to Iraq grant recipients since 2013.

Section 846 of the National Defense Authorization Act for Fiscal Year 2013 requires the Department to conduct comprehensive risk assessments whenever contractors are involved in supporting overseas contingency operations. OIG reviewed the Department's risk assessment for Afghanistan and Iraq and found that the Department had not prepared mitigation plans for 14 of 32 high-risk areas in Afghanistan and 32 of 52 in Iraq.[20] OIG was particularly concerned with the absence of mitigating action plans for high-risk areas concerning oversight of contractor operations. In the last 2 years, OIG has issued four other reports identifying problems related to the high-risk areas of insufficient program managers, contracting officers, CORs, and acquisition workforce personnel.[21]

In Afghanistan, OIG found that contractors were accepting fuel delivered on behalf of the embassy and thus effectively authorizing payment, which is an inherently governmental function and contrary to the Department's Foreign Affairs Manual (FAM) regulations. In Iraq, contractors were serving as grants officer's representatives for one-third (4 out of 12) of the active grants.[22]

In a review of the Department's cooperative agreement with Southern Methodist University to support the enhancement of the Department of Psychology at a university in Peshawar, OIG found that the embassy had not properly monitored the award because security concerns prevented Embassy Islamabad's Public Affairs Section from making required site visits. In addition, one of the objectives had not been completed, and materials and equipment purchased in January 2014 remained unused. The Department deobligated more than $300,000 and focused attention on meeting the agreed-upon objectives.

During an inspection of Embassy Ankara, OIG found that the CORs' files in Embassy Ankara and Consulate Adana were incomplete.[23]

Coordination of Programs

A 2016 OIG inspection of Embassy Baghdad's implementation of Line of Effort 6 in the President's comprehensive strategy to defeat ISIL found that the post's public diplomacy activities were not fully integrated with the government-wide effort to "expose ISIL's true nature" and also operated without formal post-level strategic planning or goals.[24] The Department and its interagency partners have made recent changes to improve government-wide implementation of Line of Effort 6 and countering violent extremism efforts in general. The White House established the Global Engagement Center within the Department on March 14, 2016 to coordinate US counterterrorism messaging to foreign audiences.[25]

OIG also found a lack of coordination of foreign assistance efforts during its inspection of Embassy Cairo. The Department had funded a program in Egypt without the Ambassador's written approval, and several sections and agencies at the embassy were generally unaware of a standard procedure for obtaining written Chief of Mission approval.[26]

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[19] *OIG, Evaluation of Bureau of Democracy, Human Rights, and Labor Iraq Programs in Support of Line of Effort 1 of the President's Counter-ISIL Strategy* (ISP-16-09, March 2016).

[20] OIG, *Additional Actions are Needed to Fully Comply with Section 846 of the National Defense Authorization Act for Fiscal Year 2013 Concerning Critical Environment Contracting* (AUD-MERO-16-50, September 2016).

[21] OIG, *Audit of the Bureau of Diplomatic Security Worldwide Protective Services Contract Task Order 3—Baghdad Embassy Security Force* (AUD-MERO-16-28, February 2016); OIG, *Audit of the Bureau of International Narcotics and Law Enforcement Affairs Aviation Support Services Contract in Iraq* (AUD-MERO-15-35, July 2015); OIG, *Audit of the U.S. Mission Iraq Medical Services Contract* (AUD-MERO-15-25, May 2015); OIG, *Audit of Vehicle-Fueling Controls and Operations and Maintenance Contract at Embassy Kabul, Afghanistan* (AUD-MERO-16-35, April 2016).

[22] OIG, *Improvements Needed to Strengthen Vehicle-Fueling Controls and Operations and Maintenance Contract at Embassy Kabul, Afghanistan* (AUD-MERO-16-35, April 2016); OIG, *Evaluation of Bureau of Democracy, Human Rights, and Labor Iraq Programs in Support of Line of Effort 1 of the President's Counter-ISIL Strategy* (ISP-16-09, March 2016).

[23] OIG, *Inspection of Embassy Ankara, Turkey* (ISP-I-16-24A, September 2016).

[24] OIG, *Evaluation of Embassy Baghdad's Implementation of Line of Effort 6 in the President's Strategy to Counter ISIL: Exposing ISIL's True Nature* (ISP-I-16-10, March 2016).

[25] Executive Order 13721, "Developing an Integrated Global Engagement Center to Support Government-wide Counterterrorism Communications Activities Directed Abroad and Revoking Executive Order 13584" (March 14, 2016).

[26] OIG, *Inspection of Embassy Cairo* (ISP-I-16-15A, April 2016).

3 INFORMATION SECURITY AND MANAGEMENT

The Department depends on information systems and electronic data to carry out essential mission-related functions. These information systems are subject to serious threats that can have adverse effects on organizational operations, assets, individuals, and the nation. Although the Department has spent substantial resources in this area, IT security and management continues to be a significant management challenge. We provide examples below of our work on this topic.

Cybersecurity

In FY 2016, OIG reported significant weaknesses in the Department's cybersecurity incident response and reporting program.[27] The Department's efforts to respond to incidents (including denial-of-service, malicious code, and unauthorized access) showed that it had not complied with its own information security policies in more than 55 percent of the incidents that OIG reviewed.

In its management assistance report on the Department's Active Directory (AD), OIG determined that 74 percent of more than 2,500 inactive accounts were inactive for more than 1 year, and the remaining accounts were inactive for greater than 90 days.[28] This occurred, in part, because the Department does not have a centralized process for AD account management.

OIG continued to find deficiencies in Department IT contingency planning at overseas posts, identifying a lack of IT contingency planning in 69 percent (20 out of 29) of overseas inspections performed during FYs 2014 and 2015.[29]

Additionally, OIG found that the Department's Chief Information Officer (CIO), who is the head of the Bureau of Information Resource Management (IRM), is not properly positioned to ensure that the Department's information security program is effective. Under the Department's current organizational reporting structure, the CIO reports to the Under Secretary for Management. DS reports separately to the Under Secretary for Management. Under this reporting structure, DS and any other bureau or office reporting to the Under Secretary for Management are not required to communicate information security risks to IRM.[30]

Electronic Records Management

In FY 2016 OIG identified records management deficiencies at many levels of the Department. In addition to issues in the Office of the Secretary, two domestic bureaus were found to have noncompliant records management programs,[31] and several posts overseas inconsistently employed the Department's official record email tool.[32]

During its review of issues associated with records preservation and the use of personal hardware and software by five Secretaries of State, OIG determined that email usage and preservation practices varied across the tenures of the five most recent Secretaries and that compliance with statutory, regulatory, and internal requirements varied as well.[33]

OIG's 2016 evaluation of the Department's Freedom of Information Act (FOIA) processes found that searches performed by the Office of the Secretary did not consistently meet statutory and regulatory requirements for completeness, rarely met requirements for timeliness, and were occasionally found to be inaccurate.[34] A lack of management oversight,

[27] OIG, *Management Assistance Report: Department of State Incident Response and Reporting Program* (AUD-IT-16-26, February 2016).

[28] OIG, *Management Assistance Report: Inactive Accounts Within the Department of State's Active Directory* (AUD-IT-16-37, June 2016).

[29] OIG, *Management Assistance Report: Continued Deficiencies Identified in Information Technology Contingency Planning* (ISP-I-16-05, February 2016).

[30] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-16-16, November 2015).

[31] OIG, *Inspection of the Bureau of International Organization Affairs* (ISP-I-16-02, October 2015); OIG, *Inspection of the Bureau of Energy Resources* (ISP-I-16-06, February 2016).

[32] OIG, *Inspection of Embassy Tashkent* (ISP-I-16-12A, March 2016); OIG, *Inspection of Embassy Cairo* (ISP-I-16-15A, April 2016); OIG, *Inspection of Embassy Tegucigalpa* (ISP-I-16-21A, August 2016); OIG, *Inspection of Kinshasa* (ISP-I-16-19A, June 2016).

[33] OIG, *Office of the Secretary: Evaluation of Email Records Management and Cybersecurity Requirements* (ESP-16-03, May 2016).

[34] OIG, *Evaluation of the Department of State's FOIA Processes for Requests Involving the Office of the Secretary* (ESP-16-01, January 2016).

an absence of written policies and procedures, and a lack of training appeared to contribute to these deficiencies.

IT Investment Planning and Management

IT investments can have a dramatic effect on an organization's performance. Well-managed IT investments that are selected carefully and focus on meeting mission needs can propel an organization forward, dramatically improving performance while reducing costs.[35]

In FY 2016, OIG reported on the Department's process for selecting and approving IT investments and found that the Department did not require bureaus to assess the potential duplication of planned IT acquisitions.[36] Also, the Department generally did not select IT investments in accordance with the process it had designed or with Office of Management and Budget (OMB) requirements, resulting in duplicative IT investments and a lack of visibility into the Department's IT portfolio.

OIG also reported that the Department did not always report to OMB accurate and complete information on its IT investments. This occurred primarily because the process to prepare the reports is manual and involves numerous users across the Department; insufficient IRM oversight of the reporting process further exacerbated the problem.[37]

OIG's annual assessment of the Department's Information Security Program identified numerous control weaknesses that significantly affected program effectiveness and increased the Department's vulnerability to cyberattacks and threats.[38] In an inspection of IRM's Vendor Management Office (VMO), OIG found a lack of consistent implementation of iSchedule, a system that provides the framework for integrating IT project schedules. This inconsistent use of iSchedule results in inadequate bureau coordination and incomplete project data and limits visibility on projects, activities, and risk.

4 OVERSIGHT OF CONTRACTS AND GRANTS

For FY 2016, the Department spent approximately $22 billion on contracts, grants, and cooperative agreements. For FY 2016, OIG issued four management assistance reports addressing the Department oversight of contracts and grants, and OIG's Office of Investigations opened 31 cases related to contract and procurement fraud. As the Department engages in increasingly complex acquisitions to procure needed services and supplies and awards grants to support U.S. foreign policy goals, the Department continues to face challenges in the proper management, oversight, and accountability of these instruments around the globe.

Award Management

An OIG inspection of IRM's VMO found that it was difficult for the office to compel some of the CORs and government technical monitors (GTMs) to follow its procedures and processes. The inspection and a subsequent audit also concluded that the processes used by IRM employees to calculate and validate contractor qualifications and the amount of performance incentive payments were inconsistent, time consuming, and manual.[39] These inconsistent reviews by GTMs resulted in the Department paying performance incentive fees to Vanguard contractors without complete validation of their performance metrics.[40] The VMO also performed some contract administration duties for the $3.5 billion Vanguard acquisition without formal delegation from the contracting officer or an adequate document retention policy.

OIG identified several lapses in internal contract management controls. For example, inspectors in Cairo found that the embassy did not prepare an annual acquisition plan, neglecting to incorporate market research to identify the best contract method for competition and possible cost savings. In addition, embassy procurement files did not comply

[35] OIG, *Audit of the Department of State Process to Select and Approve Information Technology Investments* (AUD-FM-16-31, March 2016).

[36] *Ibid*.

[37] *Ibid*.

[38] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-16-16, November 2015).

[39] OIG, *Audit of Time and Material Expenses and Performance Incentive Payments under the Bureau of Information Resource Management, Vendor Management Office Vanguard Program* (AUD-CGI-16-34, May 2016).

[40] OIG, *Inspection of the Bureau of Information Resource, Management, Operations, Vendor Management Office* (ISP-I-16-03, October 2015).

with Federal regulations requiring documentation of sole source justifications.[41] Management lapses also significantly contributed to incidents of contract fraud at several posts overseas. For example, a joint investigation by OIG and DS uncovered a large-scale theft of approximately $2.3 million in diesel fuel from Embassy Tbilisi.

Grants management also remains a challenge for the Department. In FY 2016 OIG published 9 reports concerning grants and included 14 formal recommendations to improve monitoring, reporting, documentation, and overall grants coordination.

Monitoring of Grantee Performance and Financial Management

Monitoring is a key component of performance management. It helps measure progress against goals and indicators of performance, reveals whether desired results are occurring, and confirms whether implementation is on track.[42] Financial monitoring should include site visits to review recipients' financial policies and procedures, financial management controls, and supporting documentation.[43] OIG audits and inspections of Department grants identified the need for improved management and monitoring of grantees.

During its inspection of Embassy Tashkent, OIG found that the embassy did not document its risk management actions on grants it awarded, did not create performance monitoring plans, and did not document grant performance reporting. Similarly, OIG found that embassies Ashgabat and Tegucigalpa did not have performance monitoring plans or did not document performance for all grants. In Embassy Ashgabat, the grants officer and grants officer representatives told OIG that the embassy monitored grantee performance but did not document that monitoring.[44]

An audit of the financial management grants and cooperative agreements supporting the Middle East Partnership Initiative found that the Bureau of Near Eastern Affairs' grant monitoring process was not designed to prevent or detect unallowable or unsupported costs. In a final example, an audit of the Bureau of Political-Military Affairs found that the lack of grantee oversight made it difficult for the Bureau to ensure that award recipients were using funds to support its overall mission and programs.[45]

5 Financial Management

The Department manages one of the U.S. Government's most complex financial operations and, to its credit, received an unmodified ("clean") audit opinion on its FY 2014 and FY 2015 financial. Accordingly, OIG's efforts with respect to this management challenge focused on helping the Department identify remaining vulnerabilities to fraud, waste, and abuse.

Shortcomings in Processes Used to Identify Management Control Deficiencies

Effective management control systems play a key role in ensuring that the Department produces accurate financial statements and is able to achieve its objectives through effective stewardship of public resources. In FY 2016, OIG identified deficiencies in processes used to identify management control deficiencies.

During an inspection of the Bureau of International Organizations, OIG found that it had not analyzed management controls related to all of its programs and activities before reporting, through the statement of assurance process, that no material weaknesses or significant deficiencies existed.[46] OIG found that guidance sent to bureaus and embassies on the statement of assurance

[41] OIG, *Inspection of Embassy Cairo* (ISP-I-16-15A, April 2016).

[42] Department of State, *Evaluation Policy*, January, 2015, p.2.

[43] OMB, *Circular A-110*, Subpart C, Section 21 (b)(1) and (3).

[44] OIG, *Inspection of Embassy Ashgabat* (ISP-I-16-13A, March 2016).

[45] OIG, *Audit of the Bureau of Political-Military Affairs Federal Assistance Awards* (AUD-SI-16-49, September 2016).

[46] OIG, *Inspection of the Bureau of International Organizations* (ISP-I-16-02, October 2015).

process was insufficient, that coordination between and among bureaus on management control deficiencies was lacking, and that areas of significant risk were not shared with bureaus and missions.[47] Similarly, OIG's review of the Bureau of Consular Affairs' process for identifying control weaknesses at overseas missions found that it was not designed to meet governing management control standards.[48] Data collected was not aggregated or analyzed to help mitigate risk, data was not shared with higher-level management, and data did not allow for continuous monitoring of consular operations.

Lapses in Management Controls

The *Independent Auditor's Report on Internal Control Over Financial Reporting* noted the following significant deficiencies: financial reporting, property and equipment, budgetary accounting, validity and accuracy of unliquidated obligations (ULOs), and information technology.[49] The independent auditor's report on the Department's 2014 and 2015 financial statements noted that the Department's internal controls were not effective to ensure that ULOs were consistently and systematically evaluated for validity and deobligation. In addition, funds that could have been used for other purposes may have remained in unneeded obligations.[50]

In addition, OIG found that the efforts of the Bureau of International Organization Affairs to evaluate $340 million in foreign assistance voluntary contributions paid to international organizations were insufficient.[51] This follows an earlier OIG review that determined that 16 of 39 bureaus had not conducted program evaluations as required and that some bureaus did not consistently incorporate evaluation findings into the budget and strategic planning processes.[52]

OIG found consular sections that did not comply with the Department's line of sight standards.[53] In addition, the Department had not yet complied with a 2015 OIG recommendation that the Department revise decision criteria for tenure and promotion in the Foreign Service to ensure that mid- and senior-level Foreign Service Officers address misconduct by their subordinates.

Vulnerabilities in the Purchase Card Program

In an assessment of the Department's purchase card program, OIG concluded that the risk of illegal, improper, or erroneous use in the program is "high" based on a variety of factors, including the large size of the program, the absence of internal controls, a lack of training, results from previous audits, OIG's Office of Investigations observations, and violation reports.[54]

OIG's management assistance report on the Department's annual purchase card program reviews found that 53 percent of overseas purchase card coordinators in FY 2014 either failed to perform mandatory annual reviews of their purchase card programs or did not respond to a request for that information.[55] In FY 2016, OIG also found a lack of enforcement in advance-approval of purchase card actions[56] and an absence of annual purchase card reviews and card holder training.[57] The Department's Bureau of Administration does not monitor bureau and post compliance with the annual purchase card review requirement.

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[47] OIG, *Review of Statements of Assurance Process* (ISP-I-15-37, September 2015).

[48] OIG, *Review of the Consular Annual Certification of Management Controls Process* (ISP-I-16-01, October 2015).

[49] OIG, *Independent Auditor's Report on Internal Control Over Financial Reporting* (AUD-FM-16-09, November 2015).

[50] OIG, *Independent Auditor's Report on Closing Package Financial Statements* (AUD-FM-16-10, November 2015).

[51] OIG, *Inspection of the Bureau of International Organization Affairs* (ISP-I-16-02, October 2015).

[52] OIG, *Review of Department of State Compliance with Program Evaluation Requirements* (ISP-I-15-36, September 2015).

[53] OIG, *Inspection of Embassy Tashkent* (ISP-I-16-12A, March 2016); OIG, *Inspection of Embassy Ashgabat* (ISP-I-16-13A, March 2016).

[54] OIG, *Information Report: Department of State 2015 Purchase Card Risk Assessment* (AUD-FM-16-23, December 2015).

[55] OIG, *Management Assistance Report: Annual Purchase Card Program Reviews* (ISP-I-16-04, January 2016).

[56] OIG, *Inspection of the Bureau of International Organizations* (ISP-I-16-02, October 2015).

[57] OIG, *Inspection of Embassy Cairo* (ISP-I-16-15A, April 2016).

Management's Response to Inspector General

In 2016, the Department of State's Office of Inspector General (OIG) identified management and performance challenges in the areas of: protection of people and facilities; managing posts and programs in conflict areas; information security and management; oversight of contracts and grants; and financial management. The Department promptly takes corrective actions in response to OIG findings and recommendations. Highlights are summarized below.

1 Protection of People and Facilities

The protection of people and facilities remains a top priority for the Department. The Quadrennial Diplomacy and Development Review 2015 recognized the need to balance our values and interests with the inherent risks of 21st Century diplomacy and development. Threats to our people and facilities will continue to evolve and requires constant focus and risk mitigation. To manage risk, the Department has published a new risk-management policy, annually revises the Security Environment Threat List, conducts High Threat Post Review Boards, utilizes the Vital Presence Validation Process, and enhanced the qualitatively improved Foreign Affairs Counter Threat training for all Foreign Service personnel. Despite these and other efforts, the challenge of mitigating risk and preventing attacks will continue given the nature of diplomacy and the environment.

Personnel Safety Overseas

The Department has taken a number of steps to improve the safety of personnel overseas. For example:

- The Department expanded its Foreign Affairs Counter-Threat (FACT) training, a program of anti-terrorism and defensive driving, how to recognize an improvised explosive device, firearms familiarization, tactical medical skills, fire as a weapon and surveillance detection. This training is now mandatory for all High Threat High Risk Posts, border posts in Mexico, and all posts in Africa. By FY 2019, FACT will be mandatory for all posts regardless of geographic region.
- The Department's Foreign Affairs Security Training Center (FASTC) will be partially complete in February 2017 and classes will be phased in over time until it is fully operational by March 2019. This is a purpose built facility that will consolidate hard skills training and will enhance the ability of the Department to provide security training.
- The Department moved 2,485 personnel into more secure, safe, and functional facilities in FY 2015 under the Capital Security Construction Program.
- The Department conducted a worldwide survey to solicit details on Chief of Mission (COM) and Principal Officer (PO) protective details to ensure adequate security for all COMs and POs at U.S. Diplomatic and Consular missions. An in-depth analysis was conducted of the security and protective details of all COMs. The Department made it a requirement for all posts to convene an annual Emergency Action Committee to discuss COM security and protective details.

Below is additional information about specific issues raised by the OIG.

OIG Statement: "OIG determined that, despite recent improvements, the Department's management and oversight of security personnel is still lacking at posts overseas. For example, local guard forces failed to perform contractually required duties, such as conducting access control, delivery, and mail screening."

Management's Response: Only a small subset of overseas posts was reviewed by the OIG. The examples where the OIG found deficiencies are exceptions, rather than the rule, in our security infrastructure. The Department is making use of the OIG's information to address the vulnerabilities identified at those posts.

OIG Statement: "OIG found deficiencies in seismic risk mitigation in embassy residences…"

Management's Response: The OIG cites its reports for Tashkent and Ashgabat. The embassies took action to address the relevant issues, and the OIG closed the recommendations.

OIG Statement: "OIG also identified inconsistencies in motor vehicle policies that resulted in a lack of proper training for personnel serving in countries with an elevated risk of car accidents and fatalities. OBO statistics show that of the 773 armored vehicle mishaps that have occurred at overseas posts within the last 5 years, 469 (about 60 percent) were deemed preventable."

Management's Response: There is no data showing that the armored vehicle mishaps stemmed from driver behavior. Nonetheless, the Department is implementing an ongoing armored vehicle drivers training program. Between FY 2012 – FY 2016, DS trained 2,385 locally employed staff drivers in armored vehicle driving techniques. Over half of these were trained overseas and included posts such as Algiers, Ankara, Baghdad, Bujumbura, Cairo, and Kabul.

Emergency Action Planning and Preparedness

The Department has a robust program to ensure that U.S. government personnel and facilities abroad are well prepared to respond to emergencies. Those plans are tested regularly in response to real world crises, and in most cases they prove effective. The Department has used input regarding potential weaknesses to further strengthen its preparedness.

OIG Statement: "During FY 2016, OIG identified several issues with the Department's emergency action planning and preparedness. For example, OIG found that chiefs of mission were unaware of the U.S. military assets available during emergency situations."

Management's Response: The Department uses a number of mechanisms to make chiefs of mission aware of U.S. military assets available during emergencies. The information is included in formal training and is disseminated through cables, webinars, and conferences. The Bureau of Diplomatic Security (DS) has a network of special agents working directly in the Combatant Commands to facilitate information flow, and embassies generally coordinate closely with State Department political advisors to regional combatant commanders. The Departments of State and Defense are on the verge of signing a Memorandum of Agreement clarifying crisis response roles and responsibilities in support of Chief of Mission personnel. Following signature, the Department of State will disseminate this information widely.

2 Managing Posts and Programs in Conflict Areas

The Department gives significant attention to operations in unstable environments. The continued operation of our posts and programs in such complex working environments generally without serious incident is in itself a testament to the Department's effectiveness. Still, the Department must continually improve its posture. Recent accomplishments include:

- The Department published a policy on contracting in critical risk environments and created an office with responsibility for developing, coordinating, and implementing risk assessments and mitigation plans. A number of risk mitigation plans have been approved.
- The White House established the Global Engagement Center within the Department to coordinate U.S. counterterrorism messaging to foreign audiences.
- The Department implemented an innovative model for diplomacy and program management via the Syria Transition Assistance and Response Team in Turkey.
- After the 2012 attack in Libya, DS and the U.S. Marine Corps accelerated the activation of new security guard detachments at 23 posts around the world including Beirut, Lebanon; Erbil, Iraq; and Lahore, Pakistan. As of October 2016, 16 new detachments were being planned, and the Department increased the number of Marines in 121 existing detachments. In addition, DS and the Marine Corps Embassy Security Group established the Marine Security Augmentation Unit (MSAU) to provide regional security officers and Emergency Action Committees with the option of a readily available and scalable supplementary protective force to keep pace with evolving threats. In FY 2016, MSAU deployed 16 security augmentation missions to diplomatic facilities during periods of increased threats, deployed 46 VIP support missions, and conducted 35 pre-deployment surveys.
- The Department continued to implement the Vital Presence Validation Process, which ensures that the Department's most senior officials consider annually the risks of operating at each high threat post. The OIG audited this process and found it worked efficiently.
- In response to an OIG audit, the Bureau of Near Eastern Affairs (NEA), Office of Assistance Coordination has updated its Management Policies and Procedures Manual, in compliance with regulations to enable NEA to obtain reasonable assurance that award recipients have adequate financial management controls in place.

Below is additional information about specific issues raised by the OIG.

OIG Statement: "OIG issued a management assistance report to alert the Department to a potential safety risk that could result in severe injury or death involving electrical current; this issue was identified by the U.S. Army Corps of Engineers during the course of an ongoing audit of construction of the new office and residential apartment buildings at Embassy Kabul."

Management's Response: This risk was much more limited than the OIG portrayed. The Department formed a team of experts to re-audit the buildings; deployed a specialized grounding team to Kabul to evaluate and remediate objectionable current further; and had an independent third party conduct a review of the buildings.

The team confirmed that objectionable current existed on the main power lines that run into the buildings; however, it also confirmed that the areas exhibiting objectionable current were limited to only locked and restricted mechanical and electrical spaces, which are not accessible to the general public. Neither the building occupants nor surrounding areas were in danger from a high level of objectionable current. The issue was contained between the main transformers and downstream first means of disconnect (switch gear). It was not clear whether the U.S. Army Corps of Engineers had conducted tests outside of locked, restricted mechanical and electrical spaces.

The Department agreed that workers in the restricted electrical and mechanical rooms faced a potential hazard. Additional signage was posted in the restricted mechanical and electrical rooms experiencing higher levels of objectionable current, recommending all workers in these spaces utilize appropriate electrical safety equipment. In addition, Post communicated the situation to all staff, alerting them of objectionable current and advising them to stay out of restricted areas.

Additionally the risk to workers accessing locked mechanical and electrical rooms was mitigated by reducing measured objectionable current in the mechanical and electrical rooms in the affected buildings to levels at or below the 3 ampere threshold.

OIG Statement: "OIG inspected the Bureau of Diplomatic Security's (DS) Directorate of International Programs, which is responsible for the oversight of more than $1.6 billion in 90 local guard contracts around the world (including conflict areas), approximately 80 personal services agreements for local guard forces, and 8 task orders for the Worldwide Protective Services contract that provides security for Embassy Baghdad and consulates throughout Iraq. OIG found that the Department's efforts to provide DS with contract administration assistance were hampered by the lack of service-level agreements and uniform operating procedures. This led to misunderstandings about staff roles and responsibilities."

Management's Response: The Department awarded the new Worldwide Protective Services II (WPS II) Indefinite Delivery/Indefinite Quantity base contract on February 12, 2016. The WPS II base contract provides the Bureau of Diplomatic Security flexibility to provide critical life safety and security services to U.S. missions abroad and improves upon the robust requirements and oversight procedures incorporated into the first WPS contract. The Department has already awarded three task orders (Jerusalem, Baghdad protective service details, and Juba) under the WPS II base contract.

The Bureau of Diplomatic Security (DS) maintains a worldwide Contracting Officer Representative program that ensures the Department has a designated and appointed COR for all local guard contracts and Worldwide Protective Services (WPS) task orders. Currently, 248 personnel (OCONUS and CONUS) are designated as a CORs, Alternate CORs or a Government Technical Monitor (GTM).

DS deploys GTMs to all WPS task order locations. The GTMs, who are cleared U.S. citizens, assist the DS CORs and provide supplemental contract oversight at these critical task order locations. The local guard force programs in Pakistan and Mexico also have cleared U.S. citizens acting as GTMs.

As part of continual contract oversight and monitoring, DS conducted over 70 Program Management Reviews (PMRs) and 35 Program Assistance Visits (PAVs) in 2016. The 35 PAVs included monitoring and evaluating compliance of Trafficking in Persons regulations and oversight of guard training programs and facilities.

In FY 2016, DS initiated local guard program (LGP) leadership workshops for post LGP management staff to enhance program leadership, management and oversight. Four were completed in FY 2016, with more planned in FY 2017. DS plans to conduct a LGP workshop in each bureau's geographic region every two years.

The Bureau of Diplomatic Security's Directorate of International Programs, Office of Overseas Protective Operations (DS/IP/OPO) meets with the leadership of each active WPS task order on a weekly basis, to ensure program and contract compliance. These meetings include contracting officers from Office of Acquisitions Management (A/LM/AQM). Because of the high operational/program tempo, PMRs for WPS and WPS II task orders are conducted each quarter for each task order.

To further enhance contract oversight and administration, DS/IP/OPO and the partner together and A/LM/AQM co-locate over 23 contracting officers and contract specialists with DS headquarter staff at SA-20, facilitating improved communication and coordination.

OIG Statement: "OIG identified during this reporting period inventory control and safety deficiencies in fuel storage and refueling operations at Embassy Kabul.

Management's Response: Embassy Kabul made significant improvements to its monitoring of fuel storage and refueling operations. Among them, it implemented procedures to regularly update and review inventory systems and brought a new vehicle maintenance facility and fuel point online. The OIG considered all recommendations in this report resolved based on the actions taken by the embassy.

OIG Statement: "Audits of security services contracts for Embassy Baghdad and Consulate Erbil identified insufficient review of supporting documentation for contractor invoices by contracting officer representatives (CORs), leading to over $17 million in questioned and unsupported costs."

Management's Response: $17 million represents the combined dollar value of costs questioned on both the security service contract for Embassy Baghdad and the contract for Consulate Erbil. OIG questioned $7.2 million in invoiced costs on a contract valued at $466 million at Embassy Baghdad, equating to less than two percent of the contract costs. At Consulate Erbil, OIG questioned $807,000 in invoiced costs on a contract valued at $99.3 million, equating to less than one percent of the contract costs. In response, DS is re-examining all Erbil-related Worldwide Protective Services (WPS) invoices. This audit will be complete at the end of December 2016.

Additionally, the OIG questioned an additional $10M in costs not adequately supported in accordance with the contract terms. The Department disagrees. The regional security office signed for these labor services, and DS matched the labor (muster reports) against travel.

3 INFORMATION SECURITY AND MANAGEMENT

Cybersecurity

The Department recognizes the significant threats that exist to its information systems and is constantly taking actions to reinforce its defenses against those threats. The CIO meets with the Deputy Secretary for Management and Resources on a bi-weekly basis to discuss the Department's cybersecurity posture and initiatives.

- IRM has implemented enhanced protections to protect the Department's network. Domestically, users and administrators are required to logon to the unclassified network with a personal identity verification card. Overseas, users and administrators are required to logon to the unclassified network with a Secure Network Access using a public key infrastructure smartcard or a personal identity verification card.

OIG Statement: "In FY 2016, OIG reported significant weaknesses in the Department's cybersecurity incident response and reporting program."

Management's Response: The OIG's statement is inaccurate. The word "significant" does not appear in the report, and the report does not cite any significant failures to detect, react, and respond to a cybersecurity event. Rather, the report delivered

two recommendations calling for updates in standard operating procedures in order to ensure more consistent categorization of reported incidents. The Department subsequently upgraded its cyber incident response reporting procedures accordingly, and the OIG closed out both recommendations.

OIG Statement: "OIG found that the Department's Chief Information Officer (CIO), who is the head of IRM, is not properly positioned to ensure that the Department's information security program is effective. Under the Department's current organizational reporting structure, the CIO reports to the Under Secretary for Management. DS reports separately to the Under Secretary for Management. According to Department guidance, IRM and DS both have statutory responsibilities for information security. Under this reporting structure, DS and any other bureau or office reporting to the Under Secretary for Management are not required to communicate information security risks to IRM. Further, bureaus could miscommunicate information security risks to leadership, which in turn could increase the likelihood and impact of potential attacks. Without a centralized reporting structure, bureaus may accept risks associated with one mission or business function without understanding the potential effect on the Department as a whole."

Management's Response: The OIG's assessment is speculative and inaccurate. IRM and DS coordinate closely on cybersecurity efforts. Pursuant to 1 FAM 262.7-2, the DS Office of Cybersecurity works in coordination with IRM to maintain and operate key components of the Department's Situational Awareness Program and to ensure compliance with the Department's information security program requirements. IRM and DS established a new Cybersecurity Integrity Center to further enhance their ability to detect anomalous behavior on the network. The Department's Cybersecurity Roles and Responsibilities Matrix, in existence since 2004, was originally developed in coordination with the OIG.

Records Management

The Department has established policies and systems that put it in compliance with National Archives and Records Administration requirements for managing email records electronically by the end of calendar year 2016. The new policies and systems greatly enhance the Departments record-keeping and FOIA capabilities. Among other steps, the Department is now permanently archiving all of the email of its highest-ranking senior officials. The Department created the position of Transparency Coordinator. It is tasked with leading efforts to meet the President's Managing Government Records directive, responding to OIG's recommendations, and working with other agencies and the private sector to explore best practices and new technologies. The Department has requested additional resources in FY 2017 to help address its historically underfunded FOIA program.

IT Investment Planning and Management

The Department is improving its planning and management of IT systems.

- IRM designed a process to support the selection and approval of major and non-major IT investments that addresses the majority of key OMB requirements.
- IRM designed a tool, iMatrix, to assist in managing the Department's IT capital planning process. iMatrix facilitates project management and the reporting of investments. Key requirements from OMB's investment requirements were built into the application.
- IRM has made progress in incorporating IT information into the Bureau of Budget and Planning (BP) IT budget process. Collaborating with BP, IRM has provided updates to the FY 2018 Bureau Resource Request guidance, to include IT-related requirements and the IT Capital Planning and Investment Control process, specifically highlighting the Pre-Select pre-funding concept review, to ensure that the CIO has oversight and authority in reviewing all IT-related resource requests.

OIG Statement: "OIG also reported that the Department did not always report to OMB accurate and complete information on its IT investments. This occurred primarily because the process to prepare the reports is manual and involves numerous users across the Department; insufficient IRM oversight of the reporting process further exacerbated the problem. Since some of the reports were inaccurate and incomplete, Department stakeholders, such as OMB and Congress, had limited ability to analyze and assess IT spending."

Management's Response: IRM's IT investment oversight is primarily focused on the Department's major IT investments, which consist of 69 percent of the IT portfolio. The Department has taken the steps described above to improve oversight of both its major and non-major IT investments.

4 OVERSIGHT OF CONTRACTS AND GRANTS

In response to OIG recommendations, the Department took a number of actions, including those that appear below. The Department will continue to take steps to address the recommendations.

- Embassy Cairo developed an annual acquisition plan, in response to recommendations from OIG's 2015 inspection.
- The Department is in the process of establishing management and monitoring procedures of grantees for embassies Tashkent, Ashgabat, and Cairo, in response to OIG inspections in 2015 and 2016.
- The Department prepared a Federal Assistance Human Capital Plan to ensure that it had acquired the appropriate number of trained personnel to properly conduct grants management and monitoring procedures of grantees at embassies Tashkent, Ashgabat, and Cairo, in response to OIG inspections in 2015 and 2016.
- The Department is establishing a service level agreement between DS and the Bureau of Administration to address its acquisition/contract oversight support to DS. Furthermore, DS has developed an orientation program and overview presentations on this topic that will be delivered to new employees.
- The Office of the Procurement Executive conducted a Grants Management Review of the Bureau of African Affairs (AF). As a result, AF created a standard operating procedure for Federal assistance management so procedures are uniform and documented within the bureau, and AF specialists are holding numerous grants management training sessions for Bureau posts via digital video conferencing, telephone conferencing, and live training sessions.
- The Department is in the process of providing guidance to CORS and GTMs on performing assigned duties.
- The Department deployed a new database to facilitate more efficient and timely reporting of the Vanguard contractor's performance metrics.

5 FINANCIAL MANAGEMENT

Department officials at all levels, both at home and abroad, dedicate substantial time and effort to ensuring effective management controls and oversight. The Department made the following progress:

- The Department issued expanded guidance on management controls in 2015 and 2016. The expanded guidance defined the procedures for reporting deficiencies. It required the chief of mission to designate a management control coordinator at the beginning of each fiscal year and clarified that the full range of Department activity (including programs) was required to be evaluated. The expanded guidance also added a section that identified areas that need heightened attention by posts

and bureaus. For FY 2016, the guidance continued to emphasize contract files, grants management and IT security, and it added the purchase card programs. The expanded guidance also revised the Statements of Assurance coming from posts and required that Deputy Chiefs of Mission sign the annex, in addition to the Chiefs of Mission. The expanded guidance emphasized that conducting management control reviews should be a year round activity. As a result of actions taken, all of the corresponding OIG recommendations were closed.

- In 2016, the Department maintained efforts to address and reduce weaknesses in financial reporting, property and equipment, budgetary accounting, and unliquidated obligations. For example, the Department has reduced the extent of manual processes in the preparation of financial statements by implementing the Governmentwide Treasury Account Symbol Adjusted Trial Balance System as the primary means of reporting agency trial balance data to the Department of the Treasury.
- The Department continued to bolster the improper payments and recapture audit program, and in the 2015 annual assessment, the OIG found the Department's improper payments program to be in substantial compliance with IPIA.
- The Department revised the FY 2016 annual consular management control survey questionnaire to improve the accuracy of individual post reporting and is in the process of deploying a commercial, off-the-shelf toolkit that will automate the worldwide monitoring of individual post performance of consular management control oversight.
- In recognition of the need to incorporate program evaluation into the budget and strategic planning processes, the Department revised the Bureau Resource Request guidance for FY 2018 to discuss bureau accomplishments. The data used to assess performance for diplomatic engagement funding requests will be aligned with each bureaus Functional Bureau Strategy and Joint Regional Strategy goals and objectives.
- The Department designated the Bureau of Administrations' Office of Acquisitions Management as the single office with responsibility for oversight of the Worldwide Purchase Card Program.

OIG Statement: "OIG found that guidance sent to bureaus and embassies on the statement of assurance process was insufficient, that coordination between and among bureaus on management control deficiencies was lacking, and that areas of significant risk were not shared with bureaus and missions."

Management's Response: This statement is referring to a report from 2015. In 2016, CGFS remediated these deficiencies. In addition, CGFS did inform bureaus and mission of the area/topics that should receive additional scrutiny during their evaluations. CGFS also instructed them to consider the types of risk they manage while conducting evaluations.

OIG Statement: OIG found consular sections that did not comply with the Department's line of sight standards.

Management's Response: The report cited this problem in Tashkent and Ashgabat. Compliance issues were resolved, and the recommendations were closed.

Summary of Financial Statement Audit and Management Assurances

As described in this report's section called Departmental Governance, the Department tracks audit material weaknesses as well as other requirements of the Federal Manager's Financial Integrity Act of 1982 (FMFIA). Below is management's summary of these matters as required by OMB Circular A-136, *Financial Reporting Requirements*, revised.

Summary of Financial Statement Audit

Audit Opinion: **Unmodified**

Restatement: **No**

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance:	Unmodified					
Total Material Weaknesses	0	0	0	0	0	0
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	Unmodified					
Total Material Weaknesses	0	0	0	0	0	0
CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	Federal systems conform to financial management system requirements					
Total Non-conformances	0	0	0	0	0	0

	AGENCY	AUDITOR
COMPLIANCE WITH SECTION 803(a) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
1. Federal Financial Management System Requirements	Compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Compliance noted	Compliance noted
3. USSGL at Transaction Level	Compliance noted	Lack of compliance noted

DEFINITION OF TERMS

Beginning Balance: The beginning balance will agree with the ending balance of material weaknesses from the prior year.

New: The total number of material weaknesses that have been identified during the current year.

Resolved: The total number of material weaknesses that have dropped below the level of materiality in the current year.

Consolidated: The combining of two or more findings.

Reassessed: The removal of any finding not attributable to corrective actions (e.g., management has re-evaluated and determined a finding does not meet the criteria for materiality or is redefined as more correctly classified under another heading (e.g., section 2 to a section 4 and vice versa)).

Ending Balance: The agency's year-end balance of material weaknesses.

Improper Payments Information Act and Other Laws and Regulations

Improper Payments Information Act, as Amended

The Improper Payments Information Act of 2002 (IPIA), Public Law No. 107-300, as amended, requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments, as well as to conduct payment recapture audit programs. In 2010, the President signed into law the Improper Payments Elimination and Recovery Act (IPERA, Public Law No. 111-204), which amends the Improper Payments Information Act of 2002, and repeals the Recovery Auditing Act (Section 831 of the 2002 Defense Authorization Act, Public Law No. 107-107). In January 2013, the IPIA of 2012 (IPERIA Public Law No. 112-248) was signed into law and further amended IPIA. All remaining references in this disclosure to the term IPIA will imply IPIA, as amended by IPERA and IPERIA. Most significantly, IPERIA expanded the term payment to refer to all payments except intragovernmental transactions. It also codified OMB's ongoing efforts to develop and enhance the government's Do Not Pay Initiative, which included the creation of a centralized Do Not Pay List for agencies to access prior to disbursing payments.

IPIA defines significant improper payments as annual improper payments in a program that exceed both 1.5 percent of program annual payments and $10 million, or that exceed $100 million, regardless of the error rate. 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 a statutory, contractual, and administrative or other legally applicable requirement.

IPIA Reporting Details

The Department defines its programs and activities in alignment with the manner of funding received through appropriations, as further subdivided into funding for operations carried out around the world.

Risk assessments over all programs are done every three years. In the interim years, risk assessments evaluating programs that experience any significant legislative changes and/or significant increase in funding will be done to determine if the Department continues to be at low risk for making significant improper payments at or above the threshold levels set by OMB. The Department conducted a risk assessment of all programs and activities in 2013 and again in 2016.

Risk assessments of Department programs and activities involve an evaluation of the risk factors described in OMB Circular A-123 Appendix C including whether the program or activity reviewed is new to the Department; the complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts; the volume of payments made annually; whether payments or payment eligibility decisions are made outside of the Department; recent major changes in program funding, authorities, practices, or procedures; the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; inherent risks of improper payments due to the nature of Department programs; significant deficiencies in the audit reports on the Department including OIG, GAO, and SIGAR audit report findings; results from the prior year improper payment recapture work; and the percentage increase in funding. Additional risk factors are considered as needed. Further, risks and results from the work performed in compliance with OMB Circular A-123 Appendix A, other internal Department reviews, and other relevant information are considered.

Based on this series of internal control review techniques performed in 2016, the Department determined that none of its programs were risk-susceptible for making significant improper payments at or above the threshold levels set by statute. The 35 programs assessed were: American Compensation; Foreign Locally-Employed Staff Compensation; Foreign Service Annuity Compensation; Voluntary Contributions to International Organizations; Assessed Contributions to International Organizations; Post-Assignment Travel; Temporary Duty Travel; National Endowment for Democracy; Economic Support Fund; Miscellaneous FSI and Human Resources Operational Expenses; Overseas Programs; Diplomatic Policy and Support; Border Security and Machine Readable Visas; IT Central Fund and Expedited Fees; Public Diplomacy; Worldwide Security Protection; Security for Afghanistan and Pakistan; Border Security and Western Hemisphere Travel Surcharges; Nonproliferation, Anti-terrorism and Demining; Overseas Contingency Operations; Leaseholds and Function Programs; Capital Cost Sharing Initiative; Working Capital Fund; International Cooperative Administration Support Services; Aviation Working Capital Fund; Refugee Admissions; Fulbright Program; Promote the Rule of Law programs; INL All Other Anti-crime programs; Supply, Transportation, and Procurement; Political and Military Affairs Nonproliferation, Anti-terrorism and Demining; Overseas Building Operations Design/Development; Construction; Short-term Lease Residential Program; and Project Construction/Major Rehabilitation. Based on these procedures, the Department determined that none of its programs in 2016 were risk-susceptible for making significant improper payments at or above the threshold levels set by OMB.

Recapture of Improper Payments Reporting

A number of improper payment activities, both preventative and recovery, exist for domestic and overseas payments at the Department, Bureau, post, and program levels to support IPIA efforts and ensure the integrity and accuracy of Department payments. The Bureau of the Comptroller and Global Financial Services (CGFS) has a two-tiered improper payment monitoring and review program that consists of activities performed by the payment issuing office and secondly by the Office of Oversight and Management Analysis (OMA). As an integral part of our post-payment review process, improper payment reviews are performed initially by the payment issuing offices which include the Bureau's Office of Claims (CGFS/F) and Office of Global Compensation (CGFS/C). The subsequent review performed by OMA focuses on overpayments and utilizes data and risk analysis to drive the recapture work performed. While many agencies hire external recapture auditors to perform a secondary review, this function is performed more efficiently within the Department by OMA. Because the activity performed by CGFS/F and CGFS/C is a post-payment (versus recapture payment) review process, those results are not considered recapture audits and are considered an activity outside of recapture audits. Because the OMA activity is secondary and consistent with a function that an external auditor would perform, for reporting purposes OMA's activity is considered recapture as defined by IPIA. In addition, as required by IPIA, in 2015 Global Compensation began reporting confirmed overpayments identified through internal processes. The CGFS/C Annuitant Pay Processing (ANP) began reporting this information in 2014 for Annuity Payments and continues to report this data in 2016.

Payment Recapture Audit Reporting

CGFS incorporates various manual and automated data analysis techniques and processes to identify, validate and collect improper payments, including use of data mining software, manual sampling of internal payment records, U.S. Treasury taxpayer identification number matching, and sampling of vendors. Monthly, as part of the Recapture Audit process, OMA conducts a query of domestic vendor payments. Domestic vendor payments represent the largest category of Department-made payments subject to IPIA recapture audit requirements, focusing on identifying potential improper and duplicate payments. Currently, these payments are reviewed on a monthly basis using IDEA - Data Analysis Software. An automated analysis is executed to run matches of vendor invoice numbers and payment amounts against current payment data and payments dating back to 2007. The increased quality control processes by CGFS/F in both payments generation and internal post-payment review process have contributed to overall lower improper recapture audit amounts. At times, transactions identified during the monthly IDEA analysis by OMA were previously identified by CGFS/F and the collection process initiated. These transactions are not included in recapture audit figures since

the CGFS/F internal processes made the initial identification. In addition to the automated IDEA analysis, OMA performs a manual quarterly review of overseas and domestic payments. These manual recapture audits validate elements such as vendor, payment amount, and ensure proper documentation exists to support sampled payments. In 2016 OMA contract recapture audit efforts identified $202.4 thousand contract overpayments. Also in 2016, $65.5 thousand was recovered and returned to the originating appropriation.

In addition, OMA performs a quarterly manual recapture audit of employee claim payments subject to the Department's overall travel program. This recapture audit focuses on known identified issue areas as well as providing overall audit coverage of employee travel payments. As shown in the Other column of the "Improper Payment Recaptures with and without Audit Programs" table, in 2016 OMA identified $87.8 thousand in travel program recapture audit overpayments, and collected $40.5 thousand ($34 thousand collected of the amount identified in the current year and an additional $6.5 thousand was collected from prior year recapture audit overpayments). The collected funds were returned to the originating appropriation.

During 2016, OMA built on prior year efforts and expanded recapture audit activities in several areas.

- **Grant payments made on behalf of the Department by the Department of Health and Human Services through their Payment Management System (PMS).** OMA continued manual sampling and testing of grants with exact dollar PMS payment activity and performed analysis of data across systems that contained Department grant information. In addition, OMA initiated a pilot review of closed grants and the documentation that supports this process and continues to explore recapture auditing down to the grant recipient level. Since manual sampling efforts of grants can be laborious, additional data analysis efforts were developed in an effort to identify grant overpayments in a more cost-effective manner. Research continues on matched transactions to determine if the data and information gained can assist in developing standardized data mining efforts and implementing additional improper payment identification methods in the PMS grant recapture audit program. Each year the Department closely monitors payment activity of grantees for which the Department is the designated Federal Cognizant Agency, including follow-up with grantees regarding any questioned costs identified on the grantees audit reports issued in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

- **FSRDF annuitant payments.** OMA expanded its efforts over the prior year by reviewing annuitant payments that are calculated based on certain eligibility requirements. Specifically, OMA completed a pilot recapture audit of annuity disability payments and supplemental payments. In 2016, as shown in the "Improper Payment Recaptures with and without Audit Programs" table, OMA identified $62.9 thousand in annuity overpayments of which $25.3 thousand or 40 percent were collected. The collected funds were returned to the originating appropriation.

- OMA implemented additional recapture efforts during 2016 to include American Employee (AE) and Foreign Locally Employed (LE) Staff Compensation payments. LE Staff payments represent compensation made to local employees of Embassies and Posts who typically hold residency in those countries. OMA continued systematic analysis and duplicate payment reviews, which did not identify any duplicate payments in AE or LE areas. In addition, OMA performed sampling and manual testing of AE and LE employees with payments that displayed an increased frequency or amount of adjustments. OMA continues to expand efforts in the AE and LE Staff Compensation recapture audit areas in future years.

The CGFS automated duplicate or erroneous payment program using the domestic payment file for recapture audit analysis has proven to be a cost effective tool. The additional inclusion of automated and manual recapture audit processes implemented in the domestic and overseas vendor, annuity payment, PMS grant, AE compensation, and LE Staff compensation areas ensures the Department has coverage in required IPIA recapture audit areas. Prior to these efforts, in 2005 and 2006, the Department contracted with an external firm to perform recapture audit activities. However, after 2006, the contracted firm determined it was not cost-effective to continue this function. At this time, CGFS has not made a request to OMB to exclude any IPIA area from recapture

IMPROPER PAYMENT RECAPTURES WITH AND WITHOUT AUDIT PROGRAMS
(dollars in thousands)

Program or Activity	Overpayments Recaptured through Payment Recapture Audits																	Overpayments Recaptured outside of Payment Recapture Audits	
	Contracts					Benefits					Other					Total			
	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
Travel Program											$87.8	$40.5	46%	48%	50%	$87.8	$40.5	$35.2	$12.8
Foreign Service Annuities						$62.9	$25.3	40%	50%	50%						$62.9	$25.3	$763.2	$166.6
American Compensation																		$5,295.3	$4,145.6
Diplomatic and Consular Programs	$17.4	$17.2	98%	85%	90%											$17.4	$17.2	$6,363.9	$7,013.9
Working Capital Fund	$16.6	$18.6	112%	85%	90%											$16.6	$18.6	$2,709.6	$466.6
OBO Programs	$168.4	$29.7	17%	85%	90%											$168.4	$29.7	$1,060.6	$1,060.6
Nonproliferation, Anti-terrorism, De-mining																		$103.1	$100.0
INL Programs																		$673.1	$673.1
Other State Programs																		$3,122.0	$3,083.1
Total	$202.4	$65.5				$62.9	$25.3				$87.8	$40.5				$353.1	$131.3	$20,126.0	$16,722.3

DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDITS
(dollars in thousands)

Program or Activity	Amount Recovered	Type of Payment	Original Purpose
Travel Program	$40.5	Other	$40.5
Foreign Service Annuities	$25.3	Benefits	$25.3
Diplomatic and Consular Programs	$17.2	Contracts	$17.2
Working Capital Fund	$18.6	Contracts	$18.6
OBO Programs	$29.7	Contracts	$29.7
Total	$131.3		$131.3

AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDITS
(dollars in thousands)

Program or Activity	Type of Payment	Amount Outstanding (0–6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)
Travel Program	Other	$43.9	$1.0	$56.2
Foreign Service Annuities	Benefits	$3.5	$48.4	$ —
OBO Programs	Contracts	$133.1	$5.8	$ —
Total		$180.5	$55.2	$56.2

audit activity. CGFS realizes that additional recapture audit opportunities may exist and continues to collectively assess areas of greater risk of improper payments and implement recapture audit measures deemed cost-effective.

Overpayments Recaptured Outside of Payment Recapture Audits

Improper payment identification and collection are essential functions of the CGFS/F Accounts Payable operations. As such, CGFS/F has established an internal debt management unit, whose primary mission is to identify and collect improper payments. In addition, this Unit assists in identifying potential systemic issues leading to improper payments, which facilitates immediate implementation of corrective actions. Programs in which CGFS/F identified improper payments in 2016 include: Diplomatic and Consular Programs; the Working Capital Fund; Embassy Security, Construction, and Maintenance; Nonproliferation, Anti-terrorism, De-mining; International Narcotics Controls and Law Enforcement; Peacekeeping Operations; and other State programs. Results are presented for each program individually in the "Improper Payment Recaptures with and without Audit Programs" table. Collectively, during 2016, CGFS/F identified and confirmed transactions totaling $14.8 million of actual duplicate/improper payments, of which we recovered $11.6 million in addition to collecting $825 thousand of the prior year unrecovered balance. Thus, amounts recovered in the current year totaled $12.6 million. At the end of fiscal year 2016, the Department's cumulative outstanding uncollected balance of $8 million is mostly attributed to a $2.2 million vendor overpayment identified in September 2016 and a $5.2 million vendor overpayment that remains on hold pending the outcome of litigation. Also, in 2016 the Department identified and confirmed employee claims overpayments totaling $35.2 thousand, of which we recovered $12.8 thousand, including $540 from prior year identified amounts.

CGFS/C also leverages an overpayment processing unit whose purpose is to review, calculate, and notify employees of any salary or allowance overpayment debt. Salary overpayments can occur for various reasons in the Department's complex global pay environment, much of which is dependent on timely notification of events impacting pay. For example, late receipt of a cable notifying CGFS that an employee has departed an overseas mission for official duty travel or on personal leave can result in an overpayment of allowances. The payroll systems have programmatic internal controls and system edits in place to assist in preventing overpayments. CGFS/C continues to implement additional measures to prevent and identify overpayments. As presented in the "Improper Payment Recaptures with and without Audit Programs" table in 2016 the Department's CGFS American Pay Processing Division identified and confirmed payroll overpayments totaling $5.3 million, of which $2.9 million has been recovered. An additional $1.2 million of prior year debts were recovered, bringing the total recovered in 2016 to $4.1 million. To date, CGFS/C has collected 82.5 percent of prior year debts. This is notable because recovery of payroll debts can be delayed due to a debtor's request for an administrative review or a waiver. Efforts to collect outstanding payroll debts are on-going and attempts are made to use the most effective means to maximize collection, such as salary offsets, when possible.

In addition to salary overpayments, Global Compensation performs procedures to identify overpayments impacting Foreign Service annuities paid by the Department. In 2016, ANP identified and confirmed overpayment transactions totaling $763.2 thousand and recovered $166.6 thousand ($103.8 thousand of the overpayments identified in 2016 and ANP recovered $62.8 thousand of prior year overpayments). These overpayments occur for reasons such as annuity reductions due to divorce, annuitant re-employment, and untimely notification of death. CGFS continues the use of the Do Not Pay Death Master File (DMF) on a pre-payment basis to better identify when annuitant deaths occur. This and other internal controls greatly assist ANP in preventing and managing improper payments.

Agency Reduction of Improper Payments with the Do Not Pay Initiative

The Department reviewed potential improper payments provided by the Department of the Treasury (Treasury) generated as a result of submitting disbursed payments through the Do Not Pay (DNP) portal. In Fiscal Year 2016, the Treasury reviewed and disbursed 1,563,550 payments totaling $16.2 billion paid by the Department through the DNP portal. Potential matches were provided on a daily basis, comparing payments to the public Death Master File (DMF) of the Social Security Administration and the General Services Administration's Excluded Parties List System (EPLS). The Department has access to the private EPLS matching criteria,

RESULTS OF THE DO NOT PAY INITIATIVE IN PREVENTING IMPROPER PAYMENTS *(dollars in thousands)*						
	Number (#) of Payments Reviewed for Possible Improper Payments	Dollars ($) of Payments Reviewed for Possible Improper Payments	Number (#) of Payments Stopped	Dollars ($) of Payments Stopped	Number (#) of Potential Improper Payments Reviewed and Determined Accurate	Dollars ($) of Potential Improper Payments Reviewed and Determined Accurate
Reviews with the IPERIA specified databases	1,563,550	$16,195,521.3	150	$466.3	11	$247.5
Reviews with databases not listed in IPERIA	2,511,382	$7,870,070.1	4	$45.6	5,282	$49,205.6

and as such, the DMF results were based on a social security number and name match of any payees who have been reported as deceased.

Through daily access via the Treasury DNP portal, the Department reviewed 1.2 million unmatchable payments, totaling $5.5 billion, and adjudicated nine potential erroneous payment matches (eight DMF and one SAM generated potential matches), totaling $244,637,110 as part of the post-payment review process. The Department adjudicated and determined that the eight DMF matches were deemed to be rightfully due to the deceased annuitants' estates, and the remaining SAM sourced payment was a valid transaction. Accordingly, there were no erroneous payments identified through this process.

The Department continued to utilize the Do Not Pay portal's Social Security Administration DMF on a pre-payment continuous monitoring basis for all annuitant payments this year. At least twice each month the Department's annuitant database is screened against the DMF to identify deceased annuitants. All matches are researched and if confirmed, payment to the annuitant is stopped prior to processing the monthly annuity payment run. In 2016, 188,793 annuitant payments totaling $930.6 million were reviewed against the DMF and 150 payments totaling $466.3 thousand were stopped due to this initiative. This process has been successful in timely identifying deceased annuitants and ensuring improper payments are not made. In addition, all annuity manual payments processed through Treasury's Secure Payment System are also reviewed through the Do Not Pay DMF online search prior to making the payment. For each manual payment, the Department maintains supporting documentation to show that a DMF match did not occur.

For non-Treasury Disbursing Office payments made by the Department for disbursement overseas, payee information is checked against Treasury's Office of Foreign Assets Control's (OFAC) list of Specially Designated Nationals (SDN). During 2016 the Department processed 2,511,382 payments totaling $7.9 billion against the OFAC list and received 5,282 potential erroneous payment matches totaling $49.2 million. The potential payment matches were reviewed and resulted in 4 stopped payments totaling $45.6 thousand. Also, during country integration to the Society of Worldwide Interbank Financial Telecommunication network, the Department provided payee lists associated with the given country to the Federal Reserve Bank. The Federal Reserve Bank verified none of the listed payees were included on the OFAC's SDN list. Furthermore, each disbursement payment batch was verified against OFAC's SDN list before being sent to the intermediary bank and before the intermediary bank transferred the funds to local bank.

In addition, in 2016 Department grants processed through the Department of Health and Human Services Payment Management System (PMS) are included in a Do Not Pay review. The Health and Human Services Division of Payment Management incorporated a review of the Do Not Pay portal into their payment process to identify individuals or entities with delinquent Federal non-tax debt, a recipient that is listed as deceased on the DMF, and recipients excluded from doing business with the government. In 2016 the Department was notified of one grantee that appeared ineligible due to results of the Do Not Pay process. At the time of the match, this grantee had no funds available on any grants resulting in no subsequent payments issued to this grantee.

Premium Class Travel Reviews

The Department's mission is conducted throughout the world and requires extensive travel, sometimes of a significant duration. Because of the high volume of travel, the Department has made concerted efforts to monitor if official travel has adhered to Government-wide and Department regulations for premium class travel.

For 2016, there were no instances identified where a business class travel payment was inappropriate and needed to be recovered, or where the travelers flying business class were found to be ineligible. However, there have been instances where proper and complete supporting documentation was not readily available. Those errors represent an error rate of 4 percent ($32,242) in FY 2016, 15 percent ($157,144) in FY 2015, 17 percent ($54,885.07) in FY 2014, 8 percent ($56,442) in FY 2013, and 6 percent ($34,867) in FY 2012. OMB requires agencies to report improper payment errors based on three categories of errors: documentation and administrative errors, authentication and medical necessity errors, and verification errors. All Department errors found each year were attributable to documentation and administrative errors. The Department carefully considered these results in combination with results from other travel reviews, and will undertake efforts in 2017 to correct the deficiencies noted during the FY 2016 review.

Debt Management

Outstanding debt from non-Federal sources (net of allowance) decreased from $43.8 million at September 30, 2015 to $34.6 million at September 30, 2016. Civil Monetary Penalties decreased by $10.1 million at September 30, 2016, resulting in a decrease overall to the non-Federal source figures.

Non-Federal receivables consist of debts owed to the International Boundary and Water Commission, Civil Monetary Fund, and amounts owed for repatriation loans, medical costs, travel advances, and other miscellaneous receivables.

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 (Treasury). In 1998, the Department entered into a cross-servicing agreement with Treasury for collections of delinquent receivables. In accordance with the agreement and the Debt Collection Improvement Act of 1996 (Public Law No. 104-134), the Department referred $3.6 million to Treasury for cross-servicing in 2016. Of the current and past debts referred to Treasury, $2.1 million was collected in 2016.

Receivables Referred to the Department of the Treasury for Cross-Servicing

	2016	2015	2014
Number of Accounts	1,002	1,212	997
Amounts Referred *(dollars in millions)*	$3.6	$2.0	$2.5
Amounts Collected *(dollars in millions)*	$2.1	$1.1	$1.1

Electronic Payments

The payments made through Electronic Funds Transfer (EFT) were 98.5 percent of the total payments made for domestic and overseas payments. Domestic operations accomplished 99 percent of its payments with EFT this year. Overseas operations have a slightly lower EFT percentage (98.3 percent) than domestic operations due to the complexities of banking operations in some foreign countries. For 2016, approximately 3.7 million payments were disbursed for the Department of State.

Federal Civil Penalties Inflation Adjustment Act

The Federal Civil Penalties Inflation Adjustment Act of 1990 established annual reporting requirements for civil monetary penalties assessed and collected by Federal agencies. The Department assesses civil fines and penalties on individuals for such infractions as violating the terms of munitions licenses, exporting unauthorized defense articles and services, and valuation of manufacturing license agreements. In 2016, the Department assessed one new penalty, and collected $10.1 million of outstanding penalties from four companies. The balance outstanding at September 30, 2016, was $2 million. The following table lists the current penalty level for infractions governed by the Department.

FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENTS

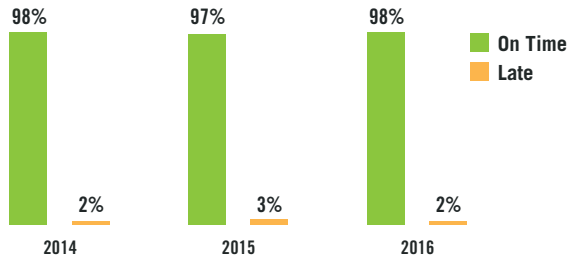
Statutory Authority	Penalty	Year Enacted	Latest Year of Adjustment	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/ Unit	Location for Penalty Update Details
Arms Export Control Act of 1976, 22 U.S.C. 2778(e)	International Traffic in Arms Regulations Violations – Export of Defense Articles and Defense Service	1985	2016	$1,094,010		Federal Register 81 36791-36793
Arms Export Control Act of 1976, 22 U.S.C. 2779a	International Traffic in Arms Regulations Violations – Prohibition on Incentive Payments	1994	2016	$795,445		Federal Register 81 36791-36793
Arms Export Control Act of 1976, 22 U.S.C. 2780	International Traffic in Arms Regulations Violations – Transactions with Countries Supporting Acts of International Terrorism	1989	2016	$946,805		Federal Register 81 36791-36793
False Claims Act of 1986, 31 U.S.C. 3729-3733	Penalty imposed on persons and companies who defraud governmental programs	1986	2016	$10,781 – $323,442		Federal Register 81 36791-36793
Chemical Weapons Convention Act of 1998, 22 U.S.C. 6761(a)(1)(A)	Prohibited acts relating to inspections	1998	2016	$36,256		Federal Register 81 36791-36793
Chemical Weapons Convention Act of 1998, 22 U.S.C. 6761(a)(1)(B)	Recordkeeping violations	1998	2016	$7,251		Federal Register 81 36791-36793

Prompt Payment Act

Timeliness of Payments

The Prompt Payment Act (PPA) requires Federal agencies to pay their bills on time. PPA assesses an interest penalty against Federal agencies that do not pay their vendors timely as required by law. In 2016, the Department timely paid over 98 percent of the 595,414 payments subject to PPA regulations. The chart to the right reflects the timeliness of the Department's payments from 2014 through 2016. During 2016, the Department paid over $349 thousand in interest penalties out of $10.4 billion in payments that were subject to PPA, compared to nearly $349 thousand in 2015.

TIMELINESS OF DOS PAYMENTS (2014 – 2016)



Resource Management Systems Summary

Introduction

The financial activities of the Department of State (the Department or DOS) occur in approximately 270 locations in 180 countries. We conduct business transactions in over 135 currencies and even more languages and cultures. Hundreds of financial and management professionals around the globe allocate, disburse, and account for billions of dollars in annual appropriations, revenues, and assets. The Department is at the forefront of Federal Government efforts to achieve cost saving by engaging in shared services. Indeed, the Department's resource management customers include 45 U.S. Government agencies in every corner of the world, served 24 hours a day, seven days a week. Another illustration of the Department's commitment to shared services is its hosting at its Charleston, S.C. financial center of the servers that power USAID's core financial system. This system, known as Phoenix, makes use of the same commercial off-the-shelf (COTS) software as the Department's core system, thereby promoting smooth interaction between the two agencies.

The Department's efforts are guided by two overarching goals: providing world-class financial services that support strategic decision making, mission performance, and improved accountability and transparency to the American people; and supporting the achievement of the agency's strategic goals by enabling interagency planning and coordination. Performance measures related to these goals include timely financial reporting, elimination of material weaknesses in internal control, the achievement of unmodified ("clean") audit opinions, elimination of improper payments, and implementing resource management systems and processes that meet Federal requirements. In addition, the Department endeavors to consolidate and standardize financial operations, leverage best business practices and electronic technologies, and build a first-rate finance team.

The nonprofit independent firm that conducts the Department's annual survey of overseas users of financial operations and systems is one of the leading proponents of benchmarking and best practices in business research. The firm noted that the Department's Bureau of the Comptroller and Global Financial Services (CGFS) set its overall performance target for customer satisfaction at 80 percent for all services, a goal considerably higher than what many Government agencies and private sector financial institutions achieve. Not only has CGFS set such high goals, it has consistently surpassed these marks for overall satisfaction and satisfaction with the majority of its individual applications. This past year, financial applications received a satisfaction rating of 87 from overseas users, up three points from the prior year and the highest mark to date. This score exceeds benchmark averages from financial services customers of 64 for Federal Government agencies and 75 for private sector providers. CGFS viewed this improvement as particularly meaningful as it was driven by an increase in both the response rate and average satisfaction scores provided by financial management officers. The Global Financial Management System (GFMS) also received improved marks from its domestic users, with the overall satisfaction level in this year's biannual survey coming in at 82, an improvement over the 2014 level of 80 and the 2012 level of 77.

Continued standardization and consolidation of financial activities and leveraging investments in financial systems to improve our financial business processes will lead to greater efficiencies and effectiveness. A key element to achieve improved efficiencies and controls in our financial management processes will be our efforts to standardize financial business processes and consolidate financial services. This change is not always easy with the decentralized post-level financial services model that exists for the Department's worldwide operations. In addition, over the next several years, we will need to leverage upgrades in our core financial system software, locally employed (LE) staff and American payroll and time and attendance (T&A) deployments, and integrations/interfaces with other Department corporate systems to improve our processes in ways that better support financial operations. Besides seeking greater linkages within

our systems, we also are seeking additional opportunities to improve our shared service efficiencies in ways that help us serve our customer agencies and so lower overall costs to the U.S. Government.

We have made significant progress in modernizing and consolidating Department resource management systems. In response to cybersecurity concerns, our development efforts in all lines of business increasingly emphasize the need to reduce vulnerabilities within systems and to be mindful of potential threats to the control of access and to the integrity of data within our systems. This focus seeks to protect both the Department and its employees. For example, all of our systems will be brought into compliance with data-at-rest requirements during 2017.

CGFS' financial systems development activities are now operated under Capability Maturity Model Integration (CMMI) industry standards. The Department continued with its efforts this year to prepare for an independent appraisal for CMMI Maturity Level II goals and practices, which is scheduled to take place in early 2017.

We aim to make use of proven COTS software in designing and developing software solutions. We have pushed to consolidate Department resource systems to the CGFS platform with the goals of meeting user requirements, sharing a common platform and architecture, reflecting rationalized standard business processes, and ensuring secure and compliant systems. This includes budget systems such as the Bureau of Budget and Planning's (BP) Central Resource Management System (CRMS) and Budget Resource Management System, International Cooperative Administrative Support Services (ICASS), and Resource Allocation and Budget Integration Toolkit (WebRABIT), which were developed independently in past years. Likewise, a COTS solution is the platform for our new Global Foreign Affairs Compensation Systems (GFACS). We expect our financial systems to meet user and Federal requirements, share a common platform and architecture, reflect rationalized standard business processes, and follow institutionalized software development procedures in accordance with CMMI standards. By managing the process these ways we can deliver products that are compliant, controlled, and secure. OMB has reviewed our core financial systems plans as part of its U.S. Government-wide review of major financial system investments. OMB approved our investment path and delivery approach.

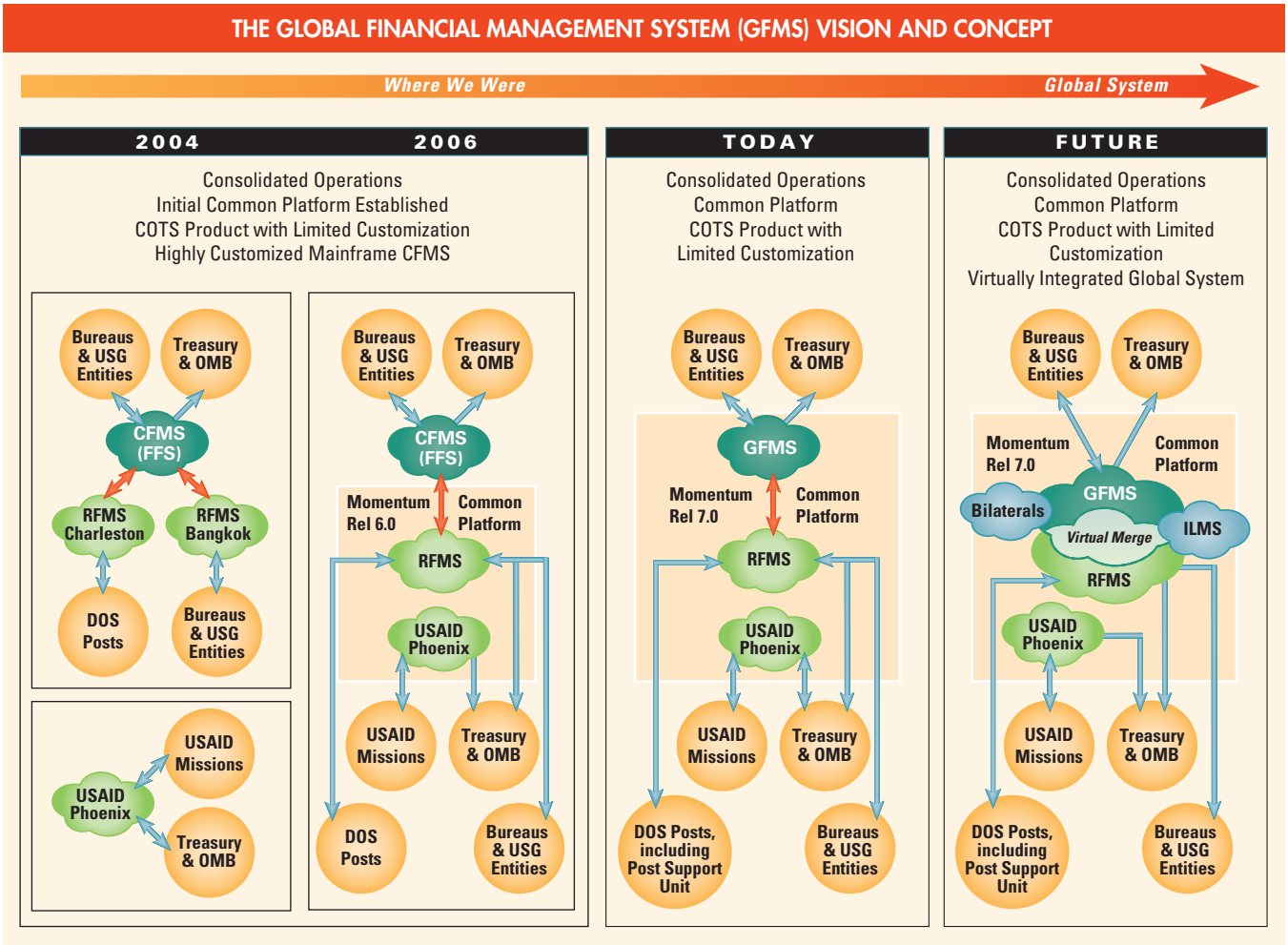
OMB continues its initiative to standardize Government-wide business processes to address the Federal Government's long-term need to improve financial management and assist agencies in substantially complying with the Federal Financial Management Improvement Act (FFMIA). Also, over the next several years, a number of new Federal accounting and information technology standards, many driven by the Department of the Treasury, will become effective. These include Government-wide projects to standardize business requirements and processes, establish and implement a Government-wide accounting classification, and support the replacement of financial statement and budgetary reporting. The Department's implementation of new standards and Government-wide reporting will strengthen both our financial and information technology management practices.

The Department uses financial management systems that are critical to effective agency-wide financial management, financial reporting, and financial control. These systems are included in various programs. An overview of these programs follows.

Financial Systems Program

The financial systems program includes the Global Financial Management System (GFMS), the Regional Financial Management System (RFMS), the Consolidated Overseas Accountability Support Toolbox (COAST), Global eTravel (GeT) Local Payments, and the Invoice Processing Platform (IPP).

The Global Financial Management System. GFMS centrally accounts for billions of dollars recorded through over 5 million annual transactions by more than 1,000 users and over 25 "handshakes" with other internal and external systems. GFMS is critical to the Department's day-to-day operations. It supports the execution of DOS' mission by effectively accounting for business activities and recording the associated financial information, including obligations and costs, performance, financial assets, and other data. It supports the Department's domestic offices and serves as the agency's repository of corporate data.



During 2016, GFMS was updated to meet DATA Act requirements. The DATA Act is considered the first legislative mandate for data transparency. It expands on the Federal Funding Accountability and Transparency Act of 2006 by creating new reporting requirements that require Federal agencies to disclose direct agency expenditures and link procurement and financial assistance spending to Federal programs.

The Regional Financial Management System. RFMS is the global accounting and payment system that has been implemented for posts around the world. RFMS includes a common accounting system for funds management and transaction processing. The Department continued to train posts on the RFMS/M and Ariba integration, the Department's standard procurement solution. When a requisition is approved in Ariba, a commitment transaction will automatically be recorded in RFMS. When a purchase order is approved in Ariba, an obligation transaction will automatically be recorded in RFMS/M eliminating duplicate data entry. This integration will ensure timely recording of fiscal data and funds availability checks, increase operational efficiency by avoiding costly rework generated by rejected transactions, and improve the accuracy of financial reporting. By the end of 2016 nearly 31,000 integrated transactions had been processed at 68 posts. Plans call for full deployment in 2017.

New functionality to support bilateral agreements was pilot-tested in Bogota to support the linkage between an original country agreement and then subsequent specific contracts to carry out the agreement. Changes were made to the RFMS/M and Ariba integration to transmit the Bilateral Agreement number for contracts supporting a Bilateral Agreement. Seven additional posts went live with the Bilateral Agreement functionality during 2016, and full deployment

is planned to continue in conjunction with the rollout of the RFMS/M and Ariba integration.

To improve the accuracy of the Department's residential and operational leases, posts started using RFMS/M Property related Obligation and Payment (PrOPP) functionality. PrOPP provides an automated tool to set up recurring profiles for obligations and payments and includes reports and queries for managing future lease transactions. Four pilot posts started using PrOPP in 2016, and PrOPP deployment efforts will continue in 2017.

The Consolidated Overseas Accountability Support Toolbox. COAST is an application suite deployed to more than 180 posts around the world as well as to Department of State and other agency headquarters offices domestically. COAST captures and maintains accurate, meaningful financial information, and provides it to decision makers in a timely fashion. The current COAST suite consists of COAST Cashiering, COAST Reporting, and COAST Payroll Reporting. In 2016, the Department initiated the RFMS/Cashiering (RFMS/C) project to replace COAST Cashiering with a centralized, web-based cashiering application installed in a single location. COAST Reporting and COAST Payroll Reporting capabilities will be discussed in more detail under the Business Intelligence Program.

Global eTravel Local Payments. The implementation of the Local Travel module in GeT (e2 Solutions) allows the submission of local travel claims for expenses incurred in and around the vicinity of a duty station. The Department has expanded the use of the Local Travel feature in GeT to also accommodate non-travel employee claims previously submitted through an SF-1164. Approvers will electronically approve claims and provide reimbursement to a valid payment account selected in GeT.

Invoice Processing Platform. IPP is a shared service provided by Treasury. Use of this service will allow DOS to streamline domestic and overseas invoice processing in accordance with the OMB directive to use an OMB-approved invoicing solution. The Department and vendors will have access to the IPP platform to exchange data on invoices, orders, and payments. Internal controls will ensure that invoices are reviewed and approved by DOS personnel using configurable standard workflows.

Planning and Budget Systems Program

In 2016, the Department moved forward with the Budget System Modernization (BSM) project to standardize, consolidate, and simplify the budgeting systems currently used. System design has begun for the project, building upon a COTS solution. BSM will be developed incrementally, with the first incremental implementation expected in the summer of 2017. The first phase of the project will provide central and bureau budget offices functionality and replace a legacy system that dates from 1999.

CRMS processes apportionments, warrants, non-expenditure transfers, domestic and overseas fund allocations, and reimbursement agreements, which are interfaced into the Department's accounting system. BP uses the system for financial planning of the Department's Diplomatic Engagement accounts. CRMS also provides foreign currency fluctuation impact projections for use in managing the overseas budgets for the current year. In 2016, only those changes absolutely necessary to maintain the system until retirement were undertaken. This work included technical enhancements to address security as well as modifications to keep pace with the Department's network and its use of current versions of technology.

WebRABIT is an application used by regional and other bureaus for program and public diplomacy execution year budgets at their posts. In 2016, WebRABIT was enhanced to provide overseas posts with the ability to plan security funding in coordination with the Bureau of Diplomatic Security. Further changes will be considered in light of the expected retirement of the system in favor of future phases of BSM.

The ICASS, or WebICASS, system is the principal means by which the U.S. Government shares the cost of common administrative support at its more than 270 diplomatic and consular posts overseas. The Department has statutory authority to serve as the primary overseas shared service provider to other agencies. In 2016, modest improvements were made to the software successfully launched in 2015. Only the budgeting portion of WebICASS will be considered for possible inclusion in BSM. The workload count and cost distribution portions of WebICASS are out of scope for the BSM project.

Travel Systems Program

In 2016, the Department transitioned to the next generation of the E-Government Travel Services (ETS2) contract with Carlson Wagonlit Travel. This enhanced travel system allowed the Department to leverage the investment made over the past eleven years and execute a seamless transition to ETS2, a version of e2 Solutions that contains the additional functionality required to address GSA ETS2 requirements.

The transition to ETS2 was successfully conducted on March 11, 2016 with bureaus and posts moving from the legacy ETS1 system to the new ETS2. Training for the transition incorporated computer based tutorials, user and administrator guides, quick reference cards, along with both live and recorded webinars at domestic locations and posts.

In 2017, the Department will continue to work with our bureaus and posts to identify improvements that can be made to the travel system, while working with GSA and other agencies on their development and implementation.

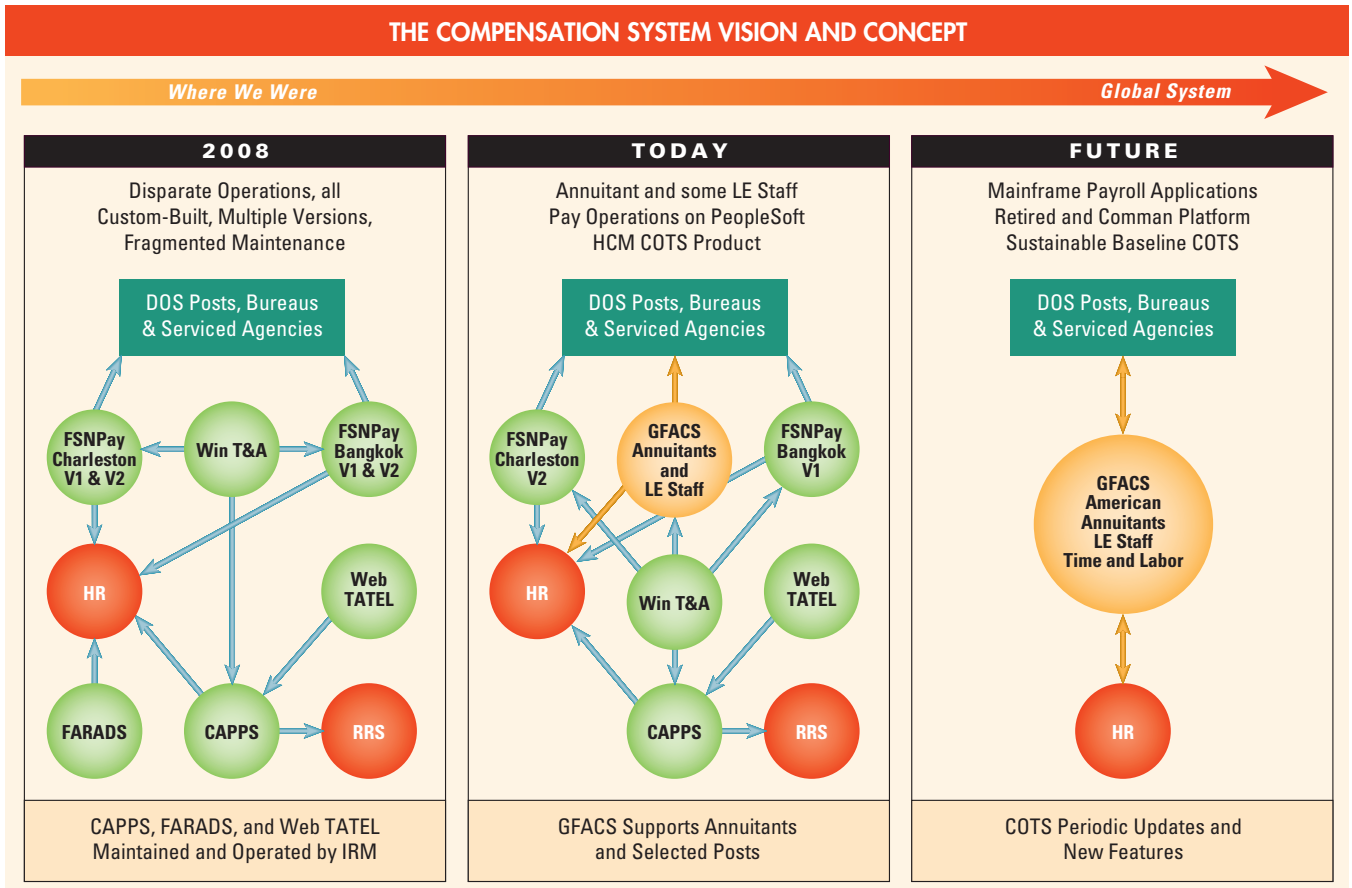
Grants Systems Program

Our Grants Program involves efforts to serve both domestic and overseas users. To support the DATA Act, updates to capture and report the Federal Award Identification Number were continued in both our domestic and overseas financial and reporting systems. The Department has made the decision that Ariba will be the standard grants system solution for domestic bureaus and overseas posts. In early 2017, Ariba, GFMS, and RFMS will be updated to provide for real-time integration of grant transactions.

Compensation Systems Program

The Department, for more than ten years, has served as one of five payroll shared service providers on behalf of Federal agencies. Shared service providers process payroll annually for some 2.3 million employees worldwide, or about 99 percent of the Federal civilian workforce.

The Department continued to execute a phased deployment strategy, replacing eight legacy payroll systems with a



single, COTS-based solution to address the widely diverse payroll requirements of the Foreign Service, Civil Service, LE staff, and retirees of the Department and the other 45 civilian agencies that share its services. The diagram below highlights how past and future changes involve simplifying and consolidating our systems. The Global Foreign Affairs Compensation System (GFACS) will leverage a rules-based, table-driven architecture to promote compliance with the sometimes varying statutes found across the Foreign and Civil Service Acts and local laws and practices applicable to the all countries in which civilian agencies operate. At the close of 2016, 186 countries and over 56,000 LE staff have been converted to GFACS.

The last pay module to be implemented in GFACS is American payroll. It is currently scheduled for full implementation in 2017. The web-based global time and attendance product, based on the same technology as GFACS, will follow the American payroll implementation. This product has the capability of electronic routing, electronic signature, and self-service features. As a result, it will bring more efficient and modern process to the Department's workforce.

Business Intelligence Program

The Department's Business Intelligence (BI) program consists of the GFMS Data Warehouse (DW), COAST Reporting, and the Global BI framework. The GFMS DW enables users to access financial information from standard, prepared reports or customized queries. It also provides, on a daily basis, critical financial information to the Department's enterprise data warehouse. During 2015, the GFMS DW was updated to include new Budget and Acquisitions dashboards, and the first rollout of data analytics software (Explorer) for use by the Bureau of Overseas Buildings Operations, BP, and the Office of Acquisitions Management. The DW was also updated to report additional information on Federal assistance activity and to improve performance.

In 2016, the Department finalized its Global BI framework, building on the infrastructure being used for the DW, and adding an in-memory appliance and new data analytics and dashboard tools. This work included the installation, configuration, and testing of the hardware and software that support Global BI, and initial development activities. Requirements for the Global BI data analytics tool were finalized through an agile-like process involving the development team in Washington, D.C. and six overseas posts. This Global BI solution will be tested and begin a phased rollout in early 2017. The security model for the Global BI application was finalized in 2016. Development of an initial set of reports, migrated from the legacy COAST application, was also conducted in 2016 for implementation in early 2017. Requirements, design and development work on the Department's reporting solution for the DATA Act reporting, using Global BI, was also started in 2016. The DATA Act capability is targeted for 2017 to comply with legislative deadlines.

In addition to the GFMS Data Warehouse, CGFS continues to work on business intelligence systems to support Department financial managers through several features of the COAST system. COAST Reporting was implemented in late 2006, to support overseas financial management officers and post decision makers. In subsequent years, improvements were added to provide the capability to develop budget plans and to monitor execution of those plans. Improvements were also made to the information drill-down to allow significant flexibility in filtering and summarizing financial transactions. In addition, COAST Payroll Reporting provides access to payroll-specific data at the post, bureau, and agency levels and will take advantage of COAST's existing drill-down and reporting functionality. In 2016, the Department implemented improvements to COAST to support the unique business processes and reporting requirements for the Bureau of International Narcotics and Law Enforcement Affairs bilateral agreements. Updates to capture award identification and unique document type information on post reporting were also completed. By working closely with customers of various resource management systems, CGFS aims to support commitment accounting overseas in ways that will further the integration of procurement, grants, and bilateral agreements.

Heritage Assets

The Department has collections of art objects, furnishings, books, and buildings that are considered heritage or multi-use heritage assets. These collections are housed in the Diplomatic Reception Rooms, senior staff offices in the Secretary's suite, offices, reception areas, conference rooms, the cafeteria and related areas, and embassies throughout the world. The items have been acquired as donations, are on loan from the owners, or were purchased using gift and appropriated funds. The assets are classified into nine categories: the Diplomatic Reception Rooms Collection, the Art Bank Program, the Library Rare & Special Book Collection, the Cultural Heritage Collection, the Secretary of State's Register of Culturally Significant Property, the U.S. Diplomacy Center, the Art in Embassies Program, the International Boundary and Water Commission, and the Blair House. Items in the Register of Culturally Significant Property category are classified as multi-use heritage assets due to their use in general government operations.

Diplomatic Reception Rooms Collection

In 1961, the State Department's Office of Fine Arts began the privately-funded Americana Project to remodel and redecorate the 42 Diplomatic Reception Rooms – including the offices of the Secretary of State – on the seventh and eighth floors of the Harry S Truman Building. The Secretary of State, the President, and Senior Government Officials use the rooms for official functions promoting American values through diplomacy. The rooms reflect American art and architecture from the time of our country's founding and its formative years, 1740 – 1840. The rooms also contain one of the most important collections of early Americana in the nation, with over 5,000 objects, including museum-quality furniture, rugs, paintings, and silver. These items have been acquired through donations or purchases funded through gifts from private citizens, foundations, and corporations. No tax dollars have been used to acquire or maintain the collection. There are three public tours each day.

The Seoul Old American Legation, built in 1883 and now used as a guest house, is an exceptionally well-preserved example of traditional Korean residential architecture that illustrates the long history of Korean-American friendship. ***Department of State/OBO***

Art Bank works include "Eastern Marsh" (2012), Carol Bucklin-Loevy, oil on paper (left) and "Jefferson Memorial" (2003), Joseph Craig English, silkscreen (right).

Art Bank Program

The Art Bank Program was established in 1984 to acquire artworks that could be displayed throughout the Department's offices and annexes. The works of art are displayed in staff offices, reception areas, conference rooms, the cafeteria, and related public areas. The collection consists of original works on paper (watercolors and pastels) as well as limited edition prints, such as lithographs, woodcuts, intaglios, and silk-screens. These items are acquired through purchases funded by contributions from each participating bureau.

Rare & Special Book Collection

In recent years, the Ralph J. Bunche Library has identified books that require special care or preservation. Many of these publications have been placed in the Rare Books and Special Collections Room, which is located adjacent to the Reading Room. Among the treasures is a copy of the Nuremberg Chronicles, which was printed in 1493; volumes signed by Thomas Jefferson; and books written by Foreign Service authors.

Cultural Heritage Collection

The Cultural Heritage Collection, which is managed by the Bureau of Overseas Buildings Operations, Office of Residential Design and Cultural Heritage, is responsible for identifying and maintaining cultural objects owned by the Department in its properties abroad. The collections are identified based upon their historic importance, antiquity, or intrinsic value.

Secretary of State's Register of Culturally Significant Property

The Secretary of State's Register of Culturally Significant Property was established in January 2001 to recognize the Department's owned properties overseas that have historical, architectural, or cultural significance. Properties in this category include chanceries, consulates, and residences. All these properties are used predominantly in general government operations and are thus classified as multi-use heritage assets. Financial information for multi-use heritage assets is presented in the principal statements. The register is managed by the Bureau of Overseas Buildings Operations, Office of Residential Design and Cultural Heritage.

Diplomacy Center

The U.S. Diplomacy Center will be a unique education and exhibition venue at the Department of State that will explore the history, practice and challenges of U.S. diplomacy. It will be a place that fosters a greater understanding of the role of U.S. diplomacy, past, present and future, and will be an educational resource for students and teachers in the United States and around the globe. Exhibitions and programs will inspire visitors to make diplomacy a part of their lives. The Diplomacy Center is located within the Bureau of Public Affairs, and actively collects artifacts for exhibitions.

Art in Embassies Program

The Art in Embassies Program was established in 1964 to promote national pride and the distinct cultural identity of America's arts and its artists. The program, which is managed by the Bureau of Overseas Buildings Operations, provides original U.S. works of art for the representational rooms of United States ambassadorial residences worldwide. The works of art were purchased or are on loan from individuals, organizations, or museums.

International Boundary and Water Commission

One of the IBWC's primary mission requirements is the demarcation and preservation of the international boundary between the United States and Mexico (see Reporting Entity in Note 1). Roughly 1,300 miles of this border are demarcated by the Rio Grande and the Colorado River, and the other 700 miles of border are demarcated by 276 monuments along the land boundary, which extends from the Pacific Ocean to the Rio Grande. These monuments are jointly owned and maintained by the United States and Mexico. The United States is responsible for 138 monuments and considers them heritage assets. In addition, the IBWC is responsible for the Falcon International Storage Dam and Hydroelectric Power Plant. These were constructed jointly by the United States and Mexico pursuant to Water Treaty of 1944 for the mission purposes of flood control, water conservation, and hydroelectric power generation. Both were dedicated by U.S. President Dwight D. Eisenhower and President Adolfo Ruiz Cortines, of Mexico to the residents of both countries. Falcon is located about 75 miles downstream (southeast) of Laredo, Texas and about 150 miles above the mouth of the Rio Grande. They are considered multi-use heritage assets.

Art Bank work "Lincoln Memorial, At His Hand" (2015), Colin Winterbottom, pigment print.

Blair House

Composed of four historic landmark buildings owned by GSA, Blair House, the President's Guest House, operates under the stewardship of the Department of State's Office of the Chief of Protocol and has accommodated official guests of the President of the United States since 1942. In 2012, these buildings were added to the Secretary's Register of Culturally Significant Property for their important role in the U.S. history and the conduct of diplomacy over time. Its many elegant rooms are furnished with collections of predominantly American and English fine and decorative arts, historical artifacts, other cultural objects, rare books, and archival materials documenting the Blair family and buildings history from 1824 to the present. Objects are acquired via purchase, donation or transfer through the private non-profit Blair House Restoration Fund; transfers may also be received through the State Department's Office of Fine Arts and Office of the Chief of Protocol. Collections are managed by the Office of the Curator at Blair House, which operates under the Office of Fine Arts.

Freeze the Footprint

Consistent with Section 3 of the OMB Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2013-02, the "Freeze the Footprint" policy implementing guidance, all CFO Act departments and agencies shall seek to avoid increasing the total square footage of their domestic office and warehouse inventory compared to a 2012 baseline. As a result, OMB is working in partnership with the GSA and other Federal agencies to right-size the Federal real property inventory.

While some of the data is comparable to other agencies' data, the Department functions as a service provider supporting U.S. Government agencies with overseas presence. This affects how the data is analyzed. There are service providers and support staff in domestic facilities who are providing overseas interagency support. Forty percent of American direct-hire employees under Chief of Mission authority work for other agencies; all of them receive some direct service or management policy coordination from employees occupying domestic facilities. For example, the Department provides management services such as human resources, security, medical, diplomatic pouch and mail, financial management, real estate management, acquisition, information technology, contracting, and other services, to all agencies overseas.

The Department's overall Freeze the Footprint plan shows a growth of eight percent by FY 2015. This growth is largely a result of projects that were 'in the pipeline' or otherwise already in an implementation phase at the time the baseline was set. For example, real property leased but not yet occupied; a re-measurement of the Harry S Truman (HST) building; and the necessary addition of swing space during renovations at the HST building.

The Department is working closely with GSA to offset these space increases with space releases and lease terminations. Additionally, the Department has Space Allocation Standards that limit the number of closed offices and reduce workstation sizes, and is achieving improved utilization rates via increased densification.

As the Department's real property needs are 'mission-driven,' it must be prepared for real world events that may require changes in its footprint. Whether it is reacting to crises such as the outbreak of Zika and other threats to our nation's security, or longer-term engagements such as coalition building and overseeing foreign assistance programs, the Department must have the necessary personnel and facilities to respond rapidly to changing requirements. The OPM noted in a report in April 2014 that from 2009 – 2013 the Department increased its full time employee workforce by 17 percent, which was more than any other agency. The Department commits however, to continuing to improve utilization rates and accommodating the additional personnel within its current portfolio to the maximum extent possible. Therefore, any space increases are at a lower rate than the corresponding personnel increases.

The following table compares the most recent reported total square footage and annual operating costs associated with the Department's assets subject to the Freeze the Footprint policy to the 2012 baseline assigned by GSA. The 2016 amounts are not available until after publication of the Agency Financial Report.

FREEZE THE FOOTPRINT BASELINE COMPARISON *(amounts in millions)*

	2015	2012 *Baseline*	Change
Square Footage	7.4	6.8	0.6

	2015	2012 *Reported Cost*	Change
Operation and Maintenance Costs	$22	$11.7	$10.3

FOCUS

Open Skies Partnerships: Expanding the Benefits of Freer Commercial Aviation

> *"Over two decades, these [Open Skies] agreements have vastly expanded passenger and cargo flights to and from the United States, promoted increased travel and trade, enhanced productivity, and spurred high-quality job opportunities and economic growth for both the United States and our foreign partners."*
>
> *— Under Secretary for Economic Growth, Energy and Environment, Catherine A. Novelli*

What are Open Skies Agreements?

Open Skies agreements are bilateral agreements that the U.S. Government negotiates with other countries to provide rights for airlines to offer international passenger and cargo services. They are pro-consumer, pro-competition, and pro-growth. They expand international passenger and cargo flights by eliminating government interference in commercial airline decisions about routes, capacity, and pricing, so airlines can provide more affordable, convenient, and efficient air service to consumers, promoting increased travel and trade, and spurring high-quality job creation and economic growth. Open Skies agreements expand cooperative marketing opportunities between airlines, liberalize charter regulations, improve flexibility for airline operations, and commit both governments to high standards of safety and security. They also facilitate countless new cultural links worldwide.

Growth in Open Skies Partnerships

Since 1992, the United States has achieved Open Skies with 120 foreign partners. In 2015 and 2016, we finalized Open Skies agreements with Ukraine, Serbia, Cote d' Ivoire, Seychelles, Togo, Azerbaijan and Curacao (Kingdom of the Netherlands) and a modernized air transport agreement with Mexico. Over 70 percent of international departures from the United States now fly to Open Skies partners. We have Open Skies with countries at all levels of economic development, including major economies like Brazil, India, Japan, and South Korea and smaller countries like Equatorial Guinea. Our agreement with the European Union liberalized the largest international aviation market in the world.

A view of Santorini, Greece from the airplane carrying Secretary Kerry, December 3, 2015. *Department of State*

Impact

- The Brookings Institution estimates that Open Skies agreements add approximately $4 billion in annual economic gains to consumers. (Brookings Institution)
- U.S. Airlines for Open Skies estimates that full liberalization through Open Skies agreements would lead to a 16-percent increase in air traffic and support 9 million jobs in aviation and related industries. (U.S. Airlines for Open Skies)
- Open Skies has dramatically expanded direct international connections to cities like Dallas-Fort Worth, Denver, Detroit, Las Vegas, Memphis, Minneapolis, Orlando, Portland, and Salt Lake City. (Airports Council International – North America)

Secretary Kerry honors Steven Farley, a Department contract employee and former Navy captain who lost his life in Iraq in 2008, at the American Foreign Service Association Memorial Plaque ceremony in Washington, D.C., May 6, 2016. State Magazine

Appendices

Appendix A: Abbreviations and Acronymns

A	Bureau of Administration (DOS)
AD	Active Directory
ADP	Automated Data Processing
AE	American Employee
AF	Bureau of African Affairs (DOS)
AFCS	Annual Facility Condition Survey
AFR	Agency Financial Report
AGA	Association of Government Accountants
AIDS	Acquired Immunodeficiency Syndrome
ANP	Annuitant Pay Processing
AP	Associated Press
APG	Agency Priority Goal
Appendix A	OMB Circular A-123, Appendix A
BI	Business Intelligence
BP	Bureau of Budget and Planning (DOS)
BSM	Budget System Modernization
CA	Bureau of Consular Affairs (DOS)
CAP	Cross-Agency Priority
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
CGFS	Bureau of the Comptroller and Global Financial Services (DOS)
CGFS/C	Office of Global Compensation (DOS)
CGFS/F	Office of Claims (DOS)
CHP	Contractor-Held Property
CIF	Capital Investment Fund
CIO	Chief Information Officer
CIO	Contributions to International Organizations
CIPA	Contributions to International Peacekeeping Activities
CMI	Collaborative Management Initiative
CMMI	Capability Maturity Model Integration
COAST	Consolidated Overseas Accountability Support Toolbox
COR	Contracting Officer Representative
COTS	Commercial Off-the-Shelf
CRMS	Central Resource Management System
CSO	Bureau of Conflict and Stabilization Operations (DOS)
CSRS	Civil Service Retirement System
CY	Current Year
DATA Act	Digital Accountability and Transparency Act
D&CP	Diplomatic and Consular Programs (DOS)
DCF	Defined Contributions Fund
DCFO	Deputy Chief Financial Officer (DOS)
Department	U.S. Department of State
DHS	U.S. Department of Homeland Security
DM&R	Deferred Maintenance and Repairs
DMF	Death Master File (SSA)
DNP	Do Not Pay
DoD	U.S. Department of Defense
DOL	U.S. Department of Labor
DOS	U.S. Department of State
DRL	Bureau of Democracy, Human Rights, and Labor (DOS)
DS	Bureau of Diplomatic Security (DOS)
DW	Data Warehouse
E	Under Secretary for Economic Growth, Energy and Environment (DOS)
EAP	Bureau of East Asian and Pacific Affairs (DOS)
ECA	Bureau of Educational and Cultural Affairs (DOS)
ECE	Educational and Cultural Exchange Programs
EPLS	Excluded Parties List System (GSA)
EFT	Electronic Funds Transfer
ERM	Enterprise Risk Management

ERMA	U.S. Emergency Refugee and Migration Assistance
ESCM	Embassy Security, Construction, and Maintenance
ETS	E-Government Travel Services
EUR	Bureau of European and Eurasian Affairs (DOS)
F	Office of U.S. Foreign Assistance Resources (DOS)
FACT	Foreign Affairs Counter-Threat
FAM	Foreign Affairs Manual
FAO	Food and Agriculture Organization (UN)
FAR	Federal Acquisitions Regulations
FASAB	Federal Accounting Standards Advisory Board
FASTC	Foreign Affairs Security Training Center
FBWT	Fund Balance with Treasury
FECA	Federal Employees Compensation Act
FEGLIP	Federal Employees Group Life Insurance Program
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FISMA	Federal Information Security Modernization Act of 2014
FMF	Foreign Military Financing
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMLP	Future Minimum Lease Payments
FOIA	Freedom of Information Act
FSI	Foreign Service Institute
FSN	Foreign Service National
FSNAEB	Foreign Service Nationals' After-Employment Benefits
FSN DCF	Foreign Service National Defined Contributions Fund
FSNLTF	Foreign Service National Separation Liability Trust Fund
FSO	Foreign Service Officer
FSRDF	Foreign Service Retirement and Disability Fund
FSRDS	Foreign Service Retirement and Disability System
FSPS	Foreign Service Pension System
FTIF	Fiscal Transparency Innovation Fund
FWCB	Federal Workers' Compensation Benefits
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEMS	Global Employment Management System
GeT	Global eTravel
GFACS	Global Foreign Affairs Compensation System
GFMS	Global Financial Management System
GOR	Grants Officer Representative
GP	Global Partnership
GPRA	Government Performance and Results Act
GSA	U.S. General Services Administration
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
GTM	Government Technical Monitor
GWA	Government-wide Accounting
HHS	U.S. Department of Health and Human Services
HIV	Human Immunodeficiency Virus (AIDS)
HSPD	Homeland Security Presidential Directive
HST	Harry S Truman
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBWC	International Boundary and Water Commission
ICAO	International Civil Aviation Organization (UN)
ICASS	International Cooperative Administrative Support Services (DOS)
ICOFR	Internal Control Over Financial Reporting
ICS	Integrated Country Strategy
IG	Inspector General
IIP	Bureau of International Information Programs (DOS)
IMET	International Military Education and Training
INCLE	International Narcotics Control and Law Enforcement
INL	Bureau of International Narcotics and Law Enforcement (DOS)
INR	Bureau of Intelligence and Research (DOS)
IO	Bureau of International Organization Affairs (DOS)
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
IPP	Invoice Processing Platform
IRM	Bureau of Information Resource Management (DOS)
ISIL	Islamic State in Iraq and the Levant
ISSO	Information Systems Security Officer
IT	Information Technology
J	Under Secretary for Civilian Security, Democracy and Human Rights (DOS)
LACP	League of American Communications Professionals
LEDS	Low Emission Development Strategies
LEED	Leadership in Energy and Environment Design
LE Staff	Locally Employed Staff

LSSS	Local Social Security System
M	Under Secretary for Management (DOS)
MCSC	Management Control Steering Committee (DOS)
MD&A	Management's Discussion and Analysis
MENA	Middle East and North Africa
MLE	Maritime Security Law Enforcement Initiative
MMU	Monrovia Medical Unit
MRA	Migration and Refugee Assistance
MSAU	Marine Security Augmentation Unit
MSG	Marine Security Guard
NADR	Nonproliferation, Antiterrorism, Demining, and Related Programs
NATO	North Atlantic Treaty Organization
NEA	Bureau of Near Eastern Affairs (DOS)
NED	National Endowment for Democracy
NPT	Nuclear Non-Proliferation Treaty
OAS	Organization of American States
OBO	Overseas Buildings Operations (DOS)
OCO	Overseas Contingency Operations (DOS)
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control
OFM	Office of Foreign Missions (DOS)
OI	Other Information
OIG	Office of Inspector General (DOS)
OMA	Office of Oversight and Management Analysis (DOS)
OMB	U.S. Office of Management and Budget
OPM	U.S. Office of Personnel Management
OSCE	Organization for Security and Co-operation in Europe
P	Under Secretary for Political Affairs (DOS)
PBO	Projected Benefit Obligation
PEPFAR	President's Emergency Plan for AIDS Relief
PIV	Personal Identity Verification
PKO	Peacekeeping Organization
PMS	Payment Management System
PO	Principal Officer
POA&M	Plans of Action and Milestones
PORM	Peace Operations Response Mechanism
PP&E	Property, Plant, and Equipment
PPA	Prompt Payment Act
PRM	Bureau of Population, Refugees, and Migration (DOS)
PrOPP	Property related Obligation and Payment
PSA	Personal Services Agreement
PSC	Personal Services Contractor
PY	Prior Year
QDDR	Quadrennial Diplomacy and Development Review
R	Under Secretary for Public Diplomacy and Public Affairs (DOS)
R&I	Repair & Improvement
RAD	Retirement Account Division (DOS)
RFMS	Regional Financial Management System
RSI	Required Supplementary Information
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SCA	Bureau of South and Central Asian Affairs (DOS)
SID	Software in Development
SDN	Specially Designated Nationals
SFFAS	Statements of Federal Financial Accounting Standards
SOS	Schedule of Spending
SSA	Social Security Administration
STEM	Science, Technology, Engineering and Mathematics
T	Under Secretary for Arms Control and International Security Affairs (DOS)
T&A	Time and Attendance
Treasury	U.S. Department of the Treasury
TSP	Thrift Savings Plan
UDO	Undelivered Orders
UK	United Kingdom
ULO	Unliquidated Obligations
UN	United Nations
UNEP	United Nations Environment Programme (UN)
UNESCO	United Nations Educational, Scientific and Cultural Organization (UN)
UNVIE	U.S. Mission to International Organizations in Vienna
USAID	U.S. Agency for International Development
USSGL	U.S. Standard General Ledger
VAT	Value Added Tax
VMO	Vendor Management Office
WebRABIT	Resource and Budget Integration Toolkit
WHA	Bureau of Western Hemisphere Affairs (DOS)
WinACS	Windows Automated Cashiering System
WSP	Worldwide Security Protection

Appendix B: Department of State Locations

Boundaries are not necessarily authoritative

OCTOBER 2016

Cities with multiple Department of State facilities

Addis Ababa:
Embassy Addis Ababa
U.S. Mission to the African Union

Brussels:
Embassy Brussels
U.S. Mission to European Union
U.S. Mission to NATO

Geneva:
U.S. Mission Geneva
Consular Agency Geneva

Paris:
Embassy Paris
U.S. Mission to OECD
U.S. Mission to UNESCO

Montréal:
Consulate General Montréal
U.S. Mission to ICAO

Jakarta:
Embassy Jakarta
U.S. Mission to ASEAN

Nairobi:
Embassy Nairobi
U.S. Mission to UNEP and Habitat

New York:
U.S. Mission to UN
New York Passport Center

Portsmouth, NH:
National Passport Center
National Visa Center

Rome:
Embassy Rome
Embassy Holy See
U.S. Mission to FAO

Vienna:
Embassy Vienna
U.S. Mission to OSCE
U.S. Mission to UNVIE

Washington, DC:
Department of State
U.S. Mission to OAS
Washington Passport Agency

1462 10-16 STATE (INR)

Appendix C: U.S. Secretaries of State Past and Present

1. **Thomas Jefferson** (1790-1793)
2. **Edmund Jennings Randolph** (1794-1795)
3. **Timothy Pickering** (1795-1800)
4. **John Marshall** (1800-1801)
5. **James Madison** (1801-1809)
6. **Robert Smith** (1809-1811)
7. **James Monroe** (1811-1817)
8. **John Quincy Adams** (1817-1825)
9. **Henry Clay** (1825-1829)
10. **Martin Van Buren** (1829-1831)
11. **Edward Livingston** (1831-1833)
12. **Louis McLane** (1833-1834)
13. **John Forsyth** (1834-1841)
14. **Daniel Webster** (1841-1843)
15. **Abel Parker Upshur** (1843-1844)
16. **John Caldwell Calhoun** (1844-1845)
17. **James Buchanan** (1845-1849)
18. **John Middleton Clayton** (1849-1850)
19. **Daniel Webster** (1850-1852)
20. **Edward Everett** (1852-1853)
21. **William Learned Marcy** (1853-1857)
22. **Lewis Cass** (1857-1860)
23. **Jeremiah Sullivan Black** (1860-1861)
24. **William Henry Seward** (1861-1869)
25. **Elihu Benjamin Washburne** (1869-1869)
26. **Hamilton Fish** (1869-1877)
27. **William Maxwell Evarts** (1877-1881)
28. **James Gillespie Blaine** (1881-1881)
29. **Frederick Theodore Frelinghuysen** (1881-1885)
30. **Thomas Francis Bayard** (1885-1889)

Sunrise over Andrews Air Force Base as Secretary Kerry departs Washington for Food Expo in Milan, Italy, October 16, 2015. *Department of State*

***Images (Left) to (Right)*: (1) Secretary Kerry thanks former Secretary Albright for introduction before delivering remarks at the Truman Foundation Fortieth Anniversary event in Washington, D.C., June 22, 2016; (2) Former Secretaries Powell and Kissinger chat with Mrs. Grégoire-Trudeau at the State luncheon in honor of Canadian Prime Minister Trudeau, in Washington, D.C., March 10, 2016; and (3) Deputy Secretary Blinken meets with former Secretary Rice at Stanford University in Stanford, California, January 28, 2016.** *Department of State*

31. **James Gillespie Blaine** (1889-1892)
32. **John Watson Foster** (1892-1893)
33. **Walter Quintin Gresham** (1893-1895)
34. **Richard Olney** (1895-1897)
35. **John Sherman** (1897-1898)
36. **William Rufus Day** (1898-1898)
37. **John Milton Hay** (1898-1905)
38. **Elihu Root** (1905-1909)
39. **Robert Bacon** (1909-1909)
40. **Philander Chase Knox** (1909-1913)
41. **William Jennings Bryan** (1913-1915)
42. **Robert Lansing** (1915-1920)
43. **Bainbridge Colby** (1920-1921)
44. **Charles Evans Hughes** (1921-1925)
45. **Frank Billings Kellogg** (1925-1929)
46. **Henry Lewis Stimson** (1929-1933)
47. **Cordell Hull** (1933-1944)
48. **Edward Reilly Stettinius** (1944-1945)
49. **James Francis Byrnes** (1945-1947)
50. **George Catlett Marshall** (1947-1949)
51. **Dean Gooderham Acheson** (1949-1953)
52. **John Foster Dulles** (1953-1959)
53. **Christian Archibald Herter** (1959-1961)
54. **David Dean Rusk** (1961-1969)
55. **William Pierce Rogers** (1969-1973)
56. **Henry A. (Heinz Alfred) Kissinger** (1973-1977)
57. **Cyrus Roberts Vance** (1977-1980)
58. **Edmund Sixtus Muskie** (1980-1981)
59. **Alexander Meigs Haig** (1981-1982)
60. **George Pratt Shultz** (1982-1989)
61. **James Addison Baker** (1989-1992)
62. **Lawrence Sidney Eagleburger** (1992-1993)
63. **Warren Minor Christopher** (1993-1997)
64. **Madeleine Korbel Albright** (1997-2001)
65. **Colin Luther Powell** (2001-2005)
66. **Condoleezza Rice** (2005-2009)
67. **Hillary Rodham Clinton** (2009-2013)
68. **John Forbes Kerry** (2013-present)

LEARN MORE

More information on former Secretaries can be found at: *https://history.state.gov/departmenthistory/people/secretaries*

Appendix D: Websites of Interest

State Department and Treasury Department experts on Cuba respond to your questions in a Facebook Q&A at the U.S. Department of State in Washington, D.C., March 17, 2016. *Department of State*

Thank you for your interest in the U.S. Department of State and its Fiscal Year 2016 Agency Financial Report. Electronic copies of this report and prior years' reports are available through the Department's website: *www.state.gov.*

You may also stay connected with the Department via social media and multimedia platforms listed to the right.

In addition, the Department publishes *State Magazine* monthly, except bimonthly in July and August. This magazine facilitates communication between management and employees at home and abroad and acquaints employees with developments that may affect operations or personnel. The magazine is also available to persons interested in working for the Department of State and to the general public. *State Magazine* may be found online at: *www.state.gov/m/dghr/statemag.*

DipNote – U.S. Department of State Official Blog: *http://blogs.state.gov*

Facebook: *www.facebook.com/usdos*

Flickr: *www.flickr.com/photos/statephotos*

Google+: *www.plus.google.com/+StateDept#+StateDept/posts*

RSS Feeds: *www.state.gov/misc/echannels/66791.htm*

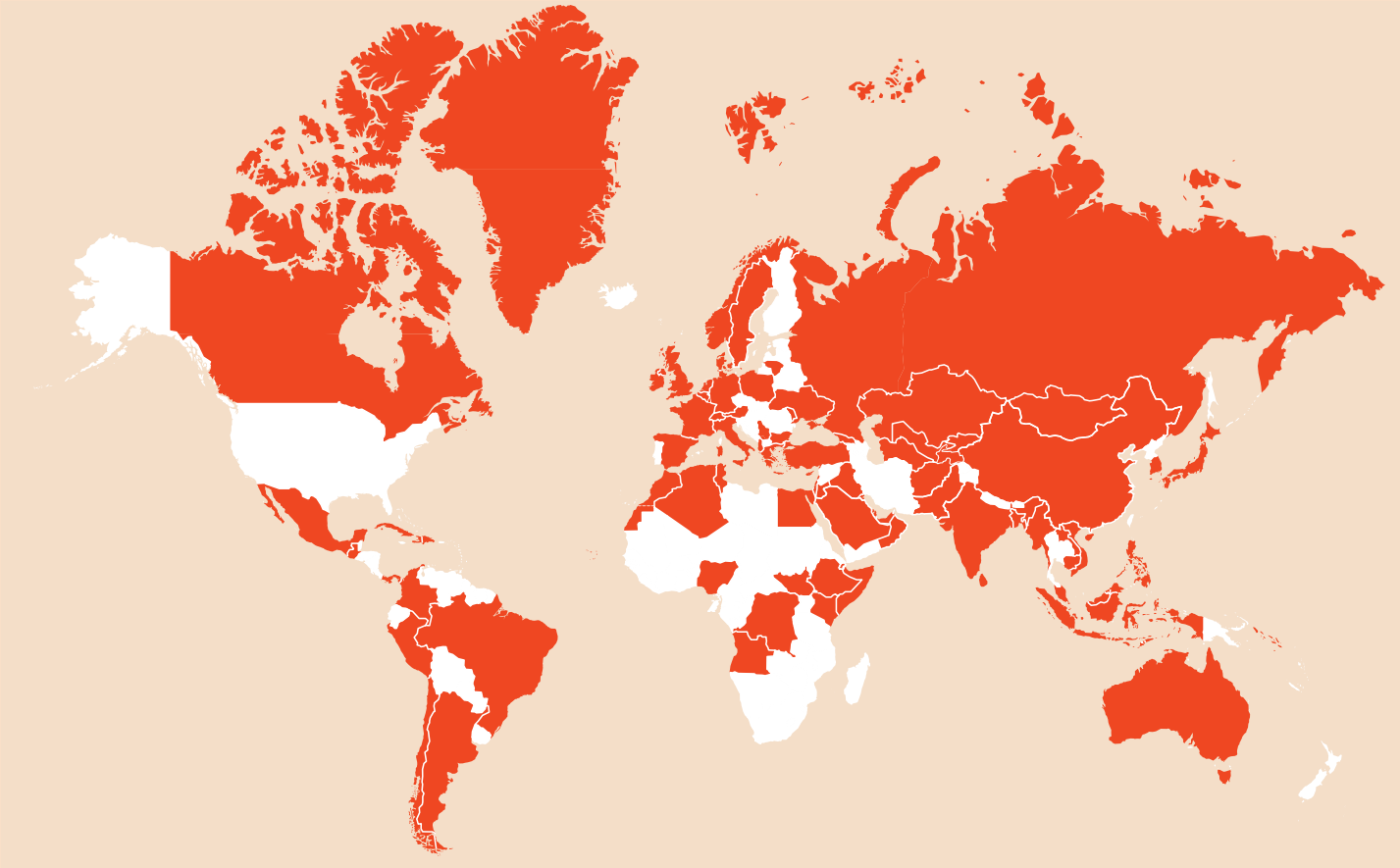
Tumblr: *www.statedept.tumblr.com*

Twitter: @StateDept

YouTube Channel: *www.youtube.com/user/statevideo*

Global Diplomacy Travels

John Forbes Kerry has visited almost 90 countries, traveling nearly 1.3 million miles, during his 44 months as Secretary of State. He travels to all corners of the world to do his job. His duties as Secretary include acting as the President's representative at all international forums, negotiating treaties and other international agreements, and conducting everyday face-to-face diplomacy.



Countries Visited

Afghanistan	Bulgaria	Denmark	Haiti	Kosovo	Netherlands	Serbia	Turkey
Albania	Burma	Djibouti	Holy See	Kuwait	Nigeria	Singapore	Turkmenistan
Algeria	Cabo Verde	Dominican Republic	India	Kyrgyzstan	Norway	Solomon Islands	Ukraine
Angola	Cambodia	Egypt	Indonesia	Laos	Oman	Somalia	United Arab Emirates
Argentina	Canada	Ethiopia	Iraq	Lebanon	Pakistan	South Korea	United Kingdom
Australia	Chile	France	Ireland	Lithuania	Panama	South Sudan	Uzbekistan
Austria	China	Germany	Israel	Luxembourg	Peru	Spain	Vietnam
Bahrain	Colombia	Georgia	Italy	Malaysia	Philippines	Sri Lanka	
Bangladesh	Cuba	Greece	Japan	Mexico	Poland	Sweden	
Belgium	Cyprus	Greenland	Jordan	Moldova	Qatar	Switzerland	
Brazil	Democratic Republic of Congo	Guatemala	Kazakhstan	Mongolia	Russia	Tajikistan	
Brunei			Kenya	Morocco	Saudi Arabia	Tunisia	

Deputy Secretary Blinken meets with residents of the Baharka IDP Camp in Erbil, Iraq, November 23, 2015. *Department of State*

2016 Image Credits

Department of State: *Front Cover, Table of Contents, pages 3, 5, 6, 8, 9, 10, 16, 17, 19, 20, 23, 26, 27, 29, 32, 34, 35, 46, 51, 52, 79, 81, 85, 87, 89, 93, 107, 117, 118, 151, 155, 156, 162, 163, 164, 166, Back Cover*

State Magazine: *Page 150*

Table of Contents Image Caption

Table of Contents: Secretary Kerry poses for a photo with U.S. Marine Security Guard Detachment in Abuja, Nigeria, August 24, 2016. *Department of State*

Back Cover Image Captions

Back Cover: *Images (Left) to (Right)*: (1) Secretary Kerry deplanes upon arrival to Paris, France in advance of attending Bastille Day ceremonies at the invitation of President Hollande, July 13, 2016; and (2) Secretary Kerry and Ambassador Hartley host ceremony to light U.S. Embassy in French tricolor following terrorist attack in Paris, France, November 16, 2015. *Department of State*

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