United States Department of State

Fiscal Year 2018 Agency Financial Report

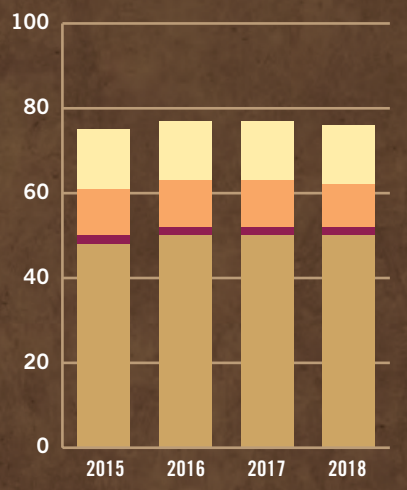
Ensuring Prosperity for America's Future

2018* Highlights *(dollars in billions)*	Percent Change 2018 over 2017	2018	2017	2016	2015
Balance Sheet Totals as of September 30					
Total Assets	+5%	$ 105.6	$ 100.6	$ 93.8	$ 90.6
Total Liabilities	+12%	29.9	26.8	25.7	25.4
Total Net Position	+3%	75.7	73.8	68.1	65.2
Results of Operations for the Year Ended September 30					
Total Net Cost of Operations	+8%	$ 28.7	$ 26.5	$ 27.4	$ 25.6
Budgetary Resources for the Year Ended September 30					
Total Budgetary Resources	+2%	$ 72.3	$ 71.0	$ 69.3	$ 65.9
Visas Issued at Foreign Posts		9.0 million	9.7 million	10.4 million	10.9 million

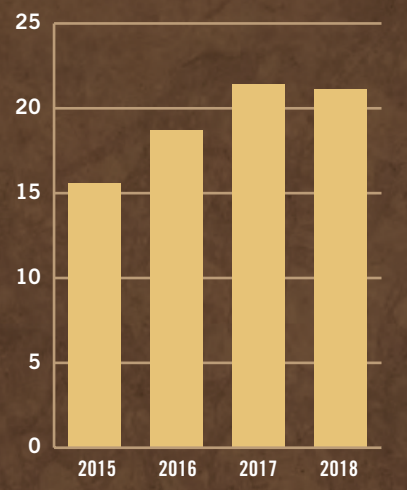
* Throughout this report all use of year indicates fiscal year.

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
Eligible Family Members*
Locally Employed Staff**

** Eligible Family Members include State only eligible family members and do not include the inactive reserves.*
*** Locally Employed Staff includes Foreign Service Nationals and Personal Services Agreements.*

ABOUT THE COVER

The cover is a montage that presents the Department's commitment in advancing and executing American's interests and values. The images include: *(top left)* Secretary Pompeo meets first and second tour officers from Embassy Tel Aviv in Tel Aviv, Israel, April 29, 2018; *(middle left)* Secretary Pompeo greets embassy personnel and their families at the U.S. Embassy Beijing in Beijing, China, June 14, 2018; *(middle right)* Secretary Pompeo and NATO Secretary General Jens Stoltenberg host a meeting with the foreign ministers of select members of the Coalition to Defeat ISIS at the NATO summit in Brussels, Belgium, July 12, 2018; and *(bottom left)* Secretary Pompeo participates in joint press conference with Ambassador Nikki Haley at the 73rd Session of the United Nations General Assembly in New York City, New York, September 24, 2018.

Secretary Pompeo poses with the U.S. Marine Security Guards in Amman, Jordan, April 30, 2018. ***Department of State***

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About This Report

The U.S. Department of State's *Agency Financial Report* (AFR) for Fiscal Year (FY) 2018 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/2018/index.htm*) and includes sidebars, 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,
- GPRA Modernization Act of 2010, and
- Grants Oversight and New Efficiency Act of 2016.

The AFR is the first of a series of two annual financial and performance reports the Department will issue. The reports include: (1) an *Agency Financial Report* issued in November 2018; and (2) an agency *Annual Performance Plan and Annual Performance Report*. 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 2018, 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 2017 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 eleventh time the Department has won the CEAR award. In addition, the Department's AFR was awarded the Gold Award by the League of American Communications Professionals (LACP) for excellence within its industry. The LACP also ranked the AFR in their Top 100 Reports Worldwide (ranking at 99th overall from more than 6,000 entries).

How This Report is Organized

The State Department's Fiscal Year 2018 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2017, and ending on September 30, 2018, 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, Michael R. Pompeo. This introduction is followed by three main sections and 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 introduces the vision and mission of the Department, includes a brief history, and describes the agency's organizational structure. This section briefly highlights the Department's goal areas, its focus on developing 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 Inspector General's statement on the agency's management and performance challenges followed by 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 payment integrity efforts, resource management systems, a summary of the Department's heritage assets, and the status of OMB's Reduce the Footprint policy.

Secretary Pompeo participates in a press conference with President Trump during the NATO Foreign Ministerial in Brussels, Belgium, July 12, 2018. *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 and a map of the Department of State's locations across the globe.

Secretary Pompeo delivers remarks on the release of the 2017 International Religious Freedom Report in Washington, D.C., May 29, 2018. *Department of State*

Message from the Secretary

I am pleased to present the Department of State's Agency Financial Report (AFR) for Fiscal Year (FY) 2018. This report represents our commitment to American taxpayers that their money is being invested carefully and responsibly. Their investment, and the trust that comes along with it, ensures that the United States can maintain its stature in the world and continue to advance our country's long-term interests in an age of rapidly evolving security threats and unprecedented technological and societal change.

Positioned in every corner of the world, the men and women of the State Department are advancing America's interests on a daily basis. We remain focused on promoting democratic values and fostering a freer, more peaceful, and more prosperous world on behalf of the American people. Within the context of today's challenging global environment, this work is never easy and is often dangerous. Traditional state actors and non-state actors alike are increasingly applying unconventional measures with the explicit purpose of eroding our enduring national security and economic interests and, ultimately, threatening our way of life. Regardless of the forms these threats take or the methods they use, the dedicated men and women of the State Department continue to work together, day-by-day, to protect American citizens and secure our economic and security interests.

To support the President's "America First" vision in the foreign policy realm, the State Department focuses its efforts on four key national priorities as outlined in the Department's Joint Strategic Plan.

- Protecting America's Security at Home and Abroad
- Renewing America's Competitive advantage for Sustained Economic Growth and Job Creation
- Promoting American Leadership through Balanced Engagement
- Ensuring Effectiveness and Accountability to the American Taxpayer

Protecting America's Security at Home and Abroad. Protecting Americans at home and abroad remains this Administration's highest priority. Although the U.S.-led Global Coalition to Defeat the Islamic State of Iraq and Syria (ISIS) has liberated nearly all of the territory ISIS once controlled in Iraq and Syria, ISIS continues to exploit local insurgencies around the world and seeks to connect them to its global network of foreign terrorist fighters, money, and ideology to create additional safe havens. Just as al-Qa'ida has survived and transformed itself despite unrelenting pressure from the United States and its allies, ISIS and other transnational terrorist groups continue to pose a significant threat to Americans abroad and to our way of life at home. Likewise, we should not lose sight of the ongoing threat that regimes, including North Korea and Iran, pose to our long-term security interests.

Renewing America's Competitive Advantage for Sustained Economic Growth and Job Creation. In every way we can, the Department seeks to level the playing field for American workers and businesses. Our diplomatic missions abroad help American businesses gain access to emerging markets by promoting the rule of law, enforcing accountability and economic transparency, and promoting private-sector partnerships. In 2018, the State Department worked to bring balance and reciprocity into our trade relationships so that American workers and businesses are able to compete fairly and have better opportunities to succeed in foreign markets.

Promoting American Leadership through Balanced Engagement. The Department is reinvigorating American leadership abroad for the benefit of the American people, while also encouraging every country to shoulder its share of the burden for global security and stability. We are leading with the message that every nation has the right – and the responsibility – to defend its sovereignty and promote its national interests. We have spoken up in support of mutually beneficial international partnerships and alliances, and we have stood against lopsided security and economic arrangements that exploit American good will. As a result of high-level messaging from the President and persistent diplomatic discussions on defense burden-sharing carried out by our American diplomats, our NATO Allies have increased defense spending by more than $40 billion over the past two years. The long-term outlook has also improved, with 26 NATO Allies now expected to invest 20 percent or more of their defense budgets on major capabilities by 2024, in keeping with their commitments under the Wales Pledge.

Ensuring Effectiveness and Accountability to the U.S. Taxpayer. I consider as sacred the trust that Americans inherently give to the Department. We must do everything we can to honor and protect that trust. We erode that trust when we do not seek out ways to streamline our operations or eliminate programs that have outlived their utility or are not delivering what they promise. In 2018, the Department's workforce continued to adjust to a rightsizing initiative started in 2017 under broader agency reform efforts. While rightsizing an organization as large as the Department of State is a continuous process, I've directed my staff to reexamine ways we are attracting and managing human capital with an eye toward preserving both the depth and long-term health of our diplomatic corps – our most critical foreign-policy strategic asset.

This AFR, a key accountability document, 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 entrusted to us. To ensure this AFR is complete and reliable, we worked with an 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 2018 and includes the results of the independent audit of our FY 2018 Financial Statements.

The Department of State, in concert with our interagency partners, will continue to meet the complex challenges that our country faces today and in the future, in every corner of the world.

Michael R. Pompeo
Secretary of State
November 15, 2018

Secretary Pompeo and NATO Secretary General Jens Stoltenberg host a meeting with the foreign ministers of select members of the Coalition to Defeat ISIS at the NATO summit in Brussels, Belgium, July 12, 2018. ***Department of State***

SECTION I:

Management's Discussion and Analysis

> "We must maintain America's historic role as a truly global power, whose first instinct and overwhelming preference is to use diplomacy to solve global challenges."
>
> *– Secretary of State, Michael Pompeo*

About the Department

Our Vision

On behalf of the American people we promote and demonstrate democratic values and advance a free, peaceful, and prosperous world.

Our Mission

The U.S. Department of State leads America's foreign policy through diplomacy, advocacy, and assistance by advancing the interests of the American people, their safety and economic prosperity.

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.

LEARN MORE

More information on the duties of the Secretary can be found at: *https://www.state.gov/secretary/115194.htm*

Did You Know?

Michael R. Pompeo has visited 20 countries, traveling over 120,000 miles during his 5 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.

LEARN MORE

More information on the Secretary's travel can be found at: *https://www.state.gov/secretary/travel/index.htm*

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 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.

Secretary Pompeo meets with members of the Bureau of East Asian and Public Affairs' Korea Desk Team in Washington, D.C., May 10, 2018. *Department of State*

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 2018, the Department was comprised of nearly 76,000 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 support American citizens abroad.** We provide emergency assistance to U.S. citizens in countries experiencing natural disasters or civil unrest. We assist with intercountry adoptions and work on international parental child abductions. In 2017, there were 4,714 adoptions to the United States, and 83 adoptions from the United States to other countries. In calendar year 2017, we worked on international parental child abduction cases involving 1,155 children – resulting in the return of 215 children to the United States.
2. **We create American jobs.** We directly support millions of U.S. jobs by promoting new and open markets for U.S.

Secretary Pompeo officiates the 153rd Civil Service swearing-in ceremony in Washington, D.C., June 8, 2018. *Department of State*

firms, protecting intellectual property, negotiating new U.S. airline routes worldwide, and helping American companies compete for foreign government and private contracts.

3. **We promote democracy and foster stability around the world.** Stable democracies are less likely to pose a 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. The Department has helped over 40 post-conflict countries clear millions of square meters of landmines and unexploded ordnance. 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. 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 2018, we issued 21.1 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 provide information to help U.S. citizens assess risks of international travel and learn about steps to take to ensure their safety when traveling abroad.

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.

Secretary Pompeo meets with Republic of Korea President Moon Jae-in in Seoul, Republic of Korea, June 14, 2018. *Department of State*

The Secretary of State is supported by a Deputy Secretary, the Executive Secretariat, the Office of U.S. Foreign Assistance Resources, the Counselor and Chief of Staff, six Under Secretaries, and over 30 functional and management bureaus and offices. The Deputy Secretary of State serves as the principal deputy, adviser, and alter ego to the Secretary of State. The Under Secretaries have been established for Political Affairs; Economic Growth, Energy and Environment; Arms Control and International Security Affairs; Public Diplomacy and Public Affairs; Management; and Civilian Security, Democracy and Human Rights. The Under Secretary for Management also serves as the Chief Financial Officer for the Department.

Six regional bureaus support the Department's political affairs mission – 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).

Did You Know?

Edward Reilly Stettinius, Jr., the 48th Secretary of State, served as the Secretary of State (1944-1945) and was the first U.S. Ambassador to the United Nations (1945-1946).

LEARN MORE

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

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. The Department's organization chart can be found at *https://www.state.gov/r/pa/ei/rls/dos/99484.htm*.

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 7,500 public and 700 Federal and military passport acceptance facilities. 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.

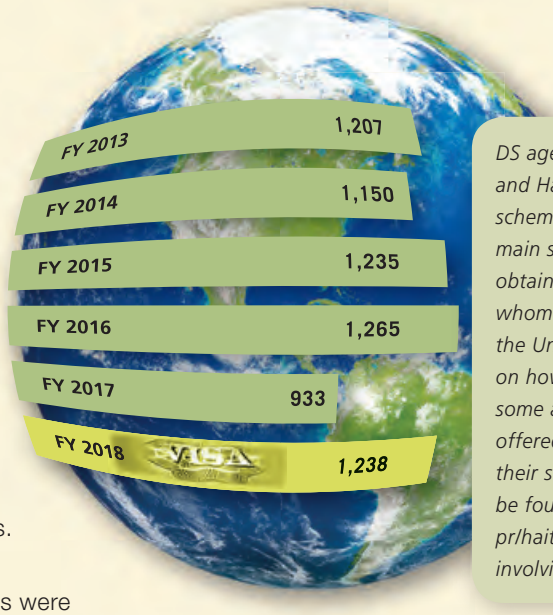
Every diplomatic mission in the world operates under a security program designed and maintained by the Department's Bureau of Diplomatic Security (DS). In the United States, DS investigates passport and visa fraud, conducts personnel security investigations, and protects the Secretary of State and high-ranking 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 the inside back cover for Department websites of interest.

FOCUS

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. In 2018, 1,238 new cases were opened. In addition, 1,158 cases were closed and DS made 65 arrests.



DS agents in New Orleans, Washington, D.C., and Haiti collaborated to shut down a visa fraud scheme operating in Haiti and New Orleans. The main subject, Priva, attempted to fraudulently obtain visas for more than 100 aliens, some of whom succeeded in obtaining visas to travel to the United States. Priva coached paying applicants on how to deceive consular officers encouraging some applicants to pose as priests and nuns. Priva offered his clients religious clothing to enhance their story. More information on the case can be found at: https://www.justice.gov/usao-edla/pr/haitian-national-indicted-visa-fraud-scheme-involving-more-100-fraudulent-visa.

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

FOCUS IN

Advancing a Free and Open Indo-Pacific

President Trump identified the Indo-Pacific as among the United States' most important priorities in a speech in Da Nang, Vietnam in November 2017. The Indo-Pacific – which runs from India's west coast to the American west coast – is home to more than three billion people and is the focal point of the world's energy and trade routes. It includes five U.S. treaty allies and five of our top ten trading partners.

The United States vision for the Indo-Pacific is a region of nations that are independent, strong and prosperous. Our strategy focuses on three vital areas: economics, governance, and security. Economics is at the forefront of this vision. The United States and the Indo-Pacific enjoyed over $1.8 trillion in two-way trade last year, and the cumulative value of U.S. direct investment in the Indo-Pacific reached $940 billion in 2017 – more than doubling since 2007.

At the Indo-Pacific Business Forum in July 2018, Secretary Pompeo reiterated the U.S. commitment to "economic engagement in the Indo-Pacific because of the national security benefits for the American people and our partners." He announced new initiatives in digital economy, infrastructure, and energy. The Forum reinforced the importance of high standards in commerce, partnerships both public and private, and deeper U.S. engagement with the Indo-Pacific to unlock the power of the market for sustainable development.

With the Secretary as chairman of the board, the Department of State will play a key role in the new Development Finance Corporation (DFC) created by the BUILD (Better Utilization of Investments Leading to Development) Act. The Secretary will ensure that the new DFC's work advances U.S. national security, commercial, and foreign policy goals. This expansion of the U.S. toolkit to mobilize private sector investment will fuel more growth opportunities that benefit the United States, including in the Indo-Pacific.

Economic success depends on a regional order in which the sovereignty of all Indo-Pacific nations is respected, and open sea lanes facilitate growth and prosperity. At the ASEAN (Association of Southeast Asian Nations) Regional Forum on August 4, 2018, Secretary Pompeo announced the intent to provide nearly $300 million in security assistance to improve security relationships across the Indo-Pacific.

Secretary Pompeo delivers the keynote address at the Inaugural Indo-Pacific Business Forum at the U.S. Chamber of Commerce in Washington, D.C., July 30, 2018. ***Department of State***

This includes $290.5 million in Foreign Military Financing to strengthen maritime security, humanitarian assistance/disaster relief, and peacekeeping capabilities, and $8.5 million in International Narcotics and Law Enforcement funds to counter transnational crime.

Along with economic prosperity and security, the United States promotes responsive governments, empowered citizens, and strong regional institutions. We are working with governments and civil society to build capacity for good governance, transparency, and adherence to international rules and standards.

All of these efforts build on strong people-to-people ties, deeply rooted in trust and personal relationships. Our public diplomacy programs work to strengthen these ties, and to engage governments and opinion leaders in support of our vision. For instance, the Young Southeast Asian Leaders Initiative builds the capabilities of emerging leaders, strengthens U.S. ties to the region, and nurtures an ASEAN community.

As Secretary Pompeo has said, "The great theme of our engagement is this: Where America goes, we seek partnership, not domination." A free and open Indo-Pacific is in the interest of all nations, and the United States will work with any nation to advance this vision.

Strategic Goals and Government-wide Management Initiatives

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

The Department of State has strengthened program and project management through enhanced guidelines to better align and manage programs with best practices and policy priorities. The Department uses the Managing for Results (MfR) Framework, which encourages enterprise-wide linkages of strategic planning, budgeting, managing, and improving results. The purpose of the MfR Framework is to help bureaus and missions achieve improved outcomes by conducting policy, resource, and program decision making that is informed by strategic planning and data gleaned through rigorous monitoring and evaluation practices.

The concurrent February 2018 release of the State/USAID Joint Strategic Plan (JSP) and the FY 2019 President's Budget resynchronized strategic planning, budgeting, program management, and learning. These integrated processes inform and facilitate one another, improving the effectiveness of how both agencies carry out their business. The Department and USAID's major strategic planning processes and documents are implemented at three organizational levels:

- Joint Strategic Plan – Four-year agency strategic plan that outlines State and USAID overarching goals and objectives, and guides bureau and mission planning.
- Bureau Strategies
  - Joint Regional Strategies – Four-year strategic plan for each region that sets joint State and USAID priorities and guides key partner bureau and mission level planning.
  - Functional Bureau Strategies – Four-year strategic plan that sets priorities for each State functional bureau and guides key partner bureau and mission level planning.

Managing for Results Framework

- Integrated Country Strategies (ICS) – Four-year strategic plan that articulates whole-of-government priorities in a given country and incorporates policy priorities. As a whole-of-government document, each ICS incorporates the relevant USAID mission's Country Development Cooperation Strategy and the official U.S. Government strategy for all Security Sector Assistance in the respective country.

Joint State-USAID Strategic Goals

The Department of State and USAID published its FY 2018-2022 JSP in February 2018 following a consultative process that involved the senior leadership of the two agencies, bureau leadership, and subject matter experts. The JSP lays out the strategic direction of U.S. diplomacy and development efforts over the next four years. Its goals and objectives articulate how State and USAID will enable the United States to succeed in a competitive globalized era, and how our agencies adapt on delivering our missions. It contains four goals and 16 objectives as shown in the "State-USAID Joint Strategic Goal Framework."

STATE-USAID JOINT STRATEGIC GOAL FRAMEWORK

Goal 1: Protect America's Security at Home and Abroad				
1.1: Counter the Proliferation of Weapons of Mass Destruction (WMD) and their Delivery Systems	**1.2:** Defeat ISIS, al-Qa'ida and other Transnational terrorist organizations, and counter state-sponsored, regional, and local terrorist groups that threaten U.S. national security interests	**1.3:** Counter instability, transnational crime, and violence that threaten U.S. interests by strengthening citizen-responsive governance, security, democracy, human rights, and rule of law	**1.4:** Increase capacity and strengthen resilience of our partners and allies to deter aggression, coercion, and malign influence by state and non-state actors	**1.5:** Strengthen U.S. border security and protect U.S. citizens abroad

Goal 2: Renew America's Competitive Advantage for Sustained Economic Growth and Job Creation		
2.1: Promote American prosperity by advancing bilateral relationships and leveraging international institutions and agreements to open markets, secure commercial opportunities, and foster investment and innovation to contribute to U.S. job creation	**2.2:** Promote healthy, educated and productive populations in partner countries to drive inclusive and sustainable development, open new markets and support U.S. prosperity and security objectives	**2.3:** Advance U.S. economic security by ensuring energy security, combating corruption, and promoting market-oriented economic and governance reforms

Goal 3: Promote American Leadership through Balanced Engagement			
3.1: Transition nations from assistance recipients to enduring diplomatic, economic, and security partners	**3.2:** Engage international fora to further American values and foreign policy goals while seeking more equitable burden sharing	**3.3:** Increase partnerships with the private sector and civil society organizations to mobilize support and resources and shape foreign public opinion	**3.4:** Project American values and leadership by preventing the spread of disease and providing humanitarian relief

Goal 4: Ensure Effectiveness and Accountability to the American Taxpayer			
4.1: Strengthen the effectiveness and sustainability of our diplomacy and development investments	**4.2:** Provide modern and secure infrastructure and operational capabilities to support effective diplomacy and development	**4.3:** Enhance workforce performance, leadership, engagement, and accountability to execute our mission efficiently and effectively	**4.4:** Strengthen security and safety of workforce and physical assets

The JSP, along with the National Defense Strategy, directly supports the National Security Strategy (NSS). There is a direct correlation between all 16 JSP objectives and 13 of 15 NSS objectives. The JSP was developed through policy guidance from the Secretary of State, USAID Administrator, Congress, and the National Security Council.

The JSP informed the overarching policy direction for the seven new Joint Regional Strategies, 40 Functional Bureau Strategies, and 185 Integrated Country Strategies in 2018. The goals and objectives established in the JSP provided both a policy and strategic vision for all Department bureaus and posts by laying out actions and performance goals of which all bureaus and posts needed to consider in developing their respective strategies. Once finalized, the goals and objectives in each bureau- and mission-level strategy will be made available to the public through the Department's internet site at *www.state.gov/flstrategies*.

Agency Priority Goals

Agency Priority Goals (APG) are a performance accountability structure of the Government Performance Results Act (GPRA) Modernization Act of 2010 that provide agencies a mechanism to focus leadership priorities, set outcomes and measure results, bringing focus to mission areas where agencies need to drive significant progress and change. In collaboration with

the Office of Management and Budget, the Department of State has identified four APGs for the FY 2018 – FY 2019 cycle, which align with updated goals and objectives in the FY 2018-2022 Joint Strategic Plan. APGs support improvements in near-term outcomes, customer service or efficiencies, and advance progress toward longer-term, outcome-focused strategic goals and objectives. APGs are intended to demonstrate quarterly progress on near-term results or achievements the agency seeks to accomplish within 24 months.

- **Visa Security:** By September 30, 2019, the Department will update the DS-160 and DS-260 non-immigrant and immigrant visa application forms and add the newly-collected fields to our data sharing feeds for interagency partners.
- **IT Modernization:** By September 30, 2019, the Department will improve its IT service delivery by reducing the average time associated with providing new IT capabilities by 20 percent, managing 100 percent of workforce digital identities through a central Enterprise Identity Management solution, from a baseline of zero, and increasing workforce access to cloud-based email and business data from any device from 10 percent to 100 percent.
- **HIV/AIDS:** By September 30, 2019, new infections are fewer than deaths from all causes in HIV-positive patients in up to 13 high-HIV burden countries through leadership by State and implementation by USAID; the U.S. Department of Health and Human Services and its Agencies, including the Centers for Disease Control and Prevention, the Health Resources and Services Administration, and the National Institutes of Health; the Departments of Defense, Labor, and Treasury; and the Peace Corps.
- **Category Management:** By September 30, 2019, meet or exceed Federal targets for Best-In-Class contract awards.

The Department's official reporting on APGs can be found on Performance.gov at *https://www.performance.gov/state/state.html*.

Vice President Pence delivers remarks at the Ministerial to Advance Religious Freedom in Washington, D.C., July 26, 2018.
Department of State

Cross-Agency Priority Goals

The President's Management Agenda's long-term vision for modernizing the Federal Government will improve the ability of agencies to deliver mission outcomes, provide excellent customer service, and serve as effective stewards of taxpayer dollars on behalf of the American people. To drive these management priorities, the Administration leverages Cross-Agency Priority (CAP) goals to coordinate and publically track implementation across Federal agencies. CAP goals provide the components of the Federal Government Performance Plan required by the GPRA Modernization Act of 2010. As of October 2018, the Department contributes to 10 CAP goals. Progress updates on CAP Goals are published on Performance.gov at *https://www.performance.gov/CAP/CAP_goals.html*.

Assistant Secretary of State for Economic Growth, Energy, and the Environment Manisha Singh tours a GE facility in Greenville, South Carolina, June 16, 2018. ***Department of State***

FOCUS

Working for American Business

The Department of State advances United States' economic interests worldwide, leveraging a network of over 1,500 Economic Officers at our diplomatic posts overseas and in Washington to support U.S. business opportunities and jobs for Americans. The Department's work takes many forms, from engaging in international policy negotiations to helping individual American small businesses and entrepreneurs identify overseas opportunities.

The Department in conjunction with other U.S. agencies supports an open, transparent, market-based economic system that fosters a level playing field and open markets for U.S. business. For example, diplomats encourage adoption of U.S. technological solutions while also building political will to enforce intellectual property rights around the world, keeping markets open for products derived from modern biotechnology, and promoting the adoption of pro-competition, multi-stakeholder approaches to telecommunications and internet governance.

The Department also partners with the Department of Commerce to advocate for U.S. companies bidding on foreign government procurements where appropriate. In addition, the Department negotiates and enforces bilateral air transport agreements that open markets for U.S. airlines and create jobs in the Unites States.

Other activities promote ethical practices by U.S. businesses while also working with partners to foster an environment in which such practices do not create a competitive disadvantage. The Department helps the business community understand and comply with U.S. foreign and sanctions policy and leads fights against bribery of foreign officials in international business.

The Department works closely with stakeholders and offers numerous tools for U.S. businesses, many in coordination with other U.S. Government agencies. These tools include annual investment climate reports on more than 170 economies, access to information on projects funded by multilateral development banks, and webinars with Ambassadors and experts on foreign investment and export prospects.

Performance Summary and Highlights

Performance Reporting

The strategic objectives of the Joint Strategic Plan serve as the primary basis for performance analysis and program decision making within the Department and USAID. Department of State and USAID report annual progress and results toward achieving the strategic objectives and performance goals articulated in the JSP via the Annual Performance Plan/Annual Performance Report (APP/APR). The latest reporting on the JSP – including performance goals, performance indicators, and a narrative explanation of progress aligned to the FY 2018-2022 JSP – can be found in the FY 2019 APP/FY 2017 APR at *https://www.state.gov/documents/organization/285363.pdf*.

The GPRA Modernization Act of 2010 requires that agencies tie their annual performance information to the strategic objectives identified in their strategic plan. The primary method for accomplishing this link is through performance goals, which identify the specific, measurable, and attributable level of performance that the Department and USAID will strive to achieve and to which it can hold the agencies accountable. The performance goals in the JSP provide measurable progress towards the achievement of the strategic objectives in the Plan and reflect the Department and USAID strategic and management priorities. The majority of the performance goals are measured annually; the performance goals identified as Agency Priority Goals, as noted earlier, have data available on a quarterly basis. The following section provides an overview of major program areas. These programs are included in the Financial Section, Section II of this AFR, on the Consolidated Statement of Net Cost.

MAJOR PROGRAM AREAS

Peace and Security

The United States faces ever-evolving and multi-dimensional security challenges. To meet these challenges, we support and collaborate with both new and old partners to defend shared interests and to adapt to the changing international environment. This means working to advance nonproliferation, antiterrorism, demining, and related programs; global threat reduction; and security assistance. The Department is focusing its efforts on strategically vital regions to prevent crises and foster resilience in ways that align to our broader commitments and that secure our borders.

Democracy, Human Rights, and Governance

Accountable governments contribute to a freer, more prosperous, and peaceful world. Democracies are our strongest partners on security, trade, and energy, in peace and in conflict. Our support – which includes efforts to address transnational criminal organizations and illicit pathways to the U.S. border, as well as the underlying conditions for weak governance, corruption, uneven economic growth and human rights abuses – is a lifeline for nations and 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 benefit all.

Health, Education, and Social Services

U.S. efforts to improve specific challenges in global health and education advance our broader national security interests by addressing underlying drivers of terrorism and constraints to inclusive economic growth that open markets and reduce fragility. The State Department and USAID use diplomacy and foreign assistance programs to create an AIDS-free generation, end preventable child and maternal deaths, reduce the threat of infectious diseases, and fight pandemic 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. U.S. investments, such as those supporting the immunization of hundreds of millions of

Secretary Pompeo addresses the press at the White House Filing Center in Singapore, June 11, 2018. ***Department of State***

children in low-resource countries, save lives and result in healthier people. Our investments make for stronger, more prosperous, and more stable countries; enhance international security and trade; and in turn ensure a safer, more resilient America. Despite successes in recent decades, the United States recognizes that much remains to be done to strengthen health systems in developing countries so that they can address emerging threats and long-term challenges, such as HIV/AIDS, tuberculosis, malaria, and maternal and child mortality. Investments in PEPFAR focused U.S. support in key countries to expand HIV prevention and treatment services and leverage increased performance and efficiency gains. Infectious disease outbreaks remain among the foremost dangers to human health and the global economy, as many countries have limited capacity to prevent, detect, and rapidly respond to these threats. Health is the largest component of U.S. development assistance.

Humanitarian Assistance

The Department is addressing many of the underlying drivers of threats to our national security through migration and refugee assistance. The Department and other U.S. agencies work to ensure outcome documents and resolutions adopted in the United Nations or other international forums are consistent with U.S. policy. Our efforts include outreach to and dialogue with government officials, multilateral organizations, NGOs, and other entities engaged in demographic, family planning, and gender equality policy work. This allows the United States to maintain a leadership role in shaping global humanitarian assistance while also working with international partners on long-term solutions.

International Organizations and Commissions

The United States benefits from a disciplined, purposeful, and deep engagement with the rest of the world. American interests are protected by an international system that

allows for cooperation with like-minded partners without compromising our independence. The Department continues to strengthen American leadership both in our partnerships and with multilateral institutions, such as the host of United Nations agencies and organizations. U.S. leadership in these venues is often instrumental to fostering cooperation, sharing the costs of taking action, and protecting the rule of law, human rights, dignity, and democratic values. In the absence of a sustainable and business-like U.S. presence across the international system, including at the United Nations, U.S. national interests would not be protected. U.S. leadership ensures that these partnerships remain healthy bidirectional relationships.

U.S. senior officials also engage publicly and privately with citizens in countries eager for progress and those burdened by oppressive governments. The U.S. Government pushes back on attempts to dismantle institutions, and works with like-minded governments. The Department also engages regional mechanisms to advance our ideals and to deter backsliding by governments.

Diplomatic and Consular Programs

Twenty-first century diplomatic and development challenges demand new approaches to meet our goals. Meeting these challenges requires a flexible and efficient support platform for our global staff. As the Department adapts how it delivers on mission, our ability to keep personnel safe from physical and virtual threats is a top priority. By ensuring that only the right people are allowed on systems with a sophisticated cybersecurity infrastructure, the Department can carry out the mission while maintaining security. State is 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 in both the real and digital worlds.

Administration of Foreign Affairs

In the 21st Century, effective engagement with international partners, stakeholders, customers, and audiences requires data-informed decision making and risk-based investments that apply new technologies and innovative approaches for strengthening collaboration, ensuring 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 is a core competency for our high-performing, motivated professionals. To meet these challenges also requires a nimble and efficient support platform for our professionals representing the United States around the world.

Another focus of the Department is transitioning engagement activities from limited, exclusive, and direct contacts to an approach based on a culture of openness. This has resulted in expanding the use of digital communications such as social media, video conferencing, and smart phone applications that allow the Department to directly reach citizens and to open up our public engagement to all who are interested, not just the limited audience that can be invited to attend events in person. Evidence-based planning and increased operational efficiency and effectiveness are among the factors accounting for the improvements in performance and results.

Program and Project Design, Monitoring, and Evaluation Policy

The Department is committed to using design, monitoring, evaluation, and data analysis best practices to achieve the most effective U.S. foreign policy outcomes and greater accountability to our primary stakeholders, the American people. In response to requirements contained in the Foreign Aid Transparency and Accountability Act and the Program Management Improvement and Accountability Act, the Department updated its evaluation policy to encompass the full spectrum of performance management and evaluation activities including program design, monitoring, evaluation, and analysis and learning. Per 18 FAM 300, Program and Project Design, Monitoring, and Evaluation Policy, bureaus are putting in place performance management documents and practices including the use of logic models, theories of change, performance metrics, monitoring structures, and other foundational components against which progress can be monitored and evaluated.

Maximizing America's Investment Through Innovation and Evidence

Evidence and Evaluation

The Department supports the analysis and use of evidence in policymaking by training staff, creating groups for knowledge sharing, establishing and monitoring evaluation requirements, providing funding opportunities to gather better evidence, and maintaining a central database to manage and share evaluations. The Department continues efforts to strengthen the use of data and evidence to drive better decision making and achieve greater impacts. Ongoing performance monitoring data provide a picture of how programs are doing, and program evaluation is used to understand why they are working.

In 2018, the Department completed the process of modifying the Foreign Affairs Manual to integrate program design and performance monitoring into its evaluation policy. The updated policy and corresponding tools, such as a program and project design tool kit, will improve performance management and the evaluability of Department efforts.

The Department continues to integrate and facilitate program planning, performance management, and decision support processes. Several bureaus have designated or hired a full-time Bureau Evaluation Coordinator responsible for coordinating evaluations of the bureau's programs as part of a larger strategy to grow research and performance management capacity.

The Department's Evaluation Community of Practice, with over 430 members, meets monthly to discuss policy issues, share best practices, and host presentations. The Department also hosts evaluation events that bring together the Department's evaluation community and serve as a venue where evaluation leaders can share how they have used the results of evaluations to validate current plans or inform future decisions. These events range from large, multi-day sessions to shorter, topical seminars and workshops. This group is now complemented by the Program Design and Performance Management Community of Practice which holds monthly meetings that support the implementation of the new program design and performance management policy requirements under 18 FAM 300.

In FY 2017, the Department completed 85 evaluations: 25 evaluations of Diplomatic Engagement- and 60 evaluations of Foreign Assistance-funded programs and projects (including 23 evaluations sponsored by Office of the U.S. Global AIDS Coordinator), and included discussion of evaluation findings in the budget request process. Evaluation findings are tracked, communicated, and implemented within the commissioning bureau.

LEARN MORE

More information on the Department's Program and Project Design, Monitoring, and Evaluation Policy can be found at: *https://fam.state.gov/fam/18fam/18fam030104.html*

Training

In the past year the Department has increased the number of staff trained in the management of evaluations and strengthened planning and performance management practices across regional and functional bureaus via classroom-based training. Key elements of this progress include:

- As part of an effort to solidify its Managing for Results infrastructure, the Department developed coursework on strategic planning and performance management, which equips personnel with the skills to develop strategic plans, articulate and measure bureau and office performance, and link performance goals to strategic goals and objectives. As of April 2018, 76 personnel had participated in the Department's multi-day Strategic Planning and Performance Management training.

- Through the ongoing Teamwork@State initiative, the Department advanced the skills of project managers and staff by developing and deploying simple program management toolkits that improve the ability of staff and teams to develop office-level plans, manage projects, and improve processes. In 2017, the Teamwork@State team provided training to 599 staff members through formal and online trainings, targeted facilitations, webinars, briefings, and consultations, and as a result, increasing the Department's project management knowledge and skills.

- Through the Department's Foreign Service Institute, we also trained 245 people in an intensive project management workshop that serves as an introduction to the terminology and phases of the project management cycle.
- The Department continued to prepare personnel to conduct program evaluations by providing a series of workshops to 100 staff, including Bureau Evaluation Coordinators and performance management specialists, on managing different aspects of evaluations. These trainings are yielding a growing base of professionals with the tools to manage and assess program and project performance at the Department.

Deputy Secretary Sullivan delivers opening remarks at the United States-Sub-Saharan Africa Trade and Economic Cooperation Forum in Washington, D.C., July 11, 2018.
Department of State

Management Challenges: Providing an Independent Statement of the Agency

In the 2018 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 in the areas of: protection of people and facilities; oversight of contracts, grants, and foreign assistance; information security and management; financial and property management; operating in contingency and critical environments; workforce management; and promoting accountability through internal coordination and clear lines of authority.

The OIG statement may be found in the Other Information (OI) section of this report (see pages 105-122). 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) Multi-ethnic winning Project Citizen teams partake in a workshop on networking and evaluation of public policy solutions; and (2) Project Citizen finalist presenting a local public policy solution to 386 participants in the State Parliament Building in Sarajevo, Bosnia and Herzegovina, May 12-13, 2018. ***CIVITAS Democracy and Human Rights Education Center***

FOCUS

Educating Youth for Unity, Partnership

Since the 1995 Dayton Peace Accords ended Bosnia and Herzegovina's three-year civil war, ethnicity and identity remain sources of tension. Continued divisions – and the lack of political will to address them – hinder Bosnia's progress towards prosperity and Euro-Atlantic integration. In an effort to promote Western values and enhance stability in the region, the U.S. Embassy in Sarajevo fosters a sense of joint cultural heritage and interethnic collaboration through nation-wide civic education programs. Without a sense of a shared future, Bosnia and Herzegovina will never develop into a robust, participatory democracy. The good news is that many youth, despite differences in ethnicity and religion, are beginning to see the value of civic education and how they can shape the future of their country. Their generation can solidify Bosnia and Herzegovina's Western perspective, making their country a stronger partner for the United States – a key U.S. foreign policy goal.

Our civic education programs reach 75 percent of elementary schools and 85 percent of the secondary schools, totaling more than 200,000 students throughout the country. They help youth develop critical thinking skills, while learning about Western models of democracy, law, and civic participation in their own country.

More than 59,500 youth take what they learn back to their communities, where they work on community improvement projects, engage in public policy debates, and engage with various levels of government. High school students from all backgrounds participate in internships with non-governmental institutions, media outlets, and municipal and local government offices across the country. Students also participate in homestays, where they develop positive, personal relationships with people across the lines of division that exist in Bosnia.

As Milica Kos, a high school student from Banja Luka (in the entity of the Republika Srpska), noted, "The school civic education program helped me and my fellow students to become active and responsible citizens. Besides learning about what public issues and public policy are and how we can influence the decision making processes, we also had the opportunity to really change something, to make a positive impact in our community."

Financial Summary and Highlights

The financial summary and highlights that follow provide an overview of the 2018 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, 2018 and 2017, 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 2018 and 2017 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	2018	2017	Change	% Change
Fund Balance with Treasury	$ 58.9	$ 55.3	$ 3.6	7%
Investments, Net	19.3	18.9	0.4	2%
Property and Equipment, Net	24.3	23.5	0.8	3%
Cash, Receivables, and Other Assets	3.1	2.9	0.2	7%
Total Assets	**$ 105.6**	**$ 100.6**	**$ 5.0**	**5%**
Accounts Payable	$ 2.6	$ 2.3	$ 0.3	13%
After-Employment Benefit Liability	22.6	20.6	2.0	10%
International Organizations Liability	2.7	1.9	0.8	42%
Other Liabilities	2.0	2.0	—	0%
Total Liabilities	**$ 29.9**	**$ 26.8**	**$ 3.1**	**12%**
Unexpended Appropriations	46.5	45.1	1.4	3%
Cumulative Results of Operations	29.2	28.7	0.5	2%
Total Net Position	**$ 75.7**	**$ 73.8**	**$ 1.9**	**3%**
Total Liabilities and Net Position	**$ 105.6**	**$ 100.6**	**$ 5.0**	**5%**
Summary Consolidated Statement of Net Cost Data				
Total Cost and Loss on Assumption Changes	$ 37.3	$ 35.3	$ 2.0	6%
Less Total Revenue	8.6	8.8	(0.2)	(2)%
Total Net Cost	**$ 28.7**	**$ 26.5**	**$ 2.2**	**8%**
Summary Combined Statement of Budgetary Resources Data				
Unobligated Balance from Prior Year Budget Authority, Net	$ 28.8	$ 25.2	$ 3.6	14%
Appropriations	32.1	34.0	(1.9)	(6)%
Spending Authority from Offsetting Collections	11.4	11.8	(0.4)	(3)%
Total Budgetary Resources	**$ 72.3**	**$ 71.0**	**$ 1.3**	**2%**

[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:

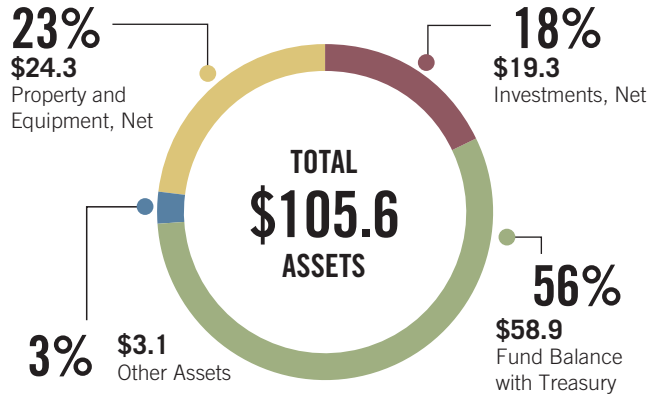
- Balance Sheet: Overview of Financial Position,
- Statement of Net Cost: Yearly Results of Operations,
- Statement of Changes in Net Position: Cumulative Overview,
- Combined Statement of Budgetary Resources: Ensuring Prosperity for America's Future,
- The Department's Budgetary Position,
- Resource 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 $105.6 billion at September 30, 2018, an increase of $5.0 billion (5 percent) over the 2017 total. Fund Balance with Treasury increased $3.6 billion (7 percent) as a result of increased appropriations for International Peacekeeping Activities; Embassy Security, Construction, and Maintenance; Diplomatic and Consular Programs; and Global Health and Child Survival. Property and Equipment increased by $815 million (3 percent) from September 30, 2017. New buildings, structures and improvements accounted for $751 million of this increase with the top nine New Embassy Compound projects and one fitout project accounting for $618 million of the increase (see "Real Property Projects – 2018 Cost Activity"). Additionally, as part of the Property and Equipment increase, land increased by $59 million due to acquisitions in Chiang Mai for $35 million, Mogadishu for $12 million, and Bridgetown for $5 million.

ASSETS BY TYPE 2018 *(dollars in billions)*



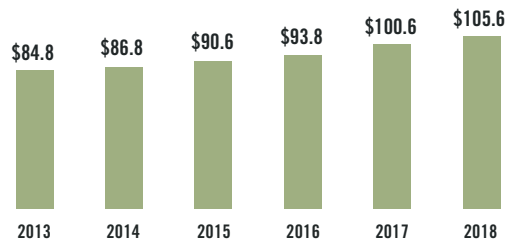
Real Property Projects – 2018 Cost Activity
(dollars in millions)

Project Name	Amount
Beirut, Lebanon	$ 99
USNATO Fitout	90
Jakarta, Indonesia	79
Islamabad, Pakistan	56
Ankara, Turkey	52
Maputo, Mozambique	51
Harare, Zimbabwe	50
Niamey, Niger	50
Amman, Jordan	46
London, United Kingdom	45
TOTAL	$ 618

Other assets increased $66 million (3 percent) as a result of decreases in reimbursable agreements with USAID and the Defense Security Cooperation Agency offset by slight increases in reimbursable agreements with the Department of Energy and other Federal agencies; as well as, voluntary contributions for relief of refugees, real property rent, and advances on behalf of USAID. Investments increased $398 million (2 percent) because contributions and appropriations received to support the Foreign Service Retirement and Disability Fund (FSRDF) were greater than benefit payments. There was also an increase due to an investment in the International Center.

Fund Balance with Treasury, Investments, and Property and Equipment comprise 97 percent of total assets for 2018 and 2017.

TREND IN TOTAL ASSETS (2013 – 2018)
(dollars in billions)

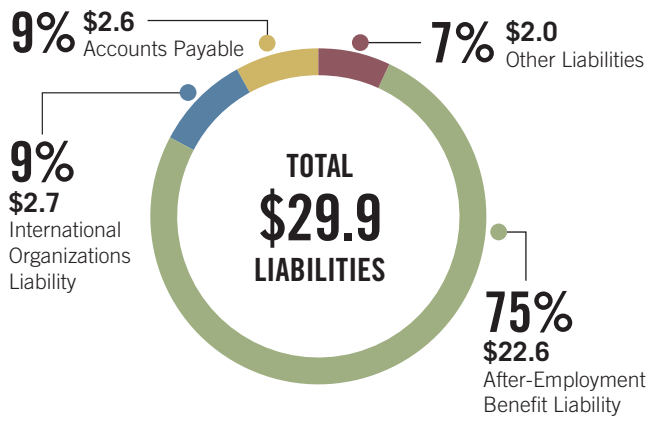


The six-year trend in the Department's total assets is presented in the "Trend in Total Assets" bar chart. Total assets have increased an overall $20.8 billion (25 percent) since 2013. This upward trend resulted primarily from an $11.3 billion increase in Fund Balance with Treasury, a $6.7 billion increase in Property and Equipment, and a $1.9 billion increase in Investments.

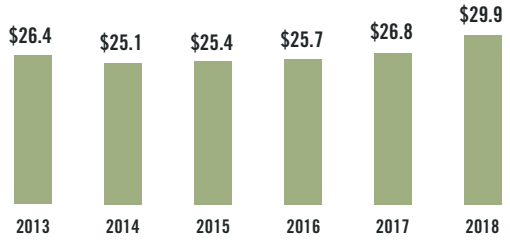
Many Heritage Assets, including art, historic American furnishings, rare books and cultural objects, are not reflected as assets on the Department's Balance Sheet. Federal accounting standards attempt to match costs to accomplishments in operating performance, and have deemed that the allocation of historical 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 $29.9 billion at September 30, 2018, an increase of $3.1 billion (12 percent) between 2017 and 2018. After-Employment Benefit Liability comprises 75 percent of total liabilities and increased $2.0 billion (10 percent) from 2017. International Organizations

LIABILITIES BY TYPE 2018 *(dollars in billions)*



TREND IN TOTAL LIABILITIES (2013 – 2018)
(dollars in billions)



Liability increased $815 million (42 percent) and Accounts Payable increased $359 million (13 percent).

The six-year trend in the Department's total liabilities is presented in the "Trend in Total Liabilities" bar chart. Over this period, total liabilities increased by $3.5 billion (13 percent). This change is principally due to the increase in the After- Employment Benefit Liability, a $2.0 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.

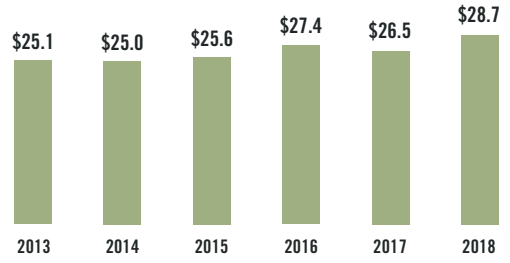
Ending Net Position. The Department's net position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, increased $1.9 billion (3 percent) between 2017 and 2018. Cumulative Results of Operations increased $460 million and Unexpended Appropriations were up $1.4 billion due 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 and the GPRA Modernization Act of 2010. The total net cost of operations in 2018 equaled $28.7 billion, an increase of

$2.2 billion (8 percent) from 2017. This increase of net costs was mainly due to increases in actuarial costs and pension expenses in the FSRDF due to actuarial assumption changes; increases in spending for global health programs; and increases in diplomatic and consular programs.

TREND IN NET COST OF OPERATIONS (2013 – 2018)
(dollars in billions)



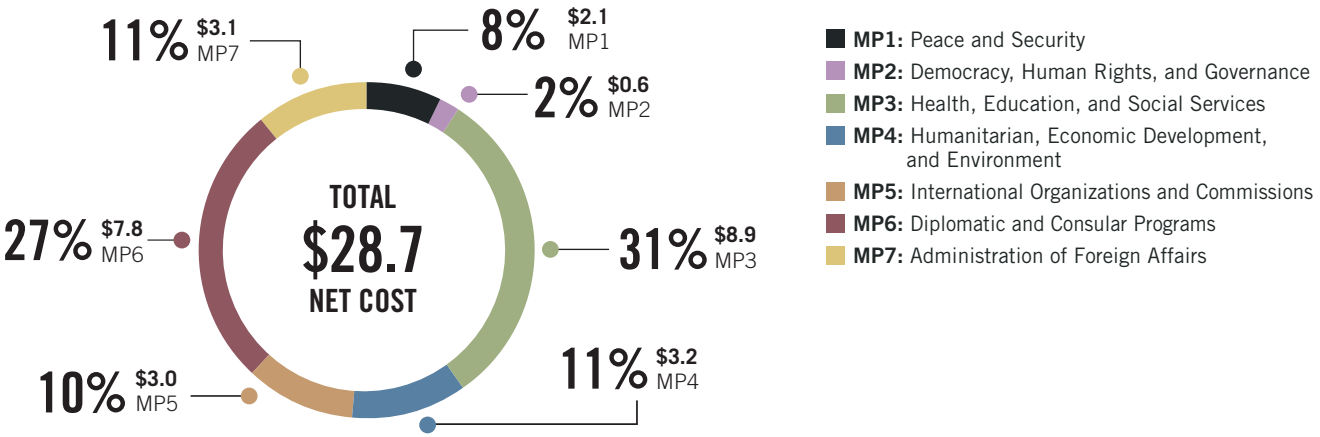
The six-year trend in the Department's net cost of operations is presented in the "Trend in Net Cost of Operations" bar chart. There is an increase from 2013 to 2018 of $3.6 billion. Increases from 2013 generally reflect costs associated with new program areas related to countering security threats and sustaining stable states, as well as the higher cost of day-to-day operations such as inflation and increased global presence.

The "Net Cost of Operations by Major Program" pie chart illustrates the 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 2018 – a combined $16.7 billion (58 percent). The largest increase was in the Administration of Foreign Affairs program. This program increased by $1.4 billion as a result of increases in the actuarial loss on pension assumption changes for the FSRDF. These increases are predominately due to the decrease in the assumed rate of return and the changes made in the mortality rates based upon the 2018 Experience Study performed by the Department's actuary. In the Health, Education, and Social Services, net costs increased by $0.5 billion as a result of increased spending on the global health programs.

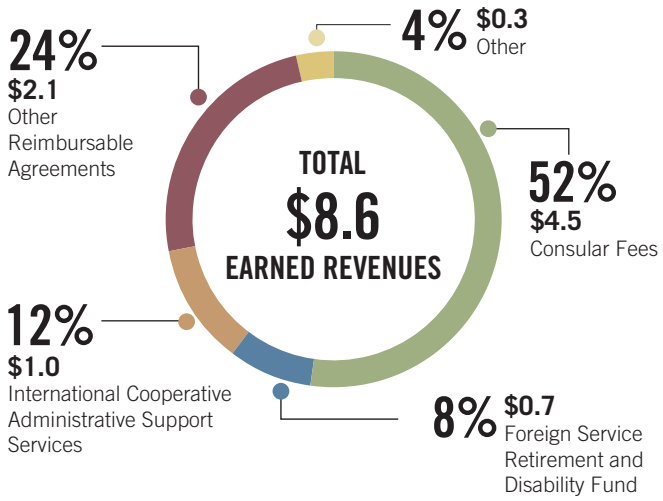
Earned Revenues

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 ICASS billings and Working Capital Fund earnings.

NET COST OF OPERATIONS BY MAJOR PROGRAM 2018
(dollars in billions)



EARNED REVENUES BY PROGRAM SOURCE 2018
(dollars in billions)



Earned revenues totaled $8.6 billion for the fiscal year ending September 30, 2018, and are depicted, by program source, in the "Earned Revenues by Program Source" pie chart. The major sources of revenue were from consular fees ($4.5 billion or 52 percent), reimbursable agreements ($2.1 billion or 24 percent), and ICASS earnings ($1.0 billion or 12 percent). These revenue sources totaled $7.6 billion (88 percent). Overall, revenue decreased by two percent – $182 million from 2017 to 2018. This decrease is primarily a result of a decrease in reimbursable activity with other Federal agencies.

Statement of Changes in Net Position: Cumulative Overview

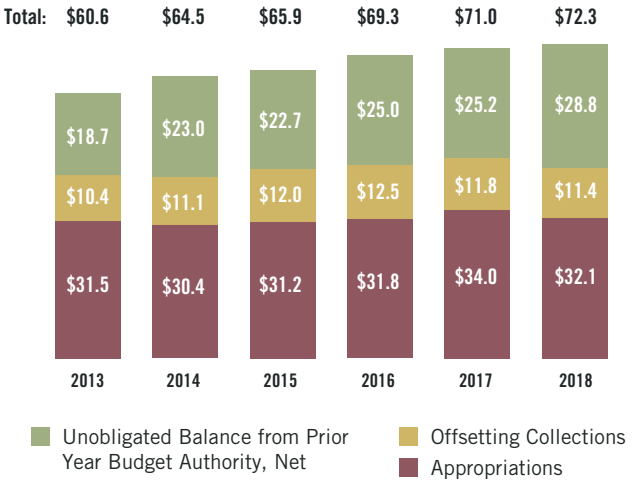
The Statement of Changes in Net Position identifies all financing sources available to, or used by, the Department to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals the Net Position at year-end. The Department's net position at the end of 2018 was $75.7 billion, a $1.9 billion (3 percent) increase from the prior fiscal year. This change resulted from the $1.4 billion increase in Unexpended Appropriations and a $460 million increase in Cumulative Results of Operations.

Combined Statement of Budgetary Resources: Ensuring Prosperity for America's Future

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, and unobligated balances brought forward from prior years. The "Trend in Total Budgetary Resources" bar chart highlights the budgetary trend over the fiscal years 2013 through 2018. A comparison of the two most recent years shows a $1.3 billion (2 percent) increase in total resources since 2017. This change resulted from an increase in unobligated balances from prior year budget authority ($3.6 billion) and decreases in appropriations ($1.9 billion) and offsetting collections ($0.4 billion).

TREND IN TOTAL BUDGETARY RESOURCES (2013 – 2018)
(dollars in billions)



The Department's Budgetary Position

For FY 2018 the majority of the Department's funding was provided by the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2018 (Public Law No. 115-141) enacted on March 23, 2018. 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 funds.

Budgetary Position for Diplomatic Engagement

The FY 2018 appropriations for Diplomatic Engagement totaled $15.2 billion, which included $11.0 billion in Enduring funds from Title I of the Act, and $4.2 billion in Overseas Contingency Operations (OCO) funded through Title VIII. Funding in both titles supports the people and programs that carry out U.S. foreign policy, advancing U.S. national security, political, and economic interests at 277 posts in 191 countries around the world. These funds also maintain and secure the U.S. diplomatic infrastructure platform, from which U.S. Government agencies operate overseas. In addition to new FY 2018 funding, nearly $12.2 billion in prior year funding remained available for obligation in FY 2018.

In addition to appropriated resources, the Department earned an estimated new revenue of $3.5 billion from user fees derived from passport and visa processing, including Machine Readable Visa fees, Immigrant Visa fees, the Western Hemisphere Travel Initiative Surcharge, Visa Fraud Prevention and Detection fees, and other fee and surcharge revenues that support the Consular and Border Security Programs (CBSP). CBSP provides protection to U.S. citizens overseas and contributes to national security and economic growth. These vital programs deny individuals who threaten the country entry into the United States, while facilitating the entry of legitimate travelers.

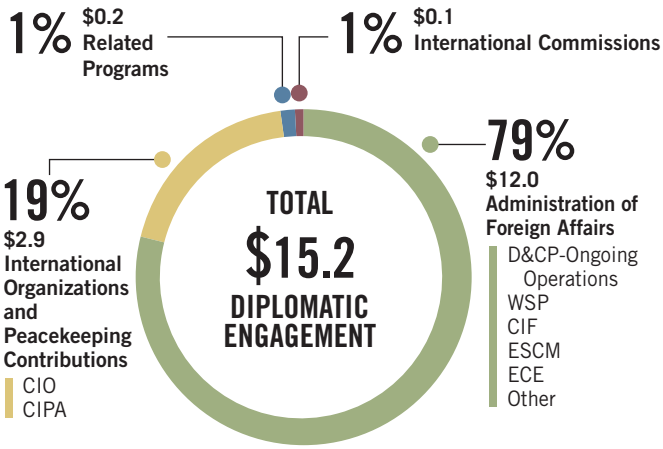
In FY 2018, Diplomatic and Consular Programs (D&CP), the Department's principal operating appropriation, totaled $8.7 billion, including Enduring and OCO funds. Within the total, $5 billion supported ongoing program operations and $3.7 billion went toward the Worldwide Security Protection (WSP) program to strengthen security for diplomatic personnel and facilities. Major elements of this funding included $958 million to support operations of the U.S. Mission in Iraq; $858.3 million for activities in Afghanistan; $113.3 million for key programs and activities in Pakistan; and $1.1 billion for supporting operations in other areas of unrest including high threat, high risk posts. In addition, $641 million supports public diplomacy programs to counter misinformation and secures support for U.S. policies abroad, of which $83 million is OCO and $558 million is Enduring.

The Department's Information Technology (IT) Central Fund supported $363 million in IT investments for FY 2018. This included $103 million from the Capital Investment Fund (CIF) appropriation and $260 million in revenue from Expedited Passport fees. Investment priorities included modernization of the Department's global IT infrastructure, architecture, and mobile device management. Accelerated cloud migration facilitates collaboration, data analytics, and records management.

The Embassy Security Construction and Maintenance (ESCM) appropriation totaled $2.3 billion, including $72 million in OCO, which provides U.S. missions overseas with secure, safe, and functional facilities. ESCM's centerpiece programs are Capital Security Cost Sharing ($1 billion) and Maintenance Cost Sharing ($0.2 billion), which enabled the Department to begin seven New Embassy Compound/New Consulate Compound projects and five maintenance projects. In addition to State's funding, these programs rely on over $1 billion in interagency contributions based on each agency's overseas presence. With other agency contributions, total funding for these programs exceeds $2.5 billion. This funding supported maintenance and repairs of the Department's real estate portfolio, which exceeds $52 billion in replacement value for owned assets and includes approximately 25,100 properties.

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at $646 million. ECE programs engage both domestic and foreign audiences to develop mutual understanding and build foundations for international cooperation. Major highlights of FY 2018 funding included: $320 million for Academic Programs, such as the J. William Fulbright Scholarship Program, $215 million for Professional and Cultural Exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program, and $29 million for the Young Leaders Initiatives. This appropriation also funds over 400 employees of the Bureau of Educational and Cultural Affairs.

DIPLOMATIC ENGAGEMENT BUDGET FY 2018
(dollars in billions)



The FY 2018 appropriation provided a total of $1.5 billion for the Contributions to International Organizations (CIO) account, including $96.2 million for Overseas Contingency Operations, and $1.4 billion in Enduring funds. Assessed contributions to international organizations include those for the United Nations and its specialized agencies, regional and Inter-American organizations, and other international organizations. The FY 2018 appropriation provided $1.4 billion for the Contributions for International Peacekeeping Activities (CIPA) account, including $967.5 million in OCO, and $414.6 million in Enduring funds for assessed contributions to international peacekeeping activities authorized by the United Nations.

The remainder of the Diplomatic Engagement enduring budget is comprised of Related Programs ($204 million) and International Commissions ($137 million) appropriations. Related programs include appropriations for the National Endowment for Democracy ($170 million), The Asia Foundation ($17 million), and the East-West Center ($16.7 million). The largest of the International Commissions is the International Boundary and Water Commission (IBWC), a binational commission that implements boundary and water treaties and international agreements between the United States and Mexico. IBWC was funded at $77.5 million.

Looking ahead, the Department's FY 2019 Diplomatic Engagement budget request totals $12.7 billion in new budget authority. The Department is not requesting OCO funding in FY 2019.

In February 2018, Congress passed a two-year budget deal that raised discretionary spending caps in FY 2018 as well as FY 2019. The higher discretionary spending cap included in the budget deal allowed the Administration to request all of the FY 2019 funding for the State Department and USAID as base funding, with no funds requested as OCO. While some of the Department's FY 2019 request still supports extraordinary costs of operating in conflict areas, these costs are no longer temporary and therefore are included in the request for Enduring funds in the base budget.

As part of the FY 2019 budget request, the Department also proposed that Congress cancel $301.2 million in Worldwide Security Protection Overseas Contingency Operations carryover balances appropriated as part of the FY 2017 Security Assistance Appropriations Act. This $301.2 million had been intended for security support to anticipated diplomatic reengagements in Syria, Libya, and Yemen. Net of this proposed cancellation, the FY 2019 Diplomatic Engagement request is $12.4 billion in budget authority.

The FY 2019 President's Budget lays out a vision for a Federal Government that is efficient, effective, and accountable. It provides for a strong national defense, promotes a healthy American economy, and takes steps to curb wasteful spending. The FY 2019 request will allow the Department to advance the nation's most important foreign policy goals and national security interests while ensuring that U.S. taxpayer dollars are used as effectively and efficiently as possible.

Budgetary Position for Foreign Assistance

The FY 2018 Department of State Foreign Assistance budget totaled $18.5 billion. Foreign Assistance programs support the President's commitment to four key national priorities: defending U.S. national security, fostering opportunities for U.S. economic interests, asserting U.S. leadership and influence, and ensuring effectiveness and accountability to the U.S. taxpayer.

Foreign Assistance programs under the purview of the Department of State are the Democracy Fund (DF); U.S. Emergency Refugee and Migration Assistance (ERMA); Foreign Military Financing (FMF);

Global Health Programs (GHP); International Military Education and Training (IMET); International Narcotics Control and Law Enforcement (INCLE); International Organizations and Programs (IO&P); Migration and Refugee Assistance (MRA); Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR); and Peacekeeping Operations (PKO). The Department also implements funds from the Assistance for Europe, Eurasia, and Central Asia account and the Economic Support Fund account.

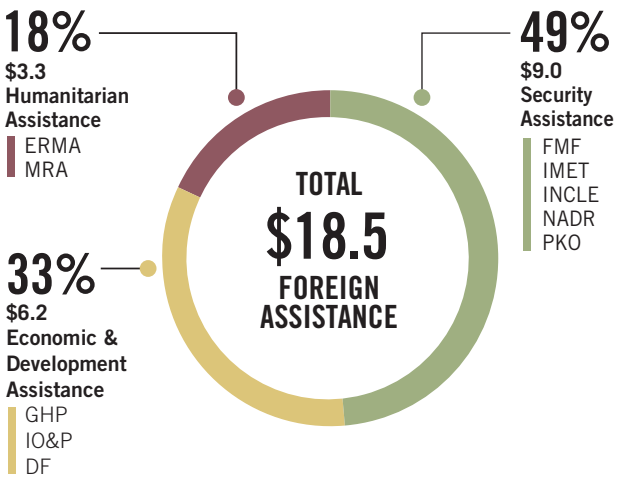
An important aspect of the Department's FY 2018 budget is the OCO component. OCO funds enable us to prevent, address, and help countries recover from manmade-caused crises and natural disasters, particularly in Africa, the Middle East and South Central Asia. The Department's Foreign Assistance portion of the FY 2018 budget for OCO totaled $3.9 billion in ERMA, FMF, INCLE, MRA, NADR, and PKO.

The Democracy Fund appropriation totaled $215.5 million in FY 2018; the funds were split, however, between the Department and USAID. The Department was allocated $150.4 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 2018 ERMA appropriation totaled $1 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 FY 2018 FMF appropriation totaled $6.1 billion, of which $460 million is designated as OCO and $5.7 billion supports core programs. FMF promotes U.S. national security by contributing to regional and global stability, strengthening military support for key U.S. allies and regional partner governments, and countering transnational threats, including terrorism and trafficking in narcotics, weapons, and persons. The provision of FMF assistance to partner militaries establishes and facilitates strong military-to-military cooperation, promotes U.S. trade and economic interests, and enables friends and allies to be interoperable with U.S., regional, and international military forces. The majority of FMF is allocated to Israel, Egypt, Jordan, Pakistan, and Iraq, and OCO funds are concentrated in Eastern Europe (Georgia,

FOREIGN ASSISTANCE BUDGET FY 2018
(dollars in billions)



Ukraine, and Moldova) and the Near East and South Asia (Egypt, Iraq, Jordan, Lebanon, Tunisia, and Pakistan).

In FY 2018, 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. These funds are used to control the epidemic through data-driven investments that strategically target geographic areas and population where the initiative can achieve the most impact for its investments. The majority of the funds ($3.7 billion) continued to be allocated to the Africa region where the HIV/AIDS epidemic is the most widespread. There was also made a $1.4 billion contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

The FY 2018 IMET appropriation totaled $110.9 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 2018 totaled $1.4 billion, of which $417.9 million is OCO and $950.8 million is for core programs. INCLE supports the safety and security of

the United States through bilateral, regional, and global programs that address and mitigate security threats posed by illicit trafficking in narcotics, persons, and wildlife, among other pernicious forms of transnational crime. INCLE programs assist U.S. partners in developing their criminal justice systems and capabilities in order to protect the national security and economic interests of the United States from the impact of crime and instability overseas. In FY 2018, many INCLE resources were focused where security situations are most dire, and where U.S. resources were used in tandem with host-country government strategies to maximize impact.

The FY 2018 IO&P 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 2018, the MRA appropriation totaled $3.4 billion, of which $2.4 billion was OCO and $927.8 million was for core programs. These funds provided humanitarian assistance and resettlement opportunities for refugees and conflict victims around the globe. In FY 2018, MRA contributed to key multilateral organizations such as the UN High Commissioner for Refugees and the International Committee of the Red Cross, and to non-governmental organizations that address pressing humanitarian needs overseas and resettle refugees in the United States.

The NADR appropriation in FY 2018 totaled $876 million, of which $220.5 million is OCO and $655.5 million supported core programs. NADR funding is used to support U.S. national interests through critical, security-related programs, 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 $537.9 million, of which $325.2 million was OCO and $212.7 million supported core programs. PKO is used to support programs that bolster the capacity of partner nations to conduct critical peacekeeping and counterterrorism operations, support stabilization in countries grappling with violent conflict, enhance maritime security, and promote security sector reform. In FY 2018, 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.

Did You Know?

George Catlett Marshall served as the 50th Secretary of State (1947-1949). He led the effort for the massive aid package to Western Europe that became known as the Marshall Plan. In 1953, he received the Nobel Peace Prize for his work to restore Europe's economy in the post-World War II period.

LEARN MORE

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

The Department of State's FY 2019 budget request for Foreign Assistance is currently under congressional consideration. The request is for $26.9 billion to support core programs.

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

Central Asian Projects Benefit Partners and United States

The C5+1 is a diplomatic forum for dialogue and development and a platform for joint efforts to address common challenges faced by the United States and the five Central Asia states. The C5+1 has emerged as a model of regional cooperation and a useful complement to other regional organizations in which the Central Asia countries participate. At his meeting with President Mirziyoyev in May 2018, Secretary Pompeo indicated that the C5+1 is a key part of our regional engagement and noted the positive role the C5+1 is playing in improving relationships in Central Asia, particularly in bolstering the region's economy.

Under the C5+1, the countries engage in cooperative projects on economic connectivity, environment, and security. For example, USAID's C5+1 projects Central Asia Business Competitiveness and Transport Corridor Development aim to help move goods across borders more efficiently, support the competitiveness of Central Asia's economies in regional and international markets, harmonize export and import policies in the region, and address transport and logistics border management throughout Central Asia. These projects are also connecting Central Asian agriculture businesses with U.S. companies. For example, the Gold Dried Fruits (GDF) Processing Facility participated in a trade mission to Latvia and Lithuania in April 2018, where Central Asian firms signed over $43 million in letters of intent to conduct future trade deals. GDF signed an agreement to sell melons. As part of growing their business to meet increased demand, GDF purchased John Deere tractors and equipment.

Acting Deputy Assistant Secretary Henry Ensher visits Gold Dried Fruits in Tashkent, Uzbekistan, April 2018. ***Department of State***

Management Assurances and Other Financial Compliances

Management Assurances

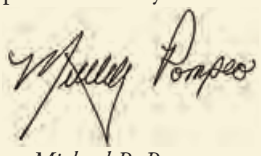
The The Department's Management Control policy is comprehensive and requires all Department managers to establish cost-effective systems of management controls to ensure U.S. Government activities are managed effectively, efficiently, economically, and with integrity. All levels of management are responsible 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. 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, 2018.

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.



Michael R. Pompeo
Secretary of State
November 15, 2018

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 (SoA) to the President and Congress. As such, the Department's management is responsible for managing risks and maintaining effective internal control.

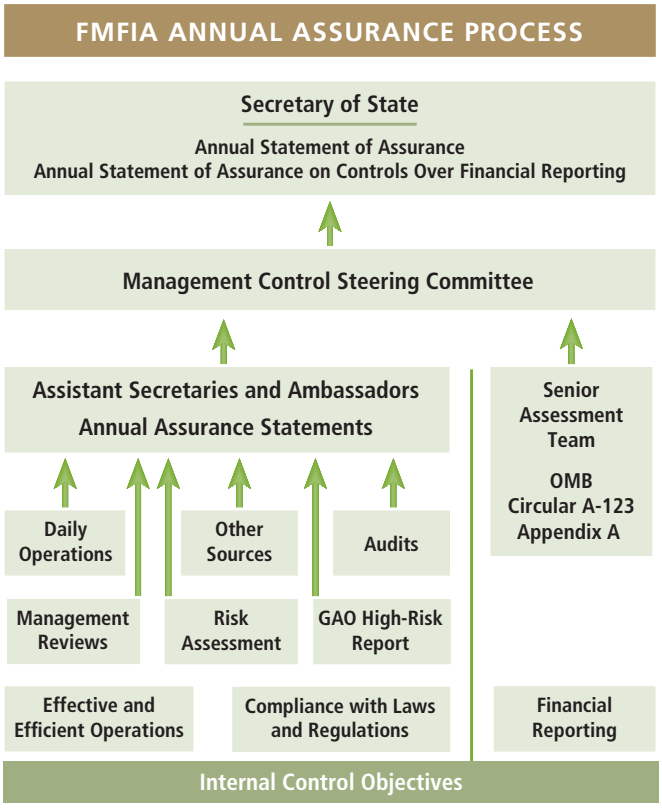
The FMFIA requires the GAO to prescribe standards of internal control in the Federal Government. Commonly known as the Green Book, these standards provide the internal control framework and criteria Federal managers must use in designing, implementing, and operating an effective system of internal control. 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.

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* 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 2018 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 currently on GAO's bi-annual High-Risk List.

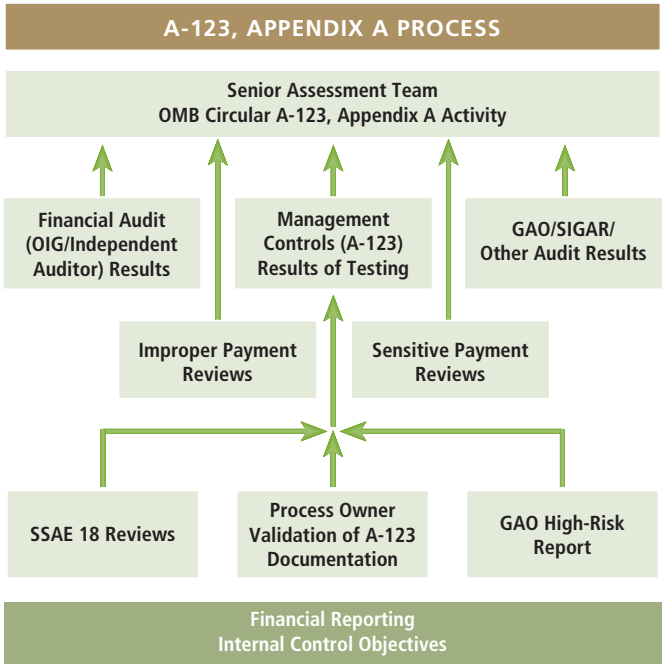
The Department's Management Control Steering Committee (MCSC) oversees the Department's management control program. The MCSC is chaired by the Comptroller, and is comprised of eight Assistant Secretaries, in addition to the Chief Information Officer, the Deputy Comptroller, the Deputy Legal Adviser, the Director for the Office of Budget and Planning, the Director for Human Resources, the Director for Management Policy, Rightsizing, and Innovation, the Director for the Office of Overseas Buildings Operations, and the Inspector General (non-voting). Individual SoAs from Ambassadors assigned overseas and Assistant Secretaries in Washington, D.C. serve as the primary basis for the Department's FMFIA SoA issued by the Secretary. The SoAs 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 2018 for the internal controls 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. The SAT also includes executives from the Office of the Legal Adviser and the Office of Inspector General (non-voting). 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 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's Office of Management Controls employs an integrated process to perform the work necessary to meet the requirements of OMB Circular A-123's



Appendix A and Appendix C (regarding Payment Integrity), the FMFIA, and the GAO's Green Book. During FY 2018, the Department continued to expand our work on the Green Book requirements that are directly related to testing entity-level controls, which is 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 five components and 17 principles were operating effectively and supported the Department's unmodified Statement of Assurance. The 2018 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. The Department complied with the requirements in OMB Circular A-123 during FY 2018 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.

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 SoAs 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 2018, the Department continued to take important steps to transform how the Department is implementing an Enterprise Risk Management (ERM) System. A principal element is to integrate better risk management into our everyday work across all of our operations. The Department's Office of Management Policy, Rightsizing, and Innovation (M/PRI) leads the Department's ERM implementation. The Deputy Secretary, supported by M/PRI, established the Department's Enterprise Risk Management Council. The Deputy Secretary elected to chair the Council, and membership includes all six Under Secretaries and six advisory members. M/PRI also expanded membership in the ERM

working group that collectively contributed toward developing policies and in updating the Department's risk profile. M/PRI developed a Departmental governance structure for ERM, enterprise risk criteria for use in improving the risk profile, completed an analysis of the strategic plan and its relation to the risk profile, and made other improvements to the process including a full implementation timeline.

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 identified instances, when combined, of substantial noncompliance with Federal financial management 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. Nonetheless, the Department is committed to continuing to work to address all identified financial management system deficiencies.

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. It provided a leadership role for the Department of Homeland Security (DHS), 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. OMB issued new reporting guidance and deadlines for compliance with FISMA for FY 2018, consolidating prior guidance in what OMB memo M-18-02 said would "ensure consistent, government-wide performance and agency adoption of best practices." It describes information security program oversight, FISMA reporting requirements including the requirement for agencies to conduct regular risk management assessments, and includes deadlines for agencies' quarterly and annual FISMA metrics.

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.

The Department takes the responsibility of being compliant with FISMA very seriously. The National Institute of Standards and Technology (NIST) Cybersecurity Framework identifies five core functional areas in managing cybersecurity risk. In 2018, OMB and DHS used these core areas and assessed

cybersecurity capabilities and compliance, and concluded that overall the Department improved its security posture from "at risk" to actively "managing" cybersecurity risk as highlighted below.

Identify

In 2018, the Department made significant progress in establishing and implementing a risk management strategy. Specifically, the Department:

- Developed services and tools to implement the agency-wide Cybersecurity Risk Management strategy to better identify, assess, respond to, and monitor information security risks at all levels of the organization, particularly, in identifying and enhancing the protection of high-value assets.
- Reduced the backlog of systems operating without an Authorization to Operate (ATO) or with an expired ATO. In the third quarter of 2018, the Department reported 67 percent of its systems as authorized to operated, compared to 21 percent in the third quarter of 2017. The dramatic improvement is due to a number of factors that include establishing a prioritization list that organizes the backlog into eight priorities based on system impact level and the risk, and the criticality of the information. The prioritization criteria ensures that systems at highest risk are addressed first. In addition, a streamlined process now facilitates applying NIST's Risk Management Framework (RMF Steps 1-5) in a more efficient manner and reduces the cycle time required for an ATO from 9-12 months to 6-18 weeks, depending upon the size and complexity of the system being assessed.

Protect

In 2018, the Department met its targets and managed risk for remote access protection, as well as credentialing and authorization. Specifically, the Department:

- Significantly reduced the number of stale accounts (i.e. accounts not logged into in the last 90 days) and misconfigured accounts (i.e. shared mailboxes not configured to use SmartCards) on both of the Department's unclassified and classified networks to improve access controls.
- Deployed a phishing awareness tool and performed quarterly exercises that test, train, and raise enterprise-wide awareness about how to recognize and respond to phishing attacks.
- Enhanced overall network security when unauthorized USB devices on OpenNet were identified; empowered information systems security officers at posts to remove the devices and take other remedial actions.
- Expanded its cyber and information security awareness capabilities via educational messaging distributed daily to all users worldwide seven days a week. These desktop alerts aimed to increase employees' awareness of cybersecurity threats and vulnerabilities, and offer tips about protecting the Department's information and infrastructure.
- Upgraded on-premise vulnerability and compliance scanning software to collect data and monitor exposure in real time.
- Implemented a system to collect and consolidate daily indicators of compromise and cybersecurity-related incidents. This data is incorporated in Threat Intelligence Watch lists.
- Continued to conduct annual in-depth penetration testing of the networks to identify, report, and mitigate network vulnerabilities before these security issues can be exploited. The Department's penetration testing team expanded its involvement with the Department's assessment and authorization process in accordance with NIST SP 800-53 Rev. 4 requirements.
- Required cleared American citizens, as well as locally employed staff to take Annual Counterintelligence and Insider Threat training.

Detect

In 2018, OMB and DHS verified the Department met its targets for intrusion detection and prevention, exfiltration, and enhanced defenses. Specifically, the Department:

- Created the Vulnerability Control Board to identify unauthorized and malicious internet traffic that can be blocked to improve bandwidth and data security. Multiple sites and traffic types have already been identified and blocked at domestic and at overseas facilities.

- Issued a Request for Service through the DHS DEFEND-C contract to implement an identity credential and access management system, which includes phase two of continuous diagnostics and mitigation (CDM) efforts. The Department's CDM program enhances government network security through automated control testing and progress tracking.

Response

In 2018, the ability to respond to and recover from cyber incidents was strengthened. Specifically, the Department:

- Continued to mature the Cyber Incident Response Team's (CIRT) ability to ingest, review, and apply all threat warnings and indications of compromise from DHS and the Federal cyber threat intelligence community.
- Deployed endpoint incident response tools capable of querying the entire enterprise within minutes to assist with hunting and response activities.
- Realigned the CIRT to a functional team format based on the NIST Incident Response Lifecycle.
- Implemented endpoint quarantine technology and processes to reduce potential compromise spread.
- Conducted exercises to test its data breach response plan for personally identifiable information (PII). The plan established policies and procedures; roles and responsibilities; collaboration and coordination; and transparency and timeliness requisite for a successful response to and management of a breach involving PII and safeguarding individual privacy.

Recover

In 2018, OMB and DHS verified the Department met its targets for automated tracking of incident information and contingency planning. Specifically, the Department:

- Established High Availability/Disaster Recovery plans in critical functions for high-value assets; updated the respective Information Technology Contingency Plan; and conducted tests following the recent transition to the Enterprise Converged Platform.
- Deployed and customized Splunk (a situational cybersecurity awareness tool) content to assist the cyber operations team with enhanced monitoring.
- Identified and worked on resolving of over 800 cases in response to cybersecurity-related incidents.
- Developed customized Splunk dashboards to monitor selected posts during times of heightened security concerns to provide an operationally-focused view of the collected logs. In cases where anomalies are observed, the Department initiates the incident response process.
- Placed blocking requests to the CIRT comprised of IP (intellectual property) addresses, URLs, and domains.
- Developed a Copyright Violations Report that generates daily reports on Internet traffic on the Department's network. The reports include incidents of streaming or downloading potentially copyrighted visual and audio files. These efforts result in a major reduction in download violations and improved bandwidth at the impacted posts.
- Created a continuous monitoring capability that gives the CIO new visibility into other Federal agencies' cyber threat information to better prioritize Computer Network Defense efforts.
- Established an internal cyber reporting capability – Situational Awareness Report – to help executive leadership focus on valid threats and make better-informed cybersecurity decisions.
- Deployed a Cybersecurity Situational Awareness dashboard capability using analytics to derive new insights for the network's defense; included a capability that actively scans for shadow IT devices across the enterprise; and worked with domestic entities and posts to research, analyze, and remediate.

In its FY 2018 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.

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act (DATA Act) of 2014's purpose was to make information related to Federal expenditures more easily accessible and transparent. In doing so, the Federal Government gave citizens, Congress, and others unprecedented public access to structured information about spending and opened up new horizons for oversight, accountability, activism, and innovation. The law required the U.S. Department of the Treasury to establish common standards for financial data provided by all Government agencies. At the same time, other collaborative efforts were underway with regard to how these elements would be displayed and made available to the public through the website USASpending.gov. Ultimately, the goal of the law is to improve the ability of Americans to track and understand how the government is spending their tax dollars. It is also the first step in a larger and longer effort for agencies to use data as a resource to transform the way that leadership manages and governs the agencies.

The Department has made considerable progress in complying with the DATA Act. Because of the extensive global presence of the Department, with more than 270 embassies, consulates, and other posts in over 180 countries, the Department faces challenges in consolidating data originating from around the world. This challenge also requires communication between multiple systems. To satisfy the requirements of the DATA Act, the Department has undertaken an initiative to transition the Global Financial Management System data warehouse into a Global Business Intelligence solution. This solution will be the single source for meeting internal and external financial reporting requirements for the Department. As part of this effort, the Department is upgrading the infrastructure supporting the data warehouse.

The Department has put strong internal controls in place while developing new processes to accurately record and validate 57 standardized data elements, capturing Procurement Instrument Identifiers and Federal Award Identification Numbers, and expanding infrastructure to unite data elements from multiple systems. Extensive other internal controls were established. Examples include weekly reconciliations to identify actions that were recorded in the Department's Global Financial Management System but did not have a matching action in the Federal Procurement Data System, and a Quality Assurance team who performs validation and verification procedures monthly. The Department reports financial and payment information to the public using USASpending.gov, and continues to work to achieve 100 percent accuracy of this data submitted from all around the world. The Department knows it needs to improve reporting of data for our overseas operations and will continue to make these improvements, while continuing to ensure the rigor and accountability over the expenditure of Department and taxpayer dollars.

Did You Know?

James Gillespie Blaine served two terms as Secretary of State. He was the 28th and 31st Secretary of State.

LEARN MORE

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

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 98 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.

North Korea's Vice Chairman Kim Yong Chol greets Secretary Pompeo upon arrival in Pyongyang, North Korea, July 5, 2018. ***Department of State***

SECTION II:

Financial Section

Message from the Comptroller

It is my sincere privilege to present the Fiscal Year (FY) 2018 Agency Financial Report (AFR), including this year's audited Financial Statements. The Department of State is committed to delivering the highest standard of financial accountability and transparency to the American public. As noted in the Secretary's Message, "this AFR, a key accountability document, 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 entrusted to us." More than facts and figures, the AFR also represents the challenging work performed on a daily basis by dedicated professionals around the world, in some of the most difficult operating environments, to further the Department's vital mission. Last year, in recognition of the exceptional quality of our 2017 AFR, the Association of Government Accountants awarded the Department the prestigious *Certificate of Excellence in Accountability Reporting*.

The scale and complexity of the Department's global mission and operations, and corresponding financial activities, is the central setting and context for our financial performance and challenges. The Department operates in over 270 embassies and consulates, located in more than 180 countries around the world. We conduct business on a 24/7 basis in over 135 currencies; account for more than $100 billion in assets in over 500 separate fiscal accounts; maintain over 225 bank accounts around the world; and account for tens of thousands of real and personal property assets with historical costs of more than $34 billion. We provide the shared administrative operating platform for more than 45 other U.S. Government entities overseas; and pay more than 106,000 Foreign and Civil Service, overseas local employees, and Foreign Service annuitants. These financial activities support our ability to advance America's interests on a broad range of foreign policy challenges and engagements that demand our attention.

In delivering our financial programs, the Bureau of the Comptroller and Global Financial Services (CGFS), the Department's corporate finance bureau, is committed to providing world-class financial services. Our strong commitment to quality financial services is backed by our ISO-9001 certified operations and Capability Maturity Model Integration (CMMI) standard for financial systems development. These quality management systems allow us to continuously improve our services and drive new automation and efficiencies into our services and support. For example, we are working to leverage our highly documented ISO-9001 certified processes to conduct pilots of robotic process automation (RPA) to automate workflows for administrative work, and customer experience (CX) pilots to identify and implement improvements most important to our customers.

We continue to prioritize, manage, and implement vital investments in modern, transformative financial systems and operations. These investments facilitate standardized and cost-conscious enterprise-wide financial business processes and meet the large scope of audit and compliance requirements. They also improve accurate and timely financial data and reporting to the American public on how the Department spends their tax dollars. To that end, as required by the Digital Accountability and Transparency Act of 2014 (DATA Act), the

Department reports financial and payment information on the Department's spending to the public using USASpending.gov, and continues to work to achieve 100 percent accuracy of this data submitted from all around the world. There is no doubt that the advancement of data will profoundly impact how we conduct business. The use of data as a resource will be central to the Department's transformational efforts and our ability to improve accountability, measure performance and enhance data-informed decision making. Our support of these efforts, together with our need to be responsible stewards of data, requires that we continuously assess and enhance the cybersecurity for our financial systems and data.

A strong and practiced commitment to effective internal controls is fundamental to our business. The Department maintains a robust system of internal controls that are validated by senior leadership. For FY 2018, 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. As highlighted in the AFR, the Department does not have any programs at risk for making significant improper payments, and we continue to leverage our payment risk assessments and recapture audit program, 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 Improper Payments Information Act (IPIA), as amended. For FY 2018, we continued to improve our internal controls program based upon recommendations by our Office of Inspector General. For example, our guidance included the expansion of requirements for assurances by all Department bureaus and posts regarding managing Federal financial assistance and performing program reviews.

The external annual audit process is another essential part of our commitment to strong corporate governance and effective internal controls. This year, I am pleased to report that the Department has received an unmodified ("clean") audit opinion on its FY 2018 Financial Statements, with no material weaknesses in internal controls over financial reporting identified by the Independent Auditor. This result, and our audited Financial Statements herein, represent the culmination of a nearly year-round rigorous compliance march with our partners, the Office of the Inspector General (OIG) and the Independent Auditor, Kearney & Company. While we are pleased with this outcome for FY 2018, we remain fully cognizant of items noted in the AFR and the Independent Auditor's Report that will require our continued attention and improvement. We may not always agree on all points with our audit partners, but we absolutely recognize and appreciate the importance of this annual practice. I would like to sincerely thank all parties for their collaborative and professional efforts throughout the audit process.

Going forward, we will provide effective programs, quality services, and also continue our transformation efforts that allow us to more efficiently and effectively deliver financial programs that support the Department's vital mission. We will conduct many of these efforts in strong support of the priority areas of the President's Management Agenda. 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. I also know that the outstanding team of financial professionals around the world and in CGFS is up to the task of meeting these challenges. In closing, I would like to extend my sincere appreciation and thanks to the Department's financial professionals, globally, who form the foundation for our success and strong financial stewardship. It is my honor and privilege to serve this great Nation and Department with you.

Sincerely,

Christopher H. Flaggs

Christopher H. Flaggs
Comptroller
November 15, 2018

Office of Inspector General
United States Department of State

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November 15, 2018

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Steve A. Linick

SUBJECT: Independent Auditor's Report on the U.S. Department of State 2018 and 2017 Financial Statements (AUD-FM-19-03)

An independent external auditor, Kearney & Company, P.C., was engaged to audit the consolidated financial statements of the U.S. Department of State (Department) as of September 30, 2018 and 2017, 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 2018 and 2017 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, 2018 and 2017, 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;
- four significant deficiencies[2] in internal control, specifically in the areas of 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, 2018, and the conclusions

[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.

[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.

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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 conduct of this audit.

Attachment: As stated.

KEARNEY & COMPANY

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INDEPENDENT AUDITOR'S REPORT
AUD-FM-19-03

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

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, 2018 and 2017, 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. 19-01, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit 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, 2018 and 2017, 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, Combining Statement of Budgetary Resources, Condition of Heritage Assets, and Deferred Maintenance and Repairs (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 Introduction, Message from the Secretary, Message from the Comptroller, Section III: Other Information, and Appendices 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, we have also issued reports, dated November 15, 2018, 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, 2018. 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 *Government Auditing Standards* and OMB Bulletin No. 19-01 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 15, 2018

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2018, and have issued our report thereon dated November 15, 2018. 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. 19-01, "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. 19-01. 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 of this section 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. Property and Equipment

The Department reported more than $24 billion in net property and equipment on its FY 2018 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 2018, 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 deficiencies was a significant deficiency. The individual deficiencies we identified are summarized as follows:

- Accounting for Personal Property – 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. We also tested the accuracy of the Department's capital inventory records and identified assets with inaccurate physical locations, assets that could not be physically located, and assets that were physically observed but not recorded by the Department. The Department's control structure did not ensure that personal property acquisitions, disposals, and transfers were recorded in a complete, timely, and accurate manner. 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.

- Accounting for Overseas Real Property – The Department operates at more than 270 posts in more than 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. We found several real property disposals that were not recorded by the Department in a timely manner. In addition, we tested real property acquisitions and identified deposits (that is, payments made prior to closing on the purchase of real property) in prior years that were not recorded as prepaid assets. Although the Department has implemented a periodic real property data call and project codes to identify prepayments, the controls did not ensure that all real property transactions were recorded in the proper fiscal year. The untimely processing of property disposals and the unrecorded acquisition prepayments resulted in misstatements in the Department's asset balances.

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- Accounting for Leases – The Department manages approximately 17,500 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 as well as leases that were recorded in the system twice. We also found errors in the Department's FMLP calculations. The Department's processes to record lease information and to ensure the accuracy of FMLP calculations were not always effective. As a result of errors identified by our audit, the Department adjusted its financial statement footnote disclosure.

- Reporting of Software – Federal agencies use various types of software applications, called internal use software, to conduct business. Applications in the development phase are considered software in development (SID). Agencies are required to report software as general property in their financial statements. We identified numerous instances in which the data recorded for SID were inaccurate and additional instances in which software applications were inappropriately classified as SID. 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, not all of whom understand the accounting requirements for reporting SID. Additionally, the Department did not have an effective process to confirm that information provided by project managers was complete or accurate. Without an effective process to obtain information pertaining to software applications, the Department may continue to understate its property balances and overstate its expenses.

II. 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 2018, 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 include a reasonable estimate of potential future outlays. We identified a large number of low-value obligations (that is, obligations that are $5 or less) 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 allotment holders did not always record 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; however, this effectively bypassed the controls in the financial system. The

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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 the requisite 15 days of execution of the obligating document and obligations that were posted after 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 obligates leases on an annual basis rather than for 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. The Department did not have an automated control to prevent users from recording obligations that exceeded allotment amounts. Department management stated that such an automated control is not reasonable because of 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. Overriding allotment controls could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

III. 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 that requires allotment holders to perform at least monthly reviews, analyses, and validation of ULOs. Weaknesses in controls over ULOs were initially reported in the audit of the Department's FY 1997 consolidated financial statements. During FY 2018, we continued to identify a significant number of invalid ULOs based on expired periods of performance, inactivity, lack of supporting documentation, or

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inability to support bona fide need. Although the Department took steps to improve its ULO validation efforts in FY 2018, for example it identified high-risk bureaus and expanded its reviews by obtaining and scrutinizing supporting documents to corroborate the responses provided by bureau officials, the internal control structure did not always ensure that invalid ULOs were identified and deobligated in a timely manner. 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 and the risk of duplicate or fraudulent payments because of the large number of invalid ULOs is increased.

IV. Information Technology

The Department's information systems and electronic data depend on the confidentiality, integrity, and availability of the Department's comprehensive and interconnected IT infrastructure using various technologies around the globe. Therefore, it is critical that the Department manage information security risks 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 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),[1] the Office of Inspector General (OIG) is responsible for the audit of the Department's information security program. In the FY 2018 FISMA report,[2] OIG reported security weaknesses that significantly impacted the Department's information security program. Specifically, OIG reported weaknesses in all eight FY 2018 Inspector General FISMA metric domains: risk management, configuration management, identity and access management, data protection and privacy, security training, information security continuous monitoring, incident response, and contingency planning. OIG reported:

> The deficiencies identified within the information security program occurred for several reasons. For example, the CIO does not have proper authority to manage IT activities, as provided for in law. In addition, the Department has not completed the development and implementation of an information security risk management strategy or identified resources to support the implementation of a Department-wide information security risk management strategy. Furthermore, the Department has not maintained a complete and accurate organization-wide information system inventory.

Without an effective information security program, the Department remains vulnerable to IT-centered attacks and threats to its critical mission-related functions. Information security program weaknesses can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial

[1] Federal Information Security Modernization Act of 2014, Public L. No. 113-283, 128 STAT. 3079-3080 (December 18, 2014).
[2] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-19-08, October 2018).

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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 in each audit 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 2017 financial statements,[3] we noted several issues that were related to internal control over financial reporting. The status of the FY 2017 internal control findings is summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2017 Status	FY 2018 Status
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 has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management's response, and accordingly, we express no opinion on it.

[3] OIG, *Independent Auditor's Report on the U.S. Department of State 2017 and 2016 Financial Statements* (AUD-FM-18-05, November 2017).

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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 America, *Government Auditing Standards*, and OMB Bulletin No. 19-01 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2018

KEARNEY& COMPANY

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

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

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2018, and have issued our report thereon dated November 15, 2018. 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. 19-01, "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)[1] 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 or potential noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-01 and which are summarized as follows:

- *Antideficiency Act*.[2] 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, or (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

[1] Federal Financial Management Improvement Act of 1996, Public L. No. 104-208, 110 STAT. 3009 (September 30, 1996).
[2] Antideficiency Act, Public L. No. 97-258, 96 STAT. 923 (September 13, 1982).

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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.

- *Prompt Payment Act*.[3] 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 consistently calculate or pay interest penalties for overdue payments to overseas vendors or international organizations. The Department was unable to provide legal justification exempting the Department from paying interest penalties for payments to these types of entities. 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 long-standing 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 property and equipment, budgetary accounting, and unliquidated obligations.
- During its annual evaluation of the Department's information security program, as required by the Federal Information Security Modernization Act (FISMA), the Department's Office of Inspector General reported control weaknesses in all eight FY 2018 Inspector General FISMA metric domains.[4]
- 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. We identified systemic issues in the Department's use of allotment overrides that allowed officials to exceed allotments.
- The Department did not always minimize waste, loss, unauthorized use, or misappropriation of Federal funds. For example, the Office of Inspector General reported a significant amount of questioned costs and funds that could be put to better use during FY 2018.

[3] 31 United States Code Chapter 39, "Prompt Payment."
[4] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-19-08, October 2018).

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- In addition, the previously reported matters related to the Antideficiency Act and the Prompt Payment Act impact the Department's compliance with FFMIA.

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. Since our FY 2009 audit, we have reported annually that the Department did not substantially comply with FFMIA.

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 has provided its response to our findings in a separate letter 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. 19-01 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2018

United States Department of State

Comptroller

Washington, D.C. 20520

November 14, 2018

UNCLASSIFIED

MEMORANDUM

TO: OIG - Steve A. Linick

FROM: CGFS – Christopher H. Flaggs

SUBJECT: Draft Report on the Department of State's Fiscal Years 2018 and 2017 Financial Statements.

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

The Department operates in over 180 countries and 135 currencies in some of the most challenging environments. The scale and complexity of Department activities and corresponding financial management operations and requirements are immense. We 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. An important element of our accountability is the fundamental discipline of the annual external financial statement audit process and the issuance of the Department's audited financial statements. Few outside the financial community likely realize or appreciate the time and effort that go into producing the audit and the Agency Financial Report. It is a rigorous and exhaustive process, and this year was no exception. It has been a concerted and dedicated effort by all stakeholders.

We appreciate and extend our sincere thanks for the professionalism and commitment by all parties, including the Office of the Inspector General (OIG) and Kearney & Company, the independent external auditor. While we may not agree on every aspect of the process and findings, we acknowledge the importance of the process and the real benefits derived from the improvements that have been made over the last ten years, working together with the OIG and Kearney & Company throughout the annual audit cycles. We know that there will always be new challenges and concerns given our complex global operating environment and scope of compliance requirements. Even so, 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 2018 and FY 2017 principal financial statements and with no material weaknesses in internal controls over financial reporting. We remain committed to strong corporate governance and internal controls as demonstrated by our dedicated system of internal controls overseen by our Management Control Steering Committee (MCSC), Senior Assessment Team (SAT), and supported by senior leadership. We appreciate the OIG's participation and contributions in both the MCSC and SAT. We fully recognize that there is more to be done and that the items identified in the Draft Report will require our continued attention and improvement. We look forward to working with you and all stakeholders on addressing these issues.

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 2017 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	2018	2017
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	3	$ 58,935	$ 55,305
Investments, Net	4	19,265	18,867
Interest Receivable	4	137	136
Accounts Receivable, Net	5	177	110
Other Assets	8	1,327	1,316
Total Intragovernmental Assets		79,841	75,734
Accounts and Loans Receivable, Net	5	129	93
Cash and Other Monetary Assets	6	202	222
Property and Equipment, Net	7	24,332	23,517
Other Assets	8	1,093	1,038
Total Assets		**$ 105,597**	**$ 100,604**
Stewardship Property and Equipment; Heritage Assets	7		
LIABILITIES	9		
Intragovernmental Liabilities:			
Accounts Payable		$ 152	$ 164
Other Liabilities		301	283
Total Intragovernmental Liabilities		453	447
Accounts Payable		2,461	2,102
After-Employment Benefit Liability	10	22,635	20,603
International Organizations Liability	11	2,652	1,933
Other Liabilities	9,12	1,722	1,696
Total Liabilities		**29,923**	**26,781**
Contingencies and Commitments	13		
NET POSITION			
Unexpended Appropriations – Funds From Dedicated Collections		—	—
Unexpended Appropriations – Other Funds		46,493	45,102
Cumulative Results of Operations – Funds From Dedicated Collections	14	353	322
Cumulative Results of Operations – Other Funds		28,828	28,399
Total Net Position		**75,674**	**73,823**
Total Liabilities and Net Position		**$ 105,597**	**$ 100,604**

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,	2018	2017
Peace and Security		
Total Cost	$ 2,190	$ 2,092
Earned Revenue	(57)	(64)
Net Program Costs	2,133	2,028
Democracy, Human Rights, and Governance		
Total Cost	560	591
Earned Revenue	(8)	(10)
Net Program Costs	552	581
Health, Education, and Social Services		
Total Cost	8,871	8,370
Earned Revenue	—	—
Net Program Costs	8,871	8,370
Humanitarian, Economic Development, and Environment		
Total Cost	3,166	3,358
Earned Revenue	—	—
Net Program Costs	3,166	3,358
International Organizations and Commissions		
Total Cost	3,042	3,099
Earned Revenue	(11)	(12)
Net Program Costs	3,031	3,087
Diplomatic and Consular Programs		
Total Cost	14,463	14,214
Earned Revenue	(6,608)	(6,814)
Net Program Costs	7,855	7,400
Administration of Foreign Affairs		
Total Cost	3,510	3,258
Earned Revenue	(1,926)	(1,892)
Net Program Costs Before Assumption Changes	1,584	1,366
Actuarial Loss on Pension Assumption Changes (Notes 1 and 10)	1,547	326
Net Program Costs	3,131	1,692
Total Cost and Loss on Assumption Changes	**37,349**	**35,308**
Total Revenue	**(8,610)**	**(8,792)**
Total Net Cost	**$ 28,739**	**$ 26,516**

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,	2018			2017
	Funds From Dedicated Collections	All Other Funds	Consolidated Total	Consolidated Total
Unexpended Appropriations				
Beginning Balances	$ —	$ 45,102	$ 45,102	$ 40,816
Budgetary Financing Sources:				
Appropriations Received	—	31,002	31,002	33,032
Appropriations Transferred in(out)	—	162	162	(64)
Rescissions and Canceling Funds	—	(196)	(196)	(250)
Appropriations Used	—	(29,577)	(29,577)	(28,432)
Total Budgetary Financing Sources	—	1,391	1,391	4,286
Total Unexpended Appropriations	**—**	**46,493**	**46,493**	**45,102**
Cumulative Results of Operations				
Beginning Balances	$ 322	$ 28,399	$ 28,721	$ 27,269
Budgetary Financing Sources:				
Appropriations Used	—	29,577	29,577	28,432
Donations	13	—	13	14
Transfers in(out) without Reimbursement	51	—	51	46
Other Financing Sources:				
Donations	12	—	12	—
Transfers in(out) without Reimbursement	—	4	4	(7)
Imputed Financing from Costs Absorbed by Others	—	187	187	137
Non-entity Collections	—	(645)	(645)	(654)
Total Financing Sources	**76**	**29,123**	**29,199**	**27,968**
Net Cost of Operations	(45)	(28,694)	(28,739)	(26,516)
Net Change	31	429	460	1,452
Total Cumulative Results of Operations	**353**	**28,828**	**29,181**	**28,721**
Net Position	**$ 353**	**$ 75,321**	**$ 75,674**	**$ 73,823**

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,	2018	2017
Budgetary Resources:		
Unobligated balance from prior year budget authority, net	$ 28,754	$ 25,109
Appropriations (discretionary and mandatory)	32,117	34,023
Borrowing authority (discretionary and mandatory)	1	1
Spending authority from offsetting collections (discretionary and mandatory)	11,428	11,838
Total Budgetary Resources	**$ 72,300**	**$ 70,971**
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 43,000	$ 43,538
Unobligated balance, end of year:		
Apportioned, unexpired accounts	28,198	26,103
Exempt from apportionment, unexpired accounts	123	165
Unapportioned, unexpired accounts	114	160
Unexpired unobligated balance, end of year	28,435	26,428
Expired unobligated balance, end of year	865	1,005
Unobligated balance, end of year (total)	29,300	27,433
Total Budgetary Resources	**$ 72,300**	**$ 70,971**
Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	28,406	29,177
Distributed offsetting receipts (-)	(507)	(557)
Agency outlays, net (discretionary and mandatory)	**$ 27,899**	**$ 28,620**

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., 2018 equals Fiscal Year 2018.

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. For further discussion on consolidated entities and disclosure entities in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity*, see Note 2.

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 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.

Acting Under Secretary for Public Diplomacy and Public Affairs Heather Nauert visits the European Centre of Excellence for Countering Hybrid Threats in Helsinki, Finland, July 16, 2018.

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 as revenue at the time of donation because they are heritage assets. 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 the unexpended balances of appropriation accounts, trust accounts, and revolving funds. It is available to 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 and the Foreign Service National Defined Contributions Retirement Fund. 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, Middle Eastern-Western Dialogue, and International Center 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 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.

Benjamin Franklin Medal of the Congress, 1956. It was struck in honor of the 250th anniversary of Franklin's birth and distributed to organizations which are part of Franklin's legacy. *Department of State*

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 substantially complete, 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 the value is $1 million or more and 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' Payment 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 percent or 3.1 percent (depending on date of hire) of their salary, with the Department making contributions of 13.7 percent or 11.9 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 merit salary increases 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. The Department's actuary completes an Actuarial Experience Study approximately every five years to ensure the assumptions reflect the most recent experience and future expectations. The Department's last study was completed in FY 2018. The economic assumptions changes from the experience study are different from the economic assumptions changes determined under SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits*. The changes resulting from the 2018 study are described later in this note. Also see Note 10, *After-Employment Benefit Liability*, for the Department's accounting policy for FSRDF retirement-related benefits and the associated actuarial present value of projected plan benefits.

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.

Art Bank work "Washington Monument with Scaffold" (2013), Colin Winterbottom, pigment print on paper.

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 Standards (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.

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.

Change in Accounting Estimate

The *Foreign Service Retirement Plans Actuarial Experience Study 2012 – 2017*, mentioned earlier in this note, resulted in significant demographic actuarial assumptions changes. These changes to the assumptions as well as changes required by SFFAS No. 33 used to project the valuation of the FSRDF actuarial liability resulted in an overall actuarial loss in 2018 as noted on the Statement of Net Cost. For a further description and itemization, see Note 10.

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 2017 amounts have been reclassified to conform to the 2018 presentation.

2 Disclosure Entities and Related Parties

The FASAB issued SFFAS No. 47 on December 23, 2014, and updates FASAB's *Statement of Federal Financial Accounting Concepts 2: Entity and Display*. FASAB developed this new guidance to help Federal managers identify entities to be included in the General Purpose Federal Financial Reports and their appropriate reporting requirements, due to increased complexity in certain relationships between the Federal Government and non-Federal entities. Implementation of SFFAS No. 47 began October 1, 2017, for fiscal year 2018.

In response to SFFAS No. 47, the Department conducted a systematic and thorough review of all organizations named in either the Budget of the United States Government or the Department's Congressional Budget Justification. The Department found that all of the organizations fell into one of the following categories: reports separately to the Department of the Treasury, is reported by another agency, is already included in the Departments financial statements, or is immaterial and does not need to be reported. The Department determined there are no disclosure entities to report. Related parties are discussed below. The IBWC continues to be included as a consolidation entity as reported in Note 1. Additionally, the Department found that the following organizations are already consolidated in these financial statements: International Joint Commission, International Boundary Commission, and International Center.

SFFAS No. 47 requires disclosure of significant Related Party relationships if the reporting entity believes it would be misleading to exclude them. Large international organizations, while not controlled by the United States, are often significantly influenced by the Government as defined in SFFAS No. 47. In many cases, the United States participates in the policy discussion of the organization through the United States' involvement on boards and counsels. Prior to SFFAS No. 47, the Department determined that the relationship with many international organizations were significant enough to warrant disclosure. Note 11, *International Organizations Liability*, discusses the Department's funding, payments, and open liabilities to these organizations at the end of each year. It also presents amounts for the United Nations separately in addition to aggregate amounts for the other organizations. Based on the requirements for related parties in paragraph 89 section a-b, the Department's current disclosure already meets the SFFAS No. 47 requirements.

The East-West Center (EWC) is a Congressionally-authorized non-profit organization dedicated to educational and policy engagement on substantive issues between the United States and the Asia Pacific region. Established by Congress in 1960, for more than 50 years the EWC has been promoting better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperation study, research, and dialogue. Approximately half of EWC's annual revenues of around $39 million comes from the Department which received an annual appropriation of $16.7 million for EWC in FY 2018. The EWC Board of Governors consists of 18 members including 5 appointed by the Secretary of State and the Assistant Secretary of State for Educational and Cultural Affairs.

The Department receives an annual appropriation and provides monies to several International Fisheries Commissions to fund the U.S. share of operating expenses for ten international fisheries commissions including the Great Lakes Fishery Commission, International Pacific Halibut Commission, and Pacific Salmon Commission. Each commission facilitates international cooperation by conducting and coordinating scientific studies of fish stocks and other marine resources and their habitats. Many also oversee the allocation of fishing rights to their members. Amounts provided maintain voting privileges and influence in the commissions and organizations to advance the economic and conservation interests of the United States. The Department provided approximately $45 million in FY 2018.

3 Fund Balance with Treasury

Fund Balance with Treasury at September 30, 2018 and 2017, is summarized below *(dollars in millions)*.

Status of Fund Balance with Treasury	2018	2017
Unobligated Balances Available	$ 28,280	$ 26,268
Unobligated Balances Unavailable	967	1,165
Obligated Balances not yet Disbursed	29,581	27,756
Total Unobligated and Obligated	58,828	55,189
Deposit and Receipt Funds	107	116
Total	$ 58,935	$ 55,305

4 Investments

Investments at September 30, 2018 and 2017, are summarized below *(dollars in millions)*. All investments are classified as Intragovernmental Securities.

At September 30, 2018:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	$ 19,184	$ 19,184	2016–2028	1.375%–5.250%	$ 137
Subtotal	19,184	19,184			137
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2017–2021	.750%–2.000%	—
Eisenhower Exchange Fellowship Fund	8	8	2017–2019	3.500%–8.875%	—
Middle Eastern-Western Dialogue Fund	12	12	2018–2022	1.000%–2.000%	—
Gift Funds, Treasury Bills	24	24	2017–2026	.750%–3.125%	—
International Center	15	15	2017	0.875%	—
Foreign Service National Defined Contribution Retirement Fund	17	17	2018–2043	0.750%–2.875%	—
Subtotal	81	81			—
Total Investments	$ 19,265	$ 19,265			$ 137

At September 30, 2017:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	$ 18,792	$ 18,792	2018–2028	1.375% – 5.125%	$ 136
Subtotal	18,792	18,792			136
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2018–2021	0.750% – 2.000%	—
Eisenhower Exchange Fellowship Fund	8	8	2018–2019	2.750% – 8.125%	—
Middle Eastern-Western Dialogue Fund	13	13	2018–2022	1.000% – 2.000%	—
Gift Funds, Treasury Bills	24	24	2017–2026	0.750% – 3.125%	—
International Center	15	15	2017	0.875%	—
Foreign Service National Defined Contribution Retirement Fund	10	10	2019–2043	0.750% – 2.875%	—
Subtotal	75	75			—
Total Investments	$ 18,867	$ 18,867			$ 136

(continued on next page)

NOTE 4: Investments (continued)

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.

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, 2018 and 2017, are summarized here *(dollars in millions)*. All are entity receivables.

	2018			2017		
	Entity Receivables	Allowance for Uncollectible	Net Receivables	Entity Receivables	Allowance for Uncollectible	Net Receivables
Intragovernmental Accounts Receivable	$ 177	$ —	$ 177	$ 111	$ (1)	$ 110
Non-Intragovernmental Accounts and Loans Receivable	170	(41)	129	130	(37)	93
Total Receivables	$ 347	$ (41)	$ 306	$ 241	$ (38)	$ 203

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 2018, net of allowance for uncollectible accounts, is $306 million. This balance consists of $177 million in Federal intragovernmental reimbursable agreements for providing goods and services to other Federal agencies. The $170 million in Accounts and Loans Receivables due from non-Federal entities (see Accounts and Loans Receivable in Note 1) consists mainly of $167 million of civil monetary fines and penalties and Value Added Taxes. The remaining $3 million is repatriation loans and associated administration fees.

The new U.S. Embassy Nouakchott, Mauritania is situated on a 10.5-acre site in the Tevragh Zeina district. The project was dedicated in October 2017. ***Department of State/OBO***

6 Cash and Other Monetary Assets

The Cash and Other Monetary Assets at September 30, 2018 and 2017, are summarized below *(dollars in millions)*. There are no restrictions on entity cash. Non-entity cash is restricted as discussed below.

	2018			2017		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
After-Employment Benefit Assets	$ 196	$ —	$ 196	$ 186	$ —	$ 186
Emergencies in the Diplomatic and Consular Service	6	—	6	4	—	4
Other Cash	—	—	—	32	—	32
Total	$ 202	$ —	$ 202	$ 222	$ —	$ 222

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 $196 million and $186 million as of September 30, 2018 and 2017, respectively.

Other Cash

In 2017, as a result of a unique overseas land purchase transaction at year end, other cash was on hand that was transferred in fiscal year 2018.

The Blair House Library is an elegant room that houses over 1,500 books on the history and culture of the United States and other countries. *Department of State*

7 Property and Equipment, Net

Property and Equipment, Net balances at September 30, 2018 and 2017, are shown in the following table *(dollars in millions)*.

	2018			2017		
Major Classes	**Cost**	**Accumulated Depreciation**	**Net Value**	**Cost**	**Accumulated Depreciation**	**Net Value**
Real Property:						
Overseas –						
Land and Land Improvements	$ 2,782	$ (97)	$ 2,685	$ 2,716	$ (92)	$ 2,624
Buildings and Structures	23,362	(9,145)	14,217	20,887	(8,207)	12,680
Construction-in-Progress	3,894	—	3,894	4,942	—	4,942
Assets Under Capital Lease	179	(64)	115	179	(64)	115
Leasehold Improvements	693	(386)	307	628	(381)	247
Domestic –						
Structures, Facilities and Leaseholds	1,496	(564)	932	1,381	(526)	855
Construction-in-Progress	448	—	448	266	—	266
Assets Under Capital Lease	244	(18)	226	244	(6)	238
Land and Land Improvements	82	(9)	73	81	(8)	73
Total – Real Property	33,180	(10,283)	22,897	31,324	(9,284)	22,040
Personal Property:						
Aircraft	690	(439)	251	692	(405)	287
Vehicles	990	(662)	328	988	(643)	345
Communication Equipment	29	(21)	8	28	(21)	7
ADP Equipment	351	(193)	158	312	(160)	152
Reproduction Equipment	8	(7)	1	9	(7)	2
Security Equipment	277	(132)	145	285	(115)	170
Internal Use Software	305	(251)	54	288	(226)	62
Software-in-Development	253	—	253	229	—	229
Other Equipment	382	(145)	237	357	(134)	223
Total – Personal Property	3,285	(1,850)	1,435	3,188	(1,711)	1,477
Total Property and Equipment, Net	$ 36,465	$ (12,133)	$ 24,332	$ 34,512	$ (10,995)	$ 23,517

(continued on next page)

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 or purchased using donated or appropriated funds. The Department provides protection and preservation services to maintain all Heritage Assets in the best possible condition as part of America's history.

HERITAGE ASSETS
For the Years Ended September 30, 2017 and 2018

	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	Poor to excellent	Good to excellent	Good to excellent	Poor to good
Number of Assets – 9/30/2016	1,818	2,600	1,149	18,338	1,191
Acquisitions	13	28	38	66	58
Adjustments	4			189	2
Disposals	7			171	1
Number of Assets – 9/30/2017	1,828	2,628	1,187	18,422	1,250
Deferred Maintenance – 9/30/2017	N/A	N/A	N/A	N/A	N/A
Acquisitions	12	22	15	243	34
Adjustments	1		6	251	1
Disposals	21	30		322	3
Number of Assets – 9/30/2018	1,820	2,620	1,208	18,594	1,282
Deferred Maintenance – 9/30/2018	N/A	N/A	N/A	N/A	N/A

(continued on next page)

Art Bank work "Iceberg in the Evening III, East Greenland, August 27, 2006" (2017), Camille Seaman, pigment print on paper.

HERITAGE ASSETS *(continued)*
For the Years Ended September 30, 2017 and 2018

	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 – 9/30/2016	33	4,036	2,605	140
Acquisitions		344	1	
Adjustments		2	30	
Disposals		19	13	
Number of Assets – 9/30/2017	33	4,363	2,623	140
Deferred Maintenance – 9/30/2017	$6,038,000	N/A	N/A	$1,474,000
Acquisitions		522	4	
Adjustments		10	4	
Disposals		11	19	
Number of Assets – 9/30/2018	33	4,884	2,612	140
Deferred Maintenance – 9/30/2018	$7,955,000	N/A	N/A	$1,474,000

8 Other Assets

The Department's Other Assets are primarily comprised of advances and prepayments as described in Note 1. The majority of Intragovernmental Assets are prepayments to USAID in support of the Global Health and Child Survival program and the Defense Security Cooperation Agency in support of the Pakistan Counterinsurgency Capability and Peacekeeping Operations programs. The Non-Intragovernmental Advances are predominantly prepayments to grantees in support of the Global Health and Child Survival program. Other Non-Intragovernmental Advances include prepayments for the Overseas Buildings Operations real property rent and acquisitions.

The Department's Other Assets as of September 30, 2018 and 2017, are summarized below *(dollars in millions)*.

Other Assets	2018	2017
Intragovernmental Assets:		
Other Advances and Prepayments	$ 1,327	$ 1,316
Non-Intragovernmental Advances:		
Salary Advances	8	8
Travel Advances	15	15
Other Advances and Prepayments	1,053	993
Inventory	17	22
Total Other Assets	$ 2,420	$ 2,354

9 Other Liabilities

The Department's Other Liabilities at September 30, 2018 and 2017, are summarized below *(dollars in millions)*.

	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Intragovernmental						
Deferred Revenue	$ 239	$ —	$ 239	$ 206	$ —	$ 206
Custodial Liability	24	—	24	10	—	10
Other Liabilities	15	23	38	67	—	67
Total Intragovernmental	278	23	301	283	—	283
Federal Employees Compensation Act Benefits	93	—	93	95	—	95
Capital Lease Liability	13	60	73	15	79	94
Accrued Salaries Payable	261	—	261	248	—	248
Contingent Liability	—	8	8	—	5	5
Pension Benefits Payable	64	—	64	61	—	61
Accrued Annual Leave	—	395	395	—	394	394
Environmental Liability	—	96	96	—	100	100
Other Liabilities	670	—	670	670	—	670
Deferred Revenues	62	—	62	29	—	29
Subtotal	1,163	559	1,722	1,118	578	1,696
Total Other Liabilities	$ 1,441	$ 582	$ 2,023	$ 1,401	$ 578	$ 1,979

Environmental Liability associated with Asbestos Cleanup and Other

The Department has estimated both friable, $8 million, and nonfriable, $87 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, 2018, 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.

Secretary Pompeo, Ivanka Trump (center right), and Acting Director of the Office to Monitor and Combat Trafficking in Persons Kari Johnstone (front far left) pose with the 2018 'TIP Report Heroes' in Washington D.C., June 28, 2018. *Department of State*

NOTE 9: Other Liabilities (continued)

Liabilities Not Covered by Budgetary Resources

The Department's liabilities are classified as liabilities covered by budgetary resources, liabilities not covered by budgetary resources, or liabilities not requiring 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. Liabilities not requiring budgetary resources are for liabilities that have not in the past required and will not in the future require the use of budgetary resources. This includes liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue. The liabilities in this category at September 30, 2018 and 2017 are summarized in the Schedule of Liabilities Not Covered by Budgetary Resources *(dollars in millions)*.

Liabilities Not Covered by Budgetary Resources	2018	2017
Intragovernmental Liabilities		
Unfunded FECA Liability	$ 20	$ 22
Total Intragovernmental Liabilities	20	22
International Organizations Liability	1,534	1,344
After-Employment Benefit Liability:		
Foreign Service Retirement Actuarial Liability	2,672	1,129
Foreign Service Nationals (FSN):		
Defined Contributions Fund	221	200
Defined Benefit Plans	90	61
Lump Sum Retirement and Voluntary Severance	397	348
Total After-Employment Benefit Liability	3,380	1,738
Accrued Annual Leave	395	394
Environmental Liability	96	100
Capital Lease Liability	73	94
Contingent Liability	8	5
Other Liabilities	455	398
Total Liabilities Not Covered by Budgetary Resources	5,961	4,095
Total Liabilities Covered by Budgetary Resources	23,831	22,560
Total Liabilities Not Requiring Budgetary Resources	131	126
Total Liabilities	$ 29,923	$ 26,781

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,	2018	2017
Foreign Service Officer		
Foreign Service Retirement and Disability Fund	$ 21,927	$ 19,994
Foreign Service Nationals		
Defined Contributions Fund	221	200
Defined Benefit Plans	90	61
Lump Sum Retirement and Voluntary Severance	397	348
Total FSN	708	609
Total After-Employment Benefit Liability	$ 22,635	$ 20,603

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 2018 and 2017.

Normal Cost:	2018	2017
FSRDS	35.38%	34.50%
FSPS	28.00%	25.95%

As discussed in Note 1 sections *Foreign Service Retirement and Disability Fund* and *Changes in Accounting Estimate*, there was a significant actuarial loss resulting from assumption

changes determined appropriate by an experience study performed by actuaries retained by the Department. The *Foreign Service Retirement Plans Actuarial Experience Study 2012 – 2017* describes extensive assumption changes, both economic and demographic. The economic assumption change related to merit salary growth experience. The merit salary increase is the portion of the overall annual pay increase that is over and above the annual general salary and locality pay increases, i.e. the salary increase derived from career longevity and promotions.

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 significant revisions to mortality rate assumptions for non-disabled, child, and other survivor annuitants based in the adoption of more modern mortality tables and improvement scales. There were also changes to assumptions related to the future separation of active employees including their probability of withdrawal, retirement, or becoming disabled. The actuarial loss of $1,677 million resulting from these demographic assumption changes can be seen in the following table.

The assumption changes for interest rate, $354 million loss; and inflation, $510 million gain, are not from the experience study. These changes arise in connection with each annual valuation and follow the guidelines of SFFAS No. 33.

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, 2018 and 2017 *(dollars in millions)*.

For the Year Ended September 30,	2018	2017
Pension Actuarial Liability, Beginning of Year	$ 19,994	$ 19,480
Pension Expense:		
Normal Cost	489	474
Interest on Pension Liability	709	729
Actuarial (Gains) or Losses:		
From Experience	177	(67)
From Assumption Changes		
Interest Rate	354	513
Experience Study	1,677	—
Other	(510)	(187)
Prior Year Service Costs	—	—
Other	(1)	(1)
Total Pension Expense	2,895	1,461
Less Payments to Beneficiaries	962	947
Pension Actuarial Liability, End of Year	21,927	19,994
Less: Net Assets Available for Benefits	19,255	18,865
Actuarial Pension Liability – Unfunded	$ 2,672	$ 1,129

Actuarial Assumptions:	2018	2017
Rate of Return on Investments	3.42%	3.59%
Rate of Inflation	1.35%	1.59%
Salary Increase	1.60%	1.84%

Net Assets Available for Benefits at September 30, 2018 and 2017, consist of the following *(dollars in millions)*.

At September 30,	2018	2017
Fund Balance with Treasury	$ —	$ —
Accounts and Interest Receivable	152	151
Investments in U.S. Government Securities	19,184	18,792
Total Assets	19,336	18,943
Less: Liabilities Other Than Actuarial	81	78
Net Assets Available for Benefits	$ 19,255	$ 18,865

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 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 DCF finances two after-employment plans, the FSN Defined Contribution Plan (DCP) and the FSN Voluntary Contribution Plan (VCP).

The Department's FSN DCP and VCP provide 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 FSN DCP. Participants are not allowed to make contributions to the Plan. 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 DCP 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, 2018, approximately 13,000 FSNs in 30 countries participate in the FSN DCP.

The Department records expense for contributions to the FSN DCP when the employee renders service to the Department, coinciding with the cash contributions to the FSN DCP. Total contributions by the Department in 2018 and 2017 were $28.2 million and $27.8 million, respectively. Total liability reported for the FSN DCP is $204 million and $190 million as of September 30, 2018 and 2017, respectively.

The FSN VCP reported employee and employer contributions of $7.4 million and $6.2 million as of September 30, 2018 and 2017, respectively. The total liability reported for the Voluntary Contribution Plan is $17 million and $10 million as of September 30, 2018 and 2017, respectively.

Local Defined Contribution Plans

In 49 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 2018 and 2017 were $26.6 million and $25 million, respectively.

Defined Benefit Plans

In 12 countries, involving over 3,700 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 are 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 $90 million and $61 million as of September 30, 2018 and 2017, respectively. There was an increase of $29 million in 2018 and a decrease of $7 million in 2017.

The material FSN defined benefit plans include plans in Germany and the United Kingdom (UK) which represent 76 percent of total assets, 77 percent of total projected benefit obligations, and 83 percent of the net defined benefit liability as of September 30, 2018. The Germany Plan's most recent evaluation report, dated September 13, 2018, is as of July 1, 2018. The UK Plan's most recent evaluation, dated June 27, 2018, is as of April 6, 2017.

For the Germany Plan the change in the net defined benefit liability was a decrease of $5 million in 2018 and an increase of $6 million in 2017, while for the UK plan the change was an increase of $24 million in 2018 and a decrease of $13 million in 2017.

For Germany, the decrease in the net defined benefit liability in 2018 was primarily due to contributions and investment returns exceeding total actuarial losses, service, and interest costs. The increase in 2017 was primarily due to losses from changes in the financial assumptions, mainly the discount rate.

For the UK Plan in 2018, the increase in the net defined benefit liability was primarily due to losses from Actuarial Assumptions. The decrease in 2017 was due to gains from investment earnings and currency exchange rates.

The tables below show the changes in the projected benefit obligation and plan assets during 2018 and 2017 for the Germany and UK plans *(dollars in millions)*.

Change in Benefit Obligations:	**2018**	**2017**
Benefit obligations beginning of year	$ 374	$ 329
Service Cost	4	4
Interest Cost	6	8
Other	55	33
Benefit obligations end of year	$ 439	$ 374

Change in Plan Assets:	**2018**	**2017**
Fair value of plan assets beginning of year	$ 318	$ 268
Return on plan assets	9	22
Contributions less Benefits Paid	9	16
Other	28	12
Fair value of plan assets end of year	364	318
Net Defined Benefit Liability	$ 75	$ 56

The table below shows the allocation of the plan assets by category during 2018 and 2017 for the German and UK plans.

	2018	**2017**
Insurance Policies	35%	38%
Equity Securities	40%	36%
Money Market and Cash	2%	2%
Debt Securities	23%	24%
Total	100%	100%

The principal actuarial assumptions used for 2018 and 2017 for the Germany and UK plans are presented below:

Actuarial Assumptions:	**2018**	**2017**
Discount Rate	2.80% – 4.60%	2.90% – 5.00%
Salary Increase Rate	2.25% – 5.40%	2.25% – 5.60%
Pension Increase Rate	1.75% – 3.40%	1.75% – 3.60%

Retirement and Voluntary Severance Lump Sum Payments

In 72 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, 2018, approximately 23,500 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, 2018, 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, 2018 and 2017, are:

	2018	2017
Discount Rate	2.82%	2.99%
Rate of inflation	1.42%	1.63%
Salary Increase	4.76%	3.19%

Based upon the projection, the total liability reported for the Retirement and Voluntary Severance Lump Sum Payment is $397 million and $348 million as of September 30, 2018 and 2017, respectively, as shown below *(dollars in millions)*:

At September 30,	2018	2017
Retirement	$ 126	$ 106
Voluntary Severance	271	242
Total	$ 397	$ 348

The table below shows the changes in the projected benefit obligation during 2018 and 2017 *(dollars in millions)*:

Changes in Benefit Obligations:	2018	2017
Benefit obligations beginning of year	$ 348	$ 326
Normal Cost	26	25
Benefit Payments	(62)	(57)
Interest Cost	11	11
Actuarial (gain) loss on assumptions	26	2
Actuarial (gain) loss due to experience	49	40
Other	(1)	1
Benefit obligations end of year	$ 397	$ 348

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 Nations (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 (IO&P) accounts.

A liability is established for assessments received and unpaid and for pledges made and accepted by an international organization. Congress has mandated withholding the payments of dues 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 assessed amounts. The amounts of mandated withholdings that will likely not be authorized to be paid in the future do not appear as liabilities on the Balance Sheet of the Department.

Amounts presented in the table 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, 2018 and 2017.

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

As of September 30,	2018	2017
Regular Membership Assessments Payable to UN	$ 842	$ 865
Dues Payable to UN Peacekeeping Missions	1,139	546
International Organizations Liability	1,323	1,204
Total Owed to International Organizations	3,304	2,615
Less Amounts Mandated to be Withheld and not likely to be Paid	652	682
International Organizations Liability	$ 2,652	$ 1,933
Funded Amounts	$ 1,118	$ 589
Unfunded Amounts	1,534	1,344
Total International Organizations Liability	$ 2,652	$ 1,933

12 LEASES

The Department is committed to over 10,000 leases, which cover office and functional properties, and residential units for diplomatic missions. 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 $108 million of the lease costs.

Capital Leases

The Department has various leases for 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, 2018 and 2017 *(dollars in millions)*. Lease liabilities are not covered by budgetary resources.

	2018	2017
Net Assets under Capital Leases:		
Intragovernmental		
Buildings	$ 244	$ 244
Accumulated Depreciation	(18)	(6)
Total Intragovernmental	226	238
Non-Intragovernmental		
Buildings	179	179
Accumulated Depreciation	(64)	(64)
Total Non-Intragovernmental	115	115
Net Assets under Capital Leases	$ 341	$ 353

Future Minimum Lease Payments:

2018

Fiscal Year	Lease Payments
2019	$ 13
2020	12
2021	12
2022	12
2023	8
2024 and thereafter	91
Total Minimum Lease Payments	148
Less: Amount Representing Interest	(75)
Liabilities under Capital Leases	$ 73

2017

Fiscal Year	Lease Payments
2018	$ 15
2019	16
2020	15
2021	15
2022	15
2023 and thereafter	126
Total Minimum Lease Payments	202
Less: Amount Representing Interest	(108)
Liabilities under Capital Leases	$ 94

Operating Leases

The Department leases real property 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, 2018 and 2017 for each of the next 5 years and in aggregate are as follows *(dollars in millions)*:

Year Ended September 30, 2018	Operating Lease Amounts
2019	$ 419
2020	323
2021	222
2022	152
2023	79
2024 and thereafter	190
Total Minimum Future Lease Payments	$ 1,385

Year Ended September 30, 2017	Operating Lease Amounts
2018	$ 469
2019	341
2020	250
2021	165
2022	112
2023 and thereafter	257
Total Minimum Future Lease Payments	$ 1,594

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. As a result of these reviews, the Department believes these claims could result in potential estimable losses of $6 to $793 million if the outcomes were adverse to the Department. Management considers the amount that needs to be recognized as immaterial to the financial statements. The reasonably possible 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.

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 2018 and 2017 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 $950 million. Under the programs, we have paid out $297 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, 2018 and 2017 *(dollars in millions)*.

	2018	2017
Balance Sheet as of September 30		
Assets:		
Fund Balance with Treasury	$ 199	$ 177
Investments	49	50
Other Assets	107	95
Total Assets	**$ 355**	**$ 322**
Net Position:		
Other Liabilities	$ 2	$ —
Cumulative Results of Operations	353	322
Total Liabilities and Net Position	**$ 355**	**$ 322**
Statement of Net Cost for the Year Ended September 30		
Gross Program Costs	$ 46	$ 54
Less: Earned Revenues	1	—
Net Program Costs	45	54
Net Cost of Operations	**$ 45**	**$ 54**
Statement of Changes in Net Position for the Year Ended September 30		
Net Position Beginning of Period	$ 322	$ 316
Budgetary Financing Sources	64	60
Other Financing Sources	12	—
Net Cost of Operations	(45)	(54)
Change in Net Position	31	6
Net Position End of Period	**$ 353**	**$ 322**

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.

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, 2018
(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	$ 739	$ —	$ 990	$ 463	$ —	$ —	$ (2)	$ 2,190
Earned Revenue	(41)	—	(18)	—	—	—	2	(57)
Net Program Costs	698	—	972	463	—	—	—	2,133
Democracy, Human Rights, and Governance								
Total Cost	—	—	536	24	—	—	—	560
Earned Revenue	—	—	(8)	—	—	—	—	(8)
Net Program Costs	—	—	528	24	—	—	—	552
Health, Education, and Social Services								
Total Cost	—	—	768	8,103	—	—	—	8,871
Earned Revenue	—	—	—	—	—	—	—	—
Net Program Costs	—	—	768	8,103	—	—	—	8,871
Humanitarian, Economic Development, and Environment								
Total Cost	—	—	3,033	133	—	—	—	3,166
Earned Revenue	—	—	—	—	—	—	—	—
Net Program Costs	—	—	3,033	133	—	—	—	3,166
International Organizations and Commissions								
Total Cost	1	46	—	2,995	—	—	—	3,042
Earned Revenue	—	—	—	(11)	—	—	—	(11)
Net Program Costs	1	46	—	2,984	—	—	—	3,031
Diplomatic and Consular Programs								
Total Cost	248	80	183	6,882	319	7,146	(395)	14,463
Earned Revenue	(53)	—	88	(603)	—	(6,377)	337	(6,608)
Net Program Costs	195	80	271	6,279	319	769	(58)	7,855
Administration of Foreign Affairs								
Total Cost	—	—	482	5,477	1,870	72	(4,391)	3,510
Earned Revenue	—	—	—	170	(2,482)	(3,996)	4,382	(1,926)
Net Program Costs Before Assumption Changes	—	—	482	5,647	(612)	(3,924)	(9)	1,584
Actuarial Loss on Pension Assumption Changes	—	—	94	1,073	366	14	—	1,547
Net Program Costs	—	—	576	6,720	(246)	(3,910)	(9)	3,131
Total Cost	**988**	**126**	**6,086**	**25,150**	**2,555**	**7,232**	**(4,788)**	**37,349**
Total Revenue	**(94)**	**—**	**62**	**(444)**	**(2,482)**	**(10,373)**	**4,721**	**(8,610)**
Total Net Cost	**$ 894**	**$ 126**	**$ 6,148**	**$24,706**	**$ 73**	**$ (3,141)**	**$ (67)**	**$28,739**

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, 2018 and 2017, these consist of costs and earned revenue summarized below *(dollars in millions)*:

	2018			2017		
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	$ 1,737	$ 66	$ 1,671	$ 1,586	$ 53	$ 1,533
FSRDF	1,374	718	656	1,135	603	532
ICASS	3,569	2,516	1,053	3,441	2,457	984
Working Capital Fund	1,221	1,091	130	1,266	1,057	209
Total Costs	7,901	4,391	3,510	7,428	4,170	3,258
Less Earned Revenue:						
Administration of Foreign Affairs – Other	101	64	37	103	52	51
FSRDF	1,353	718	635	1,251	602	649
ICASS	3,546	2,509	1,037	3,463	2,450	1,013
Working Capital Fund	1,308	1,091	217	1,236	1,057	179
Total Earned Revenue	6,308	4,382	1,926	6,053	4,161	1,892
Actuarial Loss on Pension Assumption Changes	1,547	—	1,547	326	—	326
Total Net Cost for Administration of Foreign Affairs	$ 3,140	$ 9	$ 3,131	$ 1,701	$ 9	$ 1,692

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, 2018 and 2017, these consist of costs and earned revenue summarized below *(dollars in millions)*:

	2018			2017		
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	$ 4,183	$ 332	$ 3,851	$ 4,253	$ 300	$ 3,953
Overseas Buildings Operations	2,150	9	2,141	1,747	358	1,389
Central Salaries and Benefits	3,439	—	3,439	3,371	—	3,371
Diplomatic Security	3,106	47	3,059	3,081	45	3,036
Consular Affairs	1,980	7	1,973	2,471	6	2,465
Total Costs	14,858	395	14,463	14,923	709	14,214
Less Earned Revenue:						
Diplomatic Programs and Other	873	275	598	907	242	665
Overseas Buildings Operations	1,364	8	1,356	1,801	356	1,445
Diplomatic Security	310	47	263	256	45	211
Consular Affairs	4,398	7	4,391	4,500	7	4,493
Total Earned Revenue	6,945	337	6,608	7,464	650	6,814
Total Net Cost for Diplomatic and Consular Programs	$ 7,913	$ 58	$ 7,855	$ 7,459	$ 59	$ 7,400

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 2018 and 2017 was as follows *(dollars in millions)*:

Under Secretary	2018	2017
Political Affairs	$ 17,414	$ 16,010
Management (Consular Affairs)	5,224	5,402
Public Diplomacy and Public Affairs	1,757	1,318
Arms Control, International Security Affairs	246	242
Civilian Security, Democracy and Human Rights	1,302	429
Economic Growth, Energy and Environment	58	47
Total	$ 26,001	$ 23,448

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, 2018 and 2017 *(dollars in millions)*:

Inter-Entity Costs	2018	2017
Other Post-Employment Benefits:		
Civil Service Retirement Program	$ 32	$ 15
Federal Employees Health Benefits Program	154	121
Federal Employees Group Life Insurance Program	1	1
Litigation funded by Treasury Judgment Fund	—	—
Subtotal – Imputed Financing Source	187	137
Future Workers' Compensation Benefits	18	19
Total Inter-Entity Costs	$ 205	$ 156

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.

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, 2018 and 2017, consist of the following *(dollars in millions)*:

	2018			2017		
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	$ 686	$ —	$ 686	$ 693	$ —	$ 693
Machine Readable Visa	1,915	—	1,915	1,938	—	1,938
Expedited Passport	249	—	249	269	—	269
Passport, Visa and Other Surcharges	1,593	—	1,593	1,617	—	1,617
Fingerprint Processing, Diversity Lottery, and Affadavit of Support	21	—	21	20	—	20
Subtotal – Consular Fees	4,464	—	4,464	4,537	—	4,537
FSRDF	1,353	718	635	1,251	602	649
ICASS	3,546	2,509	1,037	3,463	2,450	1,013
Other Reimbursable Agreements	2,459	345	2,114	3,024	667	2,357
Working Capital Fund	1,308	1,091	217	1,236	1,057	179
Other	201	58	143	102	45	57
Total	$ 13,331	$ 4,721	$ 8,610	$ 13,613	$ 4,821	$ 8,792

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 2018 and 2017 were $392 million and $387 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 2018 and 2017 were $414 million and $302 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2018 and 2017 were $548 million and $562 million, respectively.

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 year ended September 30, 2018 and 2017. 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 year ended September 30, 2018 and 2017, the Department received approximately $72.3 billion and $71.0 billion in budgetary resources, respectively, primarily consisting of the following:

Source of Budgetary Resources

(dollars in billions)	2018	2017
Budget Authority:		
Direct or related appropriations	$ 31.0	$ 33.0
Authority financed from Trust Funds	1.1	1.0
Spending authority from providing goods and services	11.4	11.8
Unobligated balance from prior year budget authority, net	28.8	25.2
Total Budgetary Resources	$ 72.3	$ 71.0

Unobligated balance from prior year budget authority, net

(dollars in billions)	2018	2017
Unobligated Balance – End of Prior Year	$ 27.4	$ 23.7
Transfers In/(Out) Prior Year Authority	0.1	—
Recoveries of Prior Year Paid Obligations	0.1	0.1
Recoveries of Prior Year Unpaid Obligations	1.3	1.5
Funds Returned to Treasury	(0.1)	(0.2)
Unobligated balance from prior year budget authority, net	$ 28.8	$ 25.1

Apportionment Categories of Obligations Incurred

(dollars in millions)	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2018			
Obligations Apportioned Under			
Category A	$ 2,996	$ 4,430	$ 7,426
Category B	28,534	5,805	34,339
Category A/B	—	809	809
Exempt from Apportionment	426	—	426
Total	$ 31,956	$ 11,044	$ 43,000
For the Fiscal Year Ended September 30, 2017			
Obligations Apportioned Under			
Category A	$ 2,950	$ 4,201	$ 7,151
Category B	28,321	6,983	35,304
Category A/B	—	767	767
Exempt from Apportionment	316	—	316
Total	$ 31,587	$ 11,951	$ 43,538

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, 2018 and 2017, was approximately $27.9 billion and $27.2 billion, respectively. This includes amounts of $1.7 billion for September 30, 2018 and $1.6 billion for September 30, 2017, pertaining to revolving funds, trust funds, and substantial commercial activities. The amounts for both Federal and Non-Federal undelivered orders at September 30, 2018 are as follows:

Undelivered Orders at September 30, 2018

(dollars in millions)	Federal	Non-Federal	Total
Paid	$ 1,492	$ 1,062	$ 2,554
Unpaid	1,338	24,048	25,386
Total	$ 2,830	$ 25,110	$27,940

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 $255 million and $143 million for 2018 and 2017, 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, 2017 is presented in the table below. Since these financial statements are published before the Budget, this reconciliation is based on the FY 2017 Combined Statement of Budgetary Resources because actual amounts for FY 2017 are in the most recently published Budget (i.e., FY 2019). The Budget with actual numbers for September 30, 2018 will be published in the FY 2020 Budget and available in early February 2019. 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, the 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, 2017 *(dollars in millions)*	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (SBR)	$ 70,971	$ 43,538	$ 557	$ 28,620
Distributed Offsetting Receipts	—	—	(557)	557
Funds not Reported in the Budget:				
Expired Funds	(909)	—	—	—
International Assistance Program	(3,323)	(1,818)	—	(1,539)
Undelivered Orders Adjustment	(234)	—	—	—
Other and Rounding errors	(10)	(5)	—	3
Budget of the United States	$ 66,495	$ 41,715	$ —	$ 27,641

17 Custodial Activity

The Department administers certain custodial 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. The custodial revenue amounts are considered immaterial and incidental to the Department's mission. 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 2018 and 2017, the Department collected $16 million and $25 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)***	**2018**	**2017**
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments	$ 43,000	$ 43,538
Spending Authority from Offsetting Collections and Recoveries	(12,686)	(13,402)
Offsetting Receipts	(507)	(557)
Net Obligations	29,807	29,579
Imputed Financing	187	137
Other Resources	17	7
Total Resources Used to Finance Activities	**30,011**	**29,723**
Resources Used to Finance Items not Part of Net Cost:		
Resources Obligated for Future Costs – goods ordered but not yet provided	(380)	(141)
Resources that Finance the Acquisition of Assets	(2,293)	(2,934)
Resources that Fund Expenses Recognized in Prior Periods	(793)	(620)
Other	(13)	(14)
Total Resources Used to Finance Items not Part of Net Cost	**(3,479)**	**(3,709)**
Total Resources Used to Finance the Net Cost of Operations	**26,532**	**26,014**
Components of the Net Cost of Operations that will not require or generate Resources in the Current Period:		
Increase in Actuarial Liability	1,933	514
Passport Fees Reported as Revenue Returned to Treasury General Fund	(645)	(654)
Depreciation and Amortization	1,406	1,105
Interest Income of Trust Funds	(552)	(564)
Other	65	101
Total Components of the Net Cost of Operations that will not require or generate Resources in the Current Period	**2,207**	**502**
Net Cost of Operations	**$ 28,739**	**$ 26,516**

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)*	2018						2017					
	19X6038	19X6224	19X6225	19X6226	19X6227	Total	19X6038	19X6224	19X6225	19X6226	19X6227	Total
Fiduciary Net Assets, Beginning of Year	$ 102	$ —	$ 50	$ 36	$ 2	$ 190	$ 101	$ —	$ 11	$ 50	$ 3	$ 165
Contributions	—	—	48	—	—	48	—	—	227	—	—	227
Investment Earnings	1	—	—	1	—	2	1	—	—	—	—	1
Disbursements to and on behalf of beneficiaries	—	—	(29)	(5)	(1)	(35)	—	—	(188)	(14)	(1)	(203)
Increases/(Decreases) in Fiduciary Net Assets	1	—	19	(4)	(1)	15	1	—	39	(14)	(1)	25
Fiduciary Net Assets, End of Year	$ 103	$ —	$ 69	$ 32	$ 1	$ 205	$ 102	$ —	$ 50	$ 36	$ 2	$ 190

Fiduciary Net Assets

As of September 30, *(dollars in millions)*	2018						2017					
Fiduciary Assets	19X6038	19X6224	19X6225	19X6226	19X6227	Total	19X6038	19X6224	19X6225	19X6226	19X6227	Total
Cash & Cash Equivalents	$ 103	$ —	$ 69	$ 1	$ 1	$ 174	$ 102	$ —	$ 50	$ 4	$ 1	$ 157
Investments	—	—	—	31	—	31	—	—	—	32	1	33
Total Fiduciary Net Assets	$ 103	$ —	$ 69	$ 32	$ 1	$ 205	$ 102	$ —	$ 50	$ 36	$ 2	$ 190

FOCUS

Department of State Uses Social Media to Explain Aid Consequences to African Public

The Department of State identifies and influences social media narratives prevalent among target foreign publics. It utilizes best of breed analytics, content development, and content distribution tools to do so efficiently, and at minimum taxpayer cost.

Early in 2018, a multilingual team of narrative specialists from the Department's Bureau of International Information Programs reviewed African media to ascertain how growing Chinese investment and influence was viewed in the press and by Africans active on social media. Utilizing Crowd Tangle, Crimson Hexagon, and other tools, the team documented growing concern over the true cost of Chinese "development" aid, and it observed growing use of the term "debt-trap diplomacy" to describe Chinese investments.

Armed with these insights, content creators delivered a series of graphically rich, social media friendly materials that contrasted how American and Chinese aid projects work, and what those differences mean for Africans.

These materials appear on ShareAmerica, a platform for hosting multimedia content that furthers U.S. policy, promotes U.S. values, and informs foreign audiences about American society and life. U.S. embassies and consulates routinely feature ShareAmerica content on their own Facebook, Twitter, and other social media properties. Foreign end users share the content with their own friends and social networks, in this way deepening engagement with American messages and shaping the conversations and narratives that occur on social media.

In March 2018, the Department published "How U.S. aid avoids 'debt-trap diplomacy." The article was tailored – from its headline, to its analysis of how U.S. aid, unlike Chinese funding, benefits local workers, to its conclusion: "The U.S. seeks long-term partners rather than debtors" – for maximum impact on the social conversations that already were happening in Africa. Seventy-four embassy and consulate Facebook and Twitter properties featured the article. The content outperformed other materials on those pages, delivering higher levels of engagement (likes, comments, shares) than locally-produced materials.

Even before the content was published, the content distribution team devised an inexpensive yet highly efficient strategy to promote the article in target Francophone, Lusophone, and English speaking African countries. For a daily cost of eight dollars per platform, the team positioned the content on the Facebook and Twitter feeds of Africans selected by age and expressed interest.

The results speak for themselves: Fully 74 percent of Africans who received the link clicked through to ShareAmerica to read the article. And one-in-ten, an exceptionally high number, shared the article on their own social feeds.

The Department continues to message on this subject, delivering additional high-performing materials, including:

- Harvard study warns of perilous 'debt-trap diplomacy'
- Investing in Africa without creating debt traps
- Countries are waking up to the cost of predatory loans

The model utilized for the debt-trap campaign is relatively inexpensive and easily scalable. By harnessing narrative analysis, content production, and content distribution to a readily identifiable objective, the Department delivers real value at an attractive cost.

LEARN MORE

More information on the published article can be found at: *https://share.america.gov/us-development-assistance-avoids-debt-trap/*

Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2018 ***(dollars in millions)***

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budgetary Resources:						
Unobligated balance from prior year budget authority, net	$ 14,760	$ 878	$ 103	$ 1,700	$ 11,313	$ 28,754
Appropriations (discretionary and mandatory)	13,530	2,850	137	1,721	13,879	32,117
Borrowing authority (discretionary and mandatory)	1	—	—	—	—	1
Spending authority from offsetting collections (discretionary and mandatory)	11,329	—	9	52	38	11,428
Total Budgetary Resources	**$ 39,620**	**$ 3,728**	**$ 249**	**$ 3,473**	**$ 25,230**	**$ 72,300**
Status of Budgetary Resources:						
New obligations and upward adjustments (total)	$ 25,183	$ 2,740	$ 151	$ 2,042	$ 12,884	$ 43,000
Unobligated balance, end of year:						
Apportioned, unexpired accounts	13,636	974	83	1,319	12,186	28,198
Exempt from apportionment, unexpired accounts	123	—	—	—	—	123
Unapportioned, unexpired accounts	61	6	5	—	42	114
Unexpired unobligated balance, end of year	13,820	980	88	1,319	12,228	28,435
Expired unobligated balance, end of year	617	8	10	112	118	865
Unobligated balance, end of year (total)	14,437	988	98	1,431	12,346	29,300
Total Budgetary Resources	**$ 39,620**	**$ 3,728**	**$ 249**	**$ 3,473**	**$ 25,230**	**$ 72,300**
Outlays, Net:						
Outlays, net (total) (discretionary and mandatory)	11,730	2,187	138	1,557	12,794	28,406
Distributed offsetting receipts (-)	(506)	—	—	—	(1)	(507)
Agency outlays, net (discretionary and mandatory)	**$ 11,224**	**$ 2,187**	**$ 138**	**$ 1,557**	**$ 12,793**	**$ 27,899**

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, 2018

Category	Number of Assets	Condition
Diplomatic Reception Rooms Collection	1,820	Good to Excellent
Art Bank Program	2,620	Poor to Excellent
Art in Embassies Program	1,208	Good to Excellent
Cultural Heritage Collection	18,594	Good to Excellent
Library Rare & Special Book Collection	1,282	Poor to Good
Secretary of State's Register of Culturally Significant Property	33	Poor to Excellent
U.S. Diplomacy Center	4,884	Good to Excellent
Blair House	2,612	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	2018 Ending Balance DM&R	2018 Beginning Balance DM&R
General PP&E	$ 83	$ 93
Heritage Assets	9	8
Total	$ 92	$ 101

FOCUS IN

Education: Where Security and Prosperity Meet

The Department uses all the tools at its disposal to address conflict, violent extremism, and humanitarian crises in the Middle East and North Africa. The Bureau of Near Eastern Affairs, in collaboration with the Bureau of Educational and Cultural Affairs, advances Department priorities to meet these challenges by investing in education to promote regional security and stability, while also increasing American prosperity.

In a region where nearly 30 percent of the population is between the ages of 15-29, job opportunities are scarce and susceptibility to extremism is high. To address these twin issues, embassies in the region engage youth in educational activities to promote tolerance, foster community resilience, and push back on violent extremist threats. One of the most successful ways in which this is done is through English language teaching. English language programs from Rabat to Baghdad form the core of embassies' engagement with youth, building and improving relations with the next generation of leaders and supporting economic opportunity. In addition to teacher training and curriculum development, this year the English Access Microscholarship Program taught English to more than 5,000 students in eleven countries through after-school classes geared toward economically disadvantaged youth, the group most vulnerable to recruitment by violent extremist organizations.

Using resources such as online courses and building partnerships with Ministries of Education to improve English teaching, U.S. diplomatic missions lay the foundation for educational exchanges that directly contribute to the U.S. economy and increase American prosperity. Currently more than 100,000 students from the Near East/North Africa region study in the United States, benefiting U.S. universities and long-term ties to the United States.

Beyond traditional educational programming, the Department provides opportunities for those in the most difficult situations. War-torn Syria serves as reminder of the need for and the value of education in the region. One Department-sponsored education program for youth created space for moderate dialogue and supported structured activities centered on countering violent extremism in Northwest Syria. Over the course of thirteen months, the project engaged more than 35,000 students who conducted 960 activities and 945 dialogue sessions in collaboration with local communities and local governance entities as a catalyst for greater civic participation. In Northeast Syria, the Department funded the rehabilitation of 80 schools and established 11 centers that provided support training sessions and remedial literacy and numeracy trainings. These efforts reached more than 4,000 girls and boys. Additional efforts focused on addressing the needs of children with visual, hearing, and movement disabilities in ways that promoted their access to educational services.

Schoolchildren take exams at a Department-funded school in Idlib, Syria. *Chemonics International*

Syrian students engage in a dialogue session sponsored by the Aleppo Education Directorate in Aleppo, Syria. *Chemonics International*

Investment in education is key to U.S. long-term interests in the Middle East and North Africa and is essential to countering violent extremism. By emphasizing education, the Department increases economic opportunities for the next generation, promotes security and stability, and deepens ties with the United States.

Secretary Pompeo, Secretary of Defense James Mattis, Australian Foreign Minister Julie Bishop, and Australian Minister for Defence Marise Payne meet at Stanford University for the Australia-U.S. Ministerial Consultations in Palo Alto, California, July 24, 2018. ***Department of State***

SECTION III:

Other Information

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

INTRODUCTION

This report is provided in accordance with the Reports Consolidation Act of 2000.[1] Each year, the Office of Inspector General (OIG) for the Department of State (Department) identifies the most serious management and performance challenges facing the Department and provides a brief assessment of the Department's progress in addressing those challenges.

Inspector General, Steve A. Linick

We assess progress primarily through our compliance process, which relates to individual and often targeted recommendations. Our oversight work, however, gives us unique visibility into the most significant challenges facing the Department. OIG identifies the following major management and performance challenges the Department faced in FY 2018:

1. Protection of people and facilities
2. Oversight of contracts, grants, and foreign assistance
3. Information security and management
4. Financial and property management
5. Operating in contingency and critical environments
6. Workforce management
7. Promoting accountability through internal coordination and clear lines of authority

These challenges are based on a thorough review of our oversight work performed this year and in the past. We have included within this document examples of reports and findings that are particularly illustrative or noteworthy on certain points. In addition to publicly available work, OIG issues a number of Sensitive But Unclassified and Classified reports throughout the year. Many of the findings in those reports reinforce our assessment of these management challenges, particularly as they relate to protection of people and facilities and information security and management.

Although the specific challenges are unchanged from FY 2017, our focus on certain aspects of these challenges has shifted in FY 2018. For example, this year, as part of the challenge relating to oversight of contracts and grants, we have emphasized the Department's oversight of construction contracts. A growing body of our work reveals ongoing concerns with the Department's long-term, complex, and high value construction projects, and this is particularly true in critical and contingency environments. Although many of the deficiencies we identify are relevant to contract oversight generally, we focus on these construction contracts separately due to the particular financial and security risks they pose for the Department.

[1] The Reports Consolidation Act of 2000, § 3, Pub. L. 106-531 (amending 31 U.S.C. § 3516).

These challenges often overlap and reinforce one another. Protecting people and facilities is often a particular challenge in contingency and critical environments, and workforce management challenges are frequently found at the root of deficiencies related to contract and grant oversight. Likewise, weaknesses in organizational structure and lines of authority contribute to a range of concerns, including information security deficiencies and difficulties managing foreign assistance programs.

Continued attention to the management challenges identified in this report will improve the Department's capacity to fulfill its mission while exhibiting good stewardship of public resources. OIG encourages the Department to consider ways that specific recommendations might be applied broadly to make systemic improvements that will result in meaningful and permanent change. We hope that this report, accompanied by the oversight work we perform throughout the year, assists the Department in its efforts to improve the effectiveness and efficiency of its programs and operations.

1 Protection of People and Facilities

The Department has made substantial progress on safety and security issues since an attack on the diplomatic compound in Benghazi, Libya, 6 years ago. However, the threat of physical violence against U.S. diplomats and U.S. diplomatic facilities continues to affect every region of the world, making this a top management challenge.

Although naturally greater in conflict areas such as Iraq and Afghanistan, the threat of violence is global, with all U.S. diplomatic facilities facing some level of risk. Additionally, natural disasters, environmental hazards, and ordinary crime continually pose risks to the health and safety of Department personnel and their families serving abroad. Much of OIG's work identifies risks to the protection of Department personnel and facilities and provides recommendations to address those risks.

Constructing and Maintaining Safe and Secure Diplomatic Facilities

Constructing and maintaining safe and secure diplomatic facilities has been an ongoing challenge, which is compounded in regions affected by conflict and humanitarian crises. OIG continues to recommend steps the Department can take to improve adherence to its own policies and procedures.

In one example, an inspection of Embassy Georgetown in Guyana revealed the use of an old, Government-owned warehouse for non-storage operations, including Facilities Management workshops. This facility, though, did not meet Department standards and was accordingly determined unfit for occupancy. The report noted that the warehouse did not comply with the electrical code; that it lacked a fire alarm, fire suppression system, or fire hydrant; and that it was located near an open drainage system that constituted a health hazard.[2] We recommended that the embassy vacate the warehouse and notify the Bureau of Overseas Buildings Operations (OBO) so it could be sold. Understaffing had also prevented the embassy from implementing a comprehensive and routine maintenance program, which made it less likely to identify major deficiencies and more susceptible to the risk of equipment failure.[3] In fact, the lack of a comprehensive preventative maintenance program is a problem that our inspection work frequently notes.[4]

In FY 2017, we identified poor quality assurance and oversight of construction at Embassy Kabul that led to a range of deficiencies affecting plumbing and electrical systems; heating, ventilation, and air conditioning systems; elevators; and fire safety systems. Identified deficiencies included a failure to adhere to electrical and fire safety standards.[5] A follow-up report in 2018 revealed similar risks to personnel and property due to the improper installation of the embassy's fire alarm system as part of a major office and residential expansion.[6] Inspections of embassies in Copenhagen, Lisbon, and Djibouti also identified issues adhering to fire safety

[2] OIG, *Inspection of Embassy Georgetown, Guyana* (ISP-I-18-19, May 2018).

[3] *Ibid*.

[4] OIG, *Inspection of Copenhagen, Denmark* (ISP-I-18-23, April 2018); OIG, *Inspection of Embassy Djibouti, Djibouti* (ISP-I-18-14, April 2018).

[5] OIG, *Management Assistance Report: Building Deficiencies Identified at U.S. Embassy Kabul, Afghanistan Need Prompt Attention* (AUD-MERO-17-44, June 2017).

[6] OIG, *Management Assistance Report: Improper Installation of Key Components of U.S. Embassy Kabul, Afghanistan's Fire Alarm System Needs Prompt Attention* (AUD-MERO-18-32, April 2018).

standards, including lapses in monthly inspections of fire extinguishers and smoke alarms[7] and improper storage of flammable materials.[8]

Ensuring the Health and Safety of Personnel Abroad

We consistently find that embassy leadership is engaged on security and health and safety issues. Areas for improvement remain, however, especially in safety and training in the operation of official vehicles, residential security, and emergency preparedness.

Operations of Official Vehicles Overseas

In FY 2018, OIG determined that the Department made improvements in response to an earlier report identifying weaknesses in armored vehicle training. In the earlier report, OIG noted that the Department only required specialized training for drivers of Chiefs of Mission and Principal Officers and recommended that the Department establish mandatory training for *all* overseas professional chauffeurs and incidental operators.[9] The Department agreed with this recommendation and anticipates training *all* armored vehicle operators within the next 2 1/2 years; it is also in the process of revising its training requirements.[10]

OIG did, however, identify other concerns regarding safety standards related to official vehicles. For example, OIG reported that some drivers worked excessive hours, a practice that increases the risk of motor vehicle accidents caused by driver fatigue.[11] We also noted lapses in medical clearances for operators of official vehicles.[12] Finally, several inspections found either outdated or an absence of safety training for drivers.[13]

Although some concerns are limited to practices at particular posts, OIG recommendations have identified potential improvements in overall program management practices that could minimize these deficiencies. For example, posts should comply with the Department's Motor Vehicle Safety Management Program policy on vehicle operator duty limits and update vehicle policies to ensure they comply with Department standards.

Residential Security

Much like FY 2017, the Department had problems with the administration of its housing and related anti-crime program in FY 2018. Our inspection report findings show that many Department employees and their families continue to occupy residences abroad that do not or cannot be demonstrated to meet Department safety standards.

A number of reports illustrate this concern. In Beijing, multiple residential properties lacked post occupational safety and health certifications to demonstrate that the residential units met basic safety standards.[14] In Addis Ababa, most residences did not have electrical grounding, and water heaters in many residences lacked a safety valve to release internal pressure, thus making them more vulnerable to explosions.[15] In Lisbon, the Department did not take required steps to inform employees of safety deficiencies at apartment complexes with swimming pools, several of which were not enclosed with a permanent barrier or fence.[16]

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7 OIG, *Inspection of Embassy Lisbon and Consulate Ponta Delgada, Portugal* (ISP-I-18-22, May 2018); ISP-I-18-23, April 2018.

8 ISP-I-18-14, April 2018.

9 OIG, *Management Assistance Report: Armored Vehicle Training* (ISP-16-17, April 2016).

10 OIG, *Compliance Follow-up Review: Armored Vehicle Training* (ISP-C-18-32, April 2018).

11 OIG, *Inspection of Guatemala City, Guatemala* (ISP-I-18-16, May 2018); OIG, *Inspection of Managua, Nicaragua* (ISP-I-18-12, March 2018); OIG, *Inspection of Consulate General Hong Kong, China* (ISP-I-18-06, November 2017); ISP-I-18-14, April 2018.

12 OIG, *Inspection of Embassy San Jose, Costa Rica* (ISP-I-18-13, April 2018); OIG, *Inspection of Embassy Beijing and Constituent Posts, China* (ISP-I-18-04, December 2017); OIG, *Inspection of Embassy Nicosia, Cyprus* (ISP-I-18-03, October 2017); ISP-I-18-22, May 2018; ISP-I-18-19, May 2018; ISP-I-18-16, May 2018; ISP-I-18-14, April 2018; ISP-I-18-06, November 2017.

13 OIG, *Inspection of Embassy Riyadh and Constituent Posts, Saudi Arabia* (ISP-I-18-17, May 2018); OIG, *Inspection of Addis Ababa, Ethiopia* (ISP-I-18-18, May 2018); ISP-I-18-13, April 2018; ISP-I-18-06, November 2017.

14 ISP-I-18-04, December 2017.

15 ISP-I-18-18, May 2018.

16 ISP-I-18-22, May 2018.

In San Jose, the embassy did not coordinate with OBO regarding its decision to lease high-rise residencies that did not meet the U.S. fire code.[17]

Residential security is also put at risk by deficient and ineffective emergency planning, as addressed below.

Emergency Preparedness

Department guidelines require U.S. embassies to maintain post-specific emergency action plans to respond to situations such as bombs, fires, civil disorder, or natural disasters. Although there is substantial compliance with emergency planning standards, we continue to highlight these deficiencies because of their implications for life and safety.

Again, a number of reports reflect these weaknesses. For example, despite ranking among those posts with the highest category for seismic risk, neither Embassy Addis Ababa nor OBO had a documented strategy to address residential seismic concerns.[18] Inspections of other embassies at risk for earthquakes also revealed a failure to implement seismic safety assessments for many of their residential properties.[19]

Some consular sections—which play a lead role in crisis preparedness—did not meet Department standards. We found consular staff at one embassy that did not know the contents of the disaster assistance kits needed to function off-site in an emergency[20] or, at another embassy, how to operate satellite phones to be used in an emergency.[21]

Staffing shortages and competing priorities were cited as factors in a lapse in emergency preparedness and security at some embassies. However, even in light of such factors, OIG made recommendations that can be implemented to improve compliance with Department standards. For example, we suggested that consular managers at Embassy Guatemala City and Embassy Managua coordinate with their counterparts in other Central American countries on disaster preparedness and response planning.[22]

2 Oversight of Contracts, Grants, and Foreign Assistance

OIG has long viewed the oversight of contracts, grants, and foreign assistance as a significant challenge for the Department, and this year is no exception. Department entities domestically and abroad did not consistently and adequately monitor contractor performance, conduct thorough invoice reviews, and oversee grants and foreign assistance programs. A growing body of OIG work also illustrates the difficulty the Department faces in managing large, long-term construction contracts, particularly in contingency environments.

These issues overlap frequently with another Department challenge: workforce management. At the root of many of the deficiencies described in this section are inexperienced and untrained oversight personnel, staff rotations that promote inefficiency, and complex programs and contracts that simply require more oversight. Because of the substantial resources involved (more than $17.2 billion for diplomatic engagement and $18.9 billion for foreign assistance in FY 2017[23]), inadequate oversight and mismanagement pose considerable financial risk.

Procuring Goods and Services Cost Effectively

The value engineering (VE) program is one approach intended to reduce costs for high-value contracts. This is a systematic process of reviewing and analyzing systems, projects, equipment, facilities, services, and supplies for the purpose of achieving the essential functions at the lowest life-cycle cost consistent with required levels of performance, reliability, quality, or safety. Although the Office of Management and Budget (OMB) requires all Federal agencies to have a VE program, we found the Department had not implemented one

[17] ISP-I-18-13, April 2018.

[18] ISP-I-18-18, May 2018.

[19] ISP-I-18-16, May 2018; ISP-I-18-14, April 2018; ISP-I-18-04, December 2017; ISP-I-18-03, October 2017.

[20] ISP-I-18-13, April 2018.

[21] ISP-I-18-19, May 2018.

[22] ISP-I-18-16, May 2018; ISP-I-18-12, March 2018.

[23] Department of State, *Agency Financial Report, Fiscal Year 2017*.

outside of OBO.[24] Furthermore, in an audit of the OBO VE program, OIG could not complete some of its planned audit analysis because of missing documentation that prevented it from evaluating the overall effectiveness of the program.[25] Until the Department implements a Department-wide VE program in line with OMB requirements, it is missing opportunities to consider cost reductions for major procurements.

Monitoring and Documenting Contractor Performance

As the Department engages in complex acquisitions to procure needed services and supplies to support U.S. foreign policy goals, it continues to face challenges in properly overseeing contractor performance. Oversight personnel must monitor and document performance, confirm that work is conducted in accordance with the terms of a contract, hold contractors accountable for nonperformance, and ensure that costs are effectively contained. Several examples of deficiencies in the performance of these duties follow.

In one report that addressed a contract for food services at Department facilities in Iraq, OIG found the Department did not effectively implement contractually established cost controls to protect its financial interests. Specifically, the Contracting Officer (CO) did not direct the contractor to maintain costs at a contractually established rate and increased the rates in subsequent years without performing the required analysis to establish that the Department received a fair and reasonable price.[26] These unjustified increases led to $41 million in questioned costs.

In another report related to food services provided under the same contract, we reported a number of deficiencies in contractor oversight.[27] For example, Contracting Officer's Representatives (CORs) failed to develop a quality assurance surveillance plan that included measurable and structured performance standards. Moreover, the Department was unable to provide documentation for over one quarter of required food service inspections and did not complete contractor performance assessment report narratives in a timely manner, thereby hampering its ability to assess performance and hold the contractor accountable.

In the audit of fuel contracts at Embassy Amman, oversight of contractor performance was flawed in several ways. OIG found nonexistent or inadequate quality assurance surveillance plans, deliveries that were accepted by unauthorized personnel, and COR files that were missing or incomplete, all of which increased the risk of mismanagement and fraud.[28] Additionally, over the course of 3 years, oversight personnel ordered and accepted fuel without purchase orders, resulting in numerous unauthorized commitments.

In an audit of Bureau of European and Eurasian Affairs (EUR) contract and grant oversight, we found EUR management and Office of Acquisitions Management COs did not review the status of electronic or hard copy COR files to ensure that they included required documents or that CORs received and reviewed all contract deliverables. Moreover, it noted that EUR management had no process in place to identify CORs or Government Technical Monitors who acted without designated authority from the CO, putting the Department at risk.[29]

Several FY 2018 reports also noted instances where the Department did not consistently or timely document contractors' performance in the Contractor Performance Assessment Report System, an important tool for ensuring that other U.S. Government agencies have all available information necessary to make informed procurement decisions.[30]

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[24] OIG, *Management Assistance Report: Department of State Has Not Implemented the Required Value Engineering Program for Contracts Exceeding $5 Million* (AUD-CGI-18-52, August 2018).

[25] OIG, *Audit of the Bureau of Overseas Buildings Operations Value Engineering Program* (AUD-CGI-18-54, August 2018).

[26] OIG, *Management Assistance Report: Cost Controls for Food Services Supporting Department of State Operations in Iraq Require Attention* (AUD-MERO-18-31, March 2018).

[27] OIG, *Audit of Food Safety Controls Under Baghdad Life Support Services (BLiSS) Task Order SAQMMA14F0721* (AUD-MERO-18-38, May 2018).

[28] OIG, *Audit of the Administration and Oversight of Fuel Contracts at U.S. Embassy Amman, Jordan* (AUD-MERO-18-33, March 2018).

[29] OIG, *Audit of the Bureau of European and Eurasian Affairs Administration and Oversight of Selected Contracts and Grants* (AUD-CGI-18-50, August 2018).

[30] OIG, *Audit of Cost Controls Within the Baghdad Life Support Services Contract Food Services Task Order SAQMMA14F0721* (AUD-MERO-18-55, August 2018); ISP-I-18-04, December 2017; OIG, *Management Assistance Report: Contract Administration Practices Involving the Construction of the New Office Compound Taipei, Taiwan, Require Attention* (AUD-SI-18-34, March 2018); AUD-MERO-18-38, May 2018.

In an effort to identify common themes regarding these issues, OIG reviewed its overseas mission and domestic bureau inspection reports published from January 2016 through December 2017 and found that 36 percent contained findings related to CORs. These included CORs who did not monitor contractors' technical progress, did not properly review contractors' invoices before approving them for payment, and did not maintain complete COR files.[31] Although noting that many factors played a role in these concerns, OIG concluded that oversight would be enhanced by requiring CORs to use the electronic filing system. The Department developed this system to improve contract oversight generally—a significant management challenge—and to increase oversight of COR performance.[32] Requiring its use will advance these goals.

Ensuring Proper Invoice Review and Approval Processes

Proper invoice review and approval processes are crucial to ensure that the Department receives the benefit of its contracts and that the Department is able to take appropriate steps if contractors are not performing in accordance with the terms of the contract. Where the Department has focused on this issue, it has been successful. For example, in an audit of the International Narcotics and Law Enforcement Affairs' (INL) invoice review process for contracts in Afghanistan, OIG reported that CORs appropriately followed the bureau's procedures and, as a result, all invoices reviewed by OIG complied with requirements. Moreover, the CORs had appropriately rejected invoices when they contained unallowable costs.[33]

In contrast, the audit of fuel contracts at Embassy Amman is illustrative of the deficiencies OIG continues to find related to invoice review. The audit revealed that CORs did not consistently verify that prices on invoices matched the contract prices or that quantities listed on the invoices matched supporting documentation provided by the contractor.[34] Similarly, in an audit of costs invoiced under the Afghanistan Life Support Services contract, OIG found invoices with questioned costs that were approved because management did not routinely monitor invoice reviews.[35] Bureaus and other Department entities overseeing contracts must establish and implement invoice review procedures and corresponding checklists that ensure proper review and approval.[36] Furthermore, the Department should adopt a quality assurance process that periodically tests invoice review for accuracy.[37]

Overseeing Construction Contracts

A growing body of OIG work reveals particular concerns with the Department's oversight of construction contracts, which are often long-term, complex, and of high value. There are obvious financial implications to inadequate management and oversight of these contracts, but more importantly, insufficient oversight of the building process can lead to the construction of substandard facilities with implications for the safety and security of personnel.

In one of a series of reports on new construction at Embassy Kabul, OIG reported that OBO acted contrary to its own policies and declared two new buildings substantially complete even though 14 major building systems were not fully commissioned—that is, there was no confirmation that they met design intent and specified performance requirements.[38] In addition to the operating environment, the Department's difficulty ensuring clear lines of authority

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31 OIG, *Management Assistance Report: Dispersal of Contracting Officer Representatives Creates Oversight Challenges* (ISP-I-18-33, August 2018).

32 *Ibid*.

33 OIG, *Audit of the Bureau of International Narcotics and Law Enforcement Affairs Invoice Review Process for Contracts in Afghanistan* (AUD-MERO-18-30, February 2018).

34 AUD-MERO-18-33, March 2018.

35 OIG, *Audit of Costs Invoiced Under the Afghanistan Life Support Services Contracts* (AUD-MERO-18-35, April 2018).

36 AUD-MERO-18-33, March 2018.

37 AUD-MERO-18-35, April 2018.

38 OIG, *Audit of Bureau of Overseas Buildings Operations' Oversight of New Construction Projects at the U.S. Embassy in Kabul, Afghanistan* (AUD-MERO-18-17, January 2018). This audit followed several previous reports addressing particular concerns affecting ongoing construction at U.S. Embassy Kabul. *See ibid*. at 51-55 (summarizing key findings in earlier reports).

and internal coordination caused this potentially costly premature declaration. The OBO project director's position in the organizational structure effectively allowed him to override the commissioning agent in Kabul. Accordingly, the agent could not function independently, even though industry standards and OBO's guidelines stress the importance of such independence.

In another report, OIG noted several oversight weaknesses, including underqualified oversight personnel and poor communication, which contributed to unapproved design changes to the facades of three new buildings at Embassy Islamabad.[39] Neither the COR nor the Alternate COR effectively communicated with the CO concerning this issue, and OIG found no documentation indicating OBO or the CO had reviewed or approved the changes. In fact, the CO learned of the changes from OIG.

With respect to the construction of a new office complex in Taiwan, OIG found that the contractor was allowed to continue performing work even though oversight staff did not issue a final notice to proceed (i.e., formal request to continue work on a phased project).[40] This created a variety of risks for the Department, which could have been responsible for costs incurred as a result of idle hours had the contractor stopped work.[41]

Monitoring Grants in Compliance With Applicable Standards

OIG continues to find grants management practices that do not comply with Department requirements. Key deficiencies include insufficient focus on risk assessments and monitoring plans. In overseas inspections, OIG found individual grants that lacked both.[42] For example, an inspection of the Bureau of African Affairs' (AF) foreign assistance program found that, although grant files included risk assessments, many were not properly designated as high risk, and those with a performance period of more than 1 year were not updated annually. In an audit of Bureau of Educational and Cultural Affairs administration of selected cooperative agreements, OIG found that the Grants Officer and Grants Officer's Representative (GOR) developed monitoring plans, but those plans were not specific to each cooperative agreement as required and did not contain all required elements.[43]

In the same audit, OIG found that the Department did not ensure that grant oversight personnel performed financial monitoring of the grantee's cost-sharing requirements. As a result, we found that the grantee was unable to support 91 percent ($36 million) of the cost-sharing expenses it claimed.[44]

Our work also highlighted continued deficiencies in the area of site visits. For example, in an audit of EUR grant management, OIG found that, as to the grants reviewed, GORs either did not perform site visits or did not document those visits.[45] Failing to conduct site visits deprives the Department of an opportunity to substantiate sound financial management; program progress; and compliance with laws, regulations, and policies.

Department offices and overseas posts should place more emphasis on following Federal Assistance Directive requirements with respect to monitoring and risk assessments. That effort should focus on addressing underlying workforce management issues, namely undertrained and underqualified oversight personnel. Doing so may reduce the likelihood that U.S. Government funds are lost or misused and will likewise help ensure that grants meet program objectives.

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[39] OIG, *Management Assistance Report: Lapse in Oversight at Embassy Islamabad, Pakistan, Allowed Design Change To Proceed Without the Contracting Officer's Knowledge* (AUD-MERO-18-01, December 2017).

[40] AUD-SI-18-34, March 2018.

[41] *Ibid*.

[42] ISP-I-18-16, May 2018; ISP-I-18-14, April 2018; ISP-I-18-06, November 2017; ISP-I-18-03, October 2017.

[43] OIG, *Audit of the Administration of Selected Cooperative Agreements Awarded to the Institute of International Education by the Bureau of Educational and Cultural Affairs* (AUD-CGI-18-15, February 2018).

[44] *Ibid*.

[45] AUD-CGI-18-50, August 2018.

Ensuring Foreign Assistance Programs Achieve Intended Objectives and Policy Goals

In addition to the Department's difficulties in tracking foreign assistance funds (which is assessed under the financial management challenge), OIG found multiple instances of weaknesses in planning and designing foreign assistance programs that meet policy goals. The two issues are closely related, as illustrated in the inspection of the U.S. Mission to the African Union.[46] OIG's inspection found that the mission was unable to develop and implement a strategy that encompassed all African Union programs and funding because it had no reliable mechanism for tracking that information.

Flawed organizational structures also sometimes hinder the Department's ability to ensure foreign assistance programs meet objectives. For example, the inspection of AF's foreign assistance program described a decentralized management structure that made effectively implementing foreign assistance programs difficult.[47] Similarly, South and Central Asian Affairs (SCA) lacked a senior official with primary responsibility for overseeing the monitoring and coordination of foreign assistance programs and ensuring that resources are allocated in keeping with policy goals.[48]

Where multiple bureaus are involved, coordination weaknesses can play a role as well, as discussed further in promoting accountability through clear lines of authority and internal coordination. Related to the antiterrorism assistance program in Afghanistan, OIG found that the Bureau of Diplomatic Security (DS) and the Bureau of Counterterrorism and Countering Violent Extremism had not fully established a way to evaluate program progress against specific, measurable, and outcome-oriented objectives.[49]

Inadequate planning in two of INL's foreign assistance programs in Central America resulted in the acquisition or provision of unusable equipment. In our inspection of Embassy San Jose, we found that, in 2015, INL purchased $540,077 in video surveillance equipment that had yet to be installed because the intended facility—a Costa Rican prison—lacked the necessary electrical infrastructure and cabling. As a result, the section stored more than 160 pieces of equipment in the embassy warehouse for over 2 years, and the warranty on the equipment expired during this period.[50] In Guatemala City, we found that five helicopters furnished to the host government could not be used for drug interdiction missions because they had been grounded since 2016 as a result of poor maintenance and questionable procurement practices that prevented them from meeting INL's airworthiness standards.[51]

To address this issue, entities responsible for foreign assistance funds should focus on strategic planning that ensures programs are designed and resources are allocated to meet foreign policy goals.

3 Information Security and Management

The Department depends on information systems to function, and the security of these systems is vital to protecting national and economic security, public safety, and the flow of commerce. The Department acknowledges that its information systems and networks are subject to serious threats that can exploit and compromise sensitive information, and it has taken some steps to address these concerns. However, notwithstanding the expenditure of substantial resources by the Department, OIG continued to identify significant issues that put its information at risk.

[46] OIG, *Inspection of the U.S. Mission to the African Union, Addis Ababa, Ethiopia* (ISP-I-18-20, May 2018).

[47] OIG, *Inspection of the Bureau of African Affairs' Foreign Assistance Program Management* (ISP-I-18-02, October 2017).

[48] OIG, *Inspection of the Bureau of South and Central Asian Affairs* (ISP-I-18-11, February 2018).

[49] OIG, *Management Assistance Report: Although Progress Has Been Made, Challenges Remain in Monitoring and Overseeing Antiterrorism Assistance Program Activities in Afghanistan* (AUD-MERO-18-16, November 2017).

[50] ISP-I-18-13, April 2018.

[51] ISP-I-18-16, May 2018.

Strengthening Cybersecurity Performance

As in prior years, 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.[52] The lack of an effective risk management strategy and dispersed authority contribute to many of OIG's concerns regarding IT security and management at the Department.

As OIG has explained repeatedly, the Chief Information Officer (CIO) is not well placed in the organization to be fully accountable for information security program issues. For example, DS, which also has information security responsibilities, does not report to the CIO. Additionally, there is insufficient authority vested in the CIO to track and control IT investments, so there is no clear picture of total IT spending by the Department. We continue to recommend that the Department address this decentralized reporting structure in order to improve overall information security. We did so most recently in October 2017 when we recommended that the Deputy Secretary of State elevate and realign the organizational placement of the CIO in order to carry out the CIO's lead role as a senior accountable official in managing information security and information security risk management processes for the Department.[53]

These concerns were also reflected in various other reports throughout FY 2018. For example, an inspection of the Bureau of Information Resource Management Office of Governance, Resource, and Performance (IRM/GRP) revealed information security vulnerabilities that were partially the result of the Department's challenge to establish clear lines of authority.[54] OIG found policies that did not consistently identify GRP as responsible for managing the Department's IT Configuration Control Board. Furthermore, it lacked authority to enforce Dedicated Internet Network (DIN)[55] requirements. OIG recommended that IRM implement procedures to centrally authorize and register DINs.

Lapses in the duties of Information Systems Security Officers (ISSOs)[56] persisted in FY 2018.[57] For example, at Embassy Denmark, the ISSO did not perform information system audits or other mandated duties, including recurring vulnerability scanning, monthly random email reviews, and monthly random user data reviews.[58] At Embassy Riyadh and its constituent posts, no ISSOs performed cybersecurity reviews using the Department's ISSO checklists, and none documented the reviews they did perform.[59] Without a systematic approach to monitoring networks and recording findings, Department networks could be breached and information security compromised. Accordingly, OIG issued recommendations for individual posts to implement standard operating procedures to ensure performance of ISSO duties.

OIG also continued to find deficiencies in Department IT contingency planning at overseas posts.[60] Department guidelines require every information system to have a contingency plan that is documented and tested annually. Incomplete and untested IT contingency plans increase the risk of ineffective responses to or loss of critical communication during an emergency crisis. Embassies

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52 OIG, *Audit of the Department of State Information Security Program* (AUD-IT-18-12, October 2017).

53 *Ibid*.

54 OIG, *Inspection of the Bureau of Information Resource Management's Office of Governance, Resource, and Performance Management* (ISP-I-18-15, April 2018).

55 DINs deliver internet access from internet service providers via Department-owned and operated unclassified networks that are not connected to any other Department systems. They are established for information processing purposes that cannot be accomplished on the Department's Sensitive But Unclassified network (OpenNet).

56 ISSOs are responsible for implementing the Department's information systems security program and for working closely with system managers to ensure compliance with information systems security standards.

57 *See, e.g.*, ISP-I-18-19, May 2018; ISP-I-18-16, May 2018; ISP-I-18-14, April 2018; ISP-I-18-13, April 2018; ISP-I-18-12, March 2018.

58 ISP-I-18-23, April 2018.

59 ISP-I-18-17, May 2018.

60 *See, e.g., OIG, Inspection of Embassy Dublin, Ireland* (ISP-I-18-24, June 2018); OIG, *Inspection of Consulate General Jerusalem* (ISP-I-17-18, June 2017); ISP-I-18-19, May 2018; ISP-I-18-16, May 2018; ISP-I-18-14, April 2018; ISP-I-18-13, April 2018; ISP-I-18-12, March 2018; ISP-I-18-03, October 2017.

failed to show that they tested IT contingency plans annually, and initial and refresher IT contingency training for employees was lacking.

The inspection of Embassy Guatemala City detailed an example of the consequence of failure to comply with key procedures. OIG discovered that its Information Management Section staff installed unauthorized and misconfigured network devices on the Department's sensitive network, creating IT security vulnerabilities.[61] From July through November 2017, the embassy reported three incidents involving unauthorized and misconfigured network devices, two of which OIG identified during this inspection. As a result, OIG recommended that DS, in coordination with IRM and Embassy Guatemala City, audit the embassy's sensitive network to ensure it complies with Department standards.

Tracking IT Assets

The Department's inability to track its IT assets prevents adequate oversight and puts the Department at risk of purchasing duplicate or unneeded software. This is a longstanding and ongoing issue for the Department. Although OIG has identified this issue in previous years, OIG reiterates its concern regarding the fact that the Department has systems or applications that have not been recorded in the Department's inventory database.[62] Just this year, in the inspection of GRP, we also noted that there was no centralized inventory for software purchases, which totaled more than $200 million in each of the previous two years.[63] Furthermore, we reported that IRM did not have an inventory of operating systems being used on IT hardware connected to OpenNet, meaning that IRM did not maintain an accurate and complete list of operating systems.[64]

4 Financial and Property Management

Management of its financial resources and property remains a challenge for the Department. One significant aspect of this challenge relates to overall internal control issues—namely, the Department's ability to identify internal control weaknesses in the first place and its subsequent compliance with relevant standards. This issue affects management of both the Department's financial resources and its property.

This section also describes the Department's difficulties in tracking and reporting data, especially related to foreign assistance. In addition, we identify weaknesses in the Department's collection, use, and analysis of financial information. As with oversight of contracts and grants, attention to this challenge is particularly important to ensure that the Department appropriately oversees and uses public resources.

Complying With Internal Controls

Internal control deficiencies spanned a wide range of Department operations in FY 2018. As it had in previous years, the FY 2017 audit of the Department's financial statements identified a significant number of invalid unliquidated obligations (ULOs) that had not been identified by the Department's review process and noted that 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.[65] It also noted that the Department's internal controls were not effective to ensure that ULOs were consistently and systematically evaluated for validity and deobligation. In another report, OIG acknowledged that,

[61] ISP-I-18-16, May 2018; *see also* ISP-I-18-12, March 2018 (noting that Information Management staff did not review and analyze information systems audit logs for inappropriate or unusual activity; reporting that OIG accordingly found multiple issues in the classified computer operation that regular performance of ISSO duties could have prevented).

[62] AUD-IT-18-12, October 2017; *see also* OIG, *Management Assistance Report: The Process to Authorize and Track Information Technology Systems Needs Improvement* (AUD-IT-17-56, August 2017).

[63] ISP-I-18-15, April 2018.

[64] OIG, *Management Assistance Report: The Department of State Is Not Managing Unsupported Operating Systems in Accordance With Federal Requirements* (AUD-IT-18-43, May 2018).

[65] OIG, *Independent Auditor's Report on the U.S. Department of State 2017 and 2016 Financial Statements* (AUD-FM-18-05, November 2017).

after they were identified during the FY 2016 financial statement audit, the Department properly addressed invalid ULOs.[66] Because the Bureau of the Comptroller and Global Financial Services prioritized the deobligation and followed up with responsible bureaus until resolution, the Department appropriately deobligated 34 invalid ULOs, totaling $10.4 million.

Through our inspection work, we sometimes observe internal control deficiencies that are embassy-specific. For example, Embassy Beijing failed to conduct quarterly unannounced cash verifications, an important control related to cashier operations.[67] Additionally, OIG concluded that poor financial management practices at Embassy San Jose led to 47 outstanding travel advances totaling $67,283.[68] Management failed to ensure embassy employees submitted travel expense reports and accounted for travel advances received, which represent a loss of funds to the Department if they remain uncollected.

Deficiencies related to acquisition planning were more widely noted. Several FY 2018 inspections found embassies that did not conduct annual planning meant to determine optimal contracting methods, increase competition, and achieve potential cost savings.[69] For example, at Embassy Georgetown, the embassy did not have an annual acquisition plan for procuring goods and services, and management officials did not seek input from embassy sections to forecast contracting requirements for the upcoming fiscal year.[70] At Mission Riyadh, despite incurring $9.8 million in FY 2017 procurement costs, the embassy did not use a mission-wide acquisition plan as part of its annual budget planning process and did not conduct an annual utilization survey to limit the acquisition of personal property.[71]

Internal control deficiencies related to property management were also wide-ranging. In an audit of the Department's aviation program,[72] we found that the Aviation Governing Board, which is responsible for overseeing aviation activities, did not evaluate the usage and cost effectiveness of aircraft services as required by Federal and Department guidance. Overall, we concluded that the Department is not optimally managing aviation resources and that it accordingly spent $72 million on unnecessary services from September 2013 to August 2017. Additionally, we found that a lack of procedures and guidance contributed to insufficient accountability over aircraft equipment and improper disposal of aircraft, placing aviation assets at increased risk for fraud, waste, and abuse.

Several reports noted particular issues with embassy management of fuel, an asset that is particularly vulnerable to theft given its significant value.[73] At Embassy Riyadh, because of inadequate management supervision, staff did not record daily fuel issuance, conduct monthly inventories, or reconcile bulk fuel balances, which are required internal control procedures that decrease the risk of theft and mismanagement.[74] Our inspection of Embassy San Jose found it lacked a comprehensive fuel control program that included oversight and internal controls.[75]

Several embassy inspections identified weaknesses in general property management controls involving warehouse access, inventory, spot checks, and related issues.[76] For example, Embassy Addis Ababa showed multiple internal control

[66] OIG, *Management Assistance Report: The Department of State Properly Addressed Invalid Unliquidated Obligations Identified During the FY 2016 Financial Statements Audit* (AUD-FM-18-27, January 2018).

[67] ISP-I-18-04, December 2017.

[68] ISP-I-18-13, April 2018.

[69] ISP-I-18-24, June 2018; ISP-I-18-13, April 2018; ISP-I-18-04, December 2017.

[70] ISP-I-18-19, May 2018.

[71] ISP-I-18-17, May 2018.

[72] OIG, *Audit of the Department of State's Administration of its Aviation Program* (AUD-SI-18-59, September 2018).

[73] *See, e.g.*, ISP-I-18-19, May 2018; ISP-I-18-14, April 2018.

[74] ISP-I-18-17, May 2018.

[75] ISP-I-18-13, April 2018.

[76] ISP-I-18-14, April 2018; ISP-I-18-04, December 2017; ISP-I-18-03, October 2017.

deficiencies related to the management of Government-owned property and warehouse operations, including inadequate access controls, lack of unannounced spot checks, lack of physical inventories of motor vehicles, and property disposal records discrepancies.[77]

Our work also highlighted some embassies that have improved property management controls. For instance, Embassy Georgetown identified excess property and held three auctions in FY 2016 and FY 2017 that generated $670,813 for use by the Department and other agencies. It also implemented procedures and controls to ensure accuracy of property records.[78] Similarly, Embassy Guatemala City improved recordkeeping and addressed staffing shortages at its warehouse, resulting in a reduction of the embassy's nonexpendable property shortage.[79]

The role of management is paramount on the issue of internal controls. We reported last year that 38 percent of inspections conducted from December 2014 to January 2017 showed deficiencies in Chief of Mission oversight of the annual statement of assurance process meant to identify internal control weaknesses.[80] Weak internal controls that go unidentified by management increase the risk of misuse of Department resources.

Tracking and Reporting Department Assets

OIG noted in its 2017 management challenges statement that the Department's financial management and procurement IT systems were not designed to track and report programmatic details of foreign assistance, an issue we have long noted.[81] OIG acknowledges that the Department took positive steps during FY 2018 to alleviate some of these concerns, for example, by defining the types of data to be collected and expanding the scope of data collection efforts to include spending on contracts and interagency agreements. Collecting and harnessing the data in a foreign assistance tracking and reporting system is a complex process, though, and the Department has noted that it will require years to fully accomplish. In light of this issue's importance and the limitations that OIG previously identified,[82] we will continue to closely monitor this issue.

Beyond foreign assistance funds, the Department sometimes has difficulty tracking and reporting its assets. In fact, the annual audit of Department financial statements reported a significant deficiency related to property and equipment. Namely, it found that a significant number of property transactions were not recorded in the year the assets were acquired or disposed of. It also noted the Department does not have a complete and accurate record of software.[83] We also reported this year that the DS Office of Training and Performance Standards does not properly record accountable property, perform physical inventories, or use required procedures to ensure property is returned when no longer needed.[84]

Collecting, Analyzing, and Applying Financial Information

Flaws in the Department's collection, use, and analysis of financial information continue to be a management challenge. These weaknesses are often attributable to the use of outdated or weak methods of collecting, analyzing, and applying financial and related data.

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[77] ISP-I-18-18, May 2018.

[78] ISP-I-18-19, May 2018.

[79] ISP-I-18-16, May 2018.

[80] OIG, *Management Assistance Report: Department Can Take Steps Toward More Effective Executive Direction of Overseas Missions* (ISP-17-38, July 2017).

[81] OIG, *Management Assistance Report: Department Financial Systems Are Insufficient to Track and Report on Foreign Assistance Funds* (ISP-I-15-14, February 2015); OIG, *Compliance Follow-up Review: Department of State is Still Unable to Accurately Track and Report on Foreign Assistance Funds* (ISP-C-17-27, June 2017).

[82] OIG, *Inspector General Statement on the Department of State's Major Management and Performance Challenges, Fiscal Year 2017* (OIG-EX-18-02, November 2017).

[83] AUD-FM-18-05, November 2017.

[84] OIG, *Management Assistance Report: The Bureau of Diplomatic Security's Office of Training and Performance Standards Should Improve Property Management Over Equipment Provided During High-Threat Training* (AUD-SI-18-49, August 2018).

In a key example of this challenge, a recent audit found that the Department lacked adequate policies and procedures for evaluating and remitting to Treasury excess earnings in its Working Capital Fund accounts, which are intended to operate on a break-even basis.[85] As a result of these deficiencies, we concluded that the Department is unable to advance the primary purpose of the Working Capital Fund, which is to provide an effective means for controlling the costs of goods and services and to encourage cost consciousness and efficiency for users and suppliers of services. We made recommendations to improve policies and procedures related to establishing fees, maintaining historical documentation on these processes, and calculating excess earnings for remittance.

The mandated *Audit of the Department of State's Implementation of the Digital Accountability and Transparency Act of 2014* noted ongoing difficulties in collecting and assessing required data. One objective of this audit was to assess the accuracy, completeness, timeliness, and quality of second quarter FY 2017 data submitted by the Department for inclusion on USASpending.gov. However, as we reported, the auditor could not assess the data related to overseas transactions because the Department did not certify that the data was valid and reliable.[86] In addition, more than 64 percent of domestic transactions that were tested did not meet OMB's quality requirements.[87] The auditor concluded that, although the Department has taken steps to implement the financial data standards established under the Digital Accountability and Transparency Act, improvements—particularly related to data collection overseas—are needed.

5 Operating in Contingency and Critical Environments

Programs and posts operating in contingency and critical environments must adapt to constant change, pervasive security concerns, dramatic swings in personnel and funding, and widespread reliance on contractors and grantees. In addition to the overall challenge of protecting its people and facilities, the Department faces a much more specific challenge in managing contracts and foreign assistance programs in these locations. A few examples of reports addressing these issues follow.

As discussed previously, an audit of new construction projects at Embassy Kabul noted multiple contract management deficiencies, including a finding that OBO declared the buildings substantially complete even though 14 major buildings systems were not fully commissioned.[88] The operating environment seems to have contributed to this premature declaration. First, the contractor did not always have adequate staff onsite to facilitate key commissioning activities (e.g., demonstrating operation of boilers and chillers) because manufacturers—whose technicians would have been required to start up some equipment—were reluctant to send staff to high-threat posts. The commissioning agent said this contributed to some of the delays in completing the commissioning process.[89]

Second, facility management personnel stated that OBO was under pressure to move embassy staff into hardened structures as soon as possible because of the unstable security situation.[90] As a result, OIG recommended that OBO establish procedures to assist the bureau in addressing scenarios where it must accelerate substantial completion as a result of security concerns.

In a report on funding in Syria, OIG found that the Department faces substantial challenges in delivering stabilization assistance.[91] External constraints include regional political concerns, a high-threat security environment, policy and legal restrictions on how appropriated funds can be spent, and the lack of a U.N. or host country partner. These create risks that programs will not achieve the intended strategic

[85] OIG, *Audit of the Department of State's Process to Identify and Transfer Excess Working Capital Funds* (AUD-FM-18-44, June 2018).

[86] OIG, *Audit of the Department of State's Implementation of the Digital Accountability and Transparency Act of 2014* (AUD-FM-18-03, November 2017).

[87] *Ibid*.

[88] AUD-MERO-18-17, January 2018.

[89] *Ibid*.

[90] *Ibid*.

[91] OIG, *Department of State Stabilization Programs in Syria Funded Under the Further Continuing and Security Assistance Appropriations Act, 2017* (ISP-18-29, September 2018).

result of preventing the reemergence of Islamic State of Iraq and Syria and other terrorist organizations. Although these constraints are largely outside the Department's control, they affect all aspects of operations and planning. We recommended the Department identify lessons learned from its delivery of stabilization assistance in Syria and develop interagency institutional mechanisms to facilitate deployment of Department personnel for future stabilization missions.[92]

In an audit of a task order for food services under the Baghdad Life Support Services Contract in Iraq, OIG found that the CO did not implement a point-of-sale cafeteria system or restrict dining facility access for local national employees and for individuals not serving under chief of mission authority, as required.[93] As a result, the Department inappropriately paid for a minimum of 459,102 meals for local staff (valued at approximately $4.1 million) and an unidentified number of meals to individuals not serving under chief of mission authority.[94] Department officials said that these weaknesses occurred because of a security-related crisis in Iraq and explained that they did not later reinitiate efforts to implement the point-of-sale system because of morale concerns.

Our inspection of the Yemen Affairs Unit examined the diplomatic mission that was established in Jeddah, Saudi Arabia, following the suspension of operations and evacuation of Embassy Sanaa, Yemen, in February 2015. We found the Yemen Affairs Unit experienced financial and property management challenges that were largely inseparable from the environment in which it operated. For example, lost records made addressing unliquidated obligations difficult and labor-intensive, and an inability to return to Yemen made maintaining a leased property there problematic. Overall, the Department had not reviewed the unit's functions or structure to determine whether they were aligned with current goals and whether funds expended were appropriate.[95] On a positive note, though, we reported that the unit was successful in reducing Embassy Sanaa's unliquidated obligation balances by $17.3 million in FY 2017 by recreating records destroyed during the March 2015 evacuation, contacting vendors, consulting with embassy LE staff, and using Department records.[96]

6 Workforce Management

The Bureau of Human Resources rightly identifies staff as the Department's greatest asset. The Department accordingly expends substantial resources on recruiting, training, and retaining a diverse, talented workforce capable of carrying out the Department's foreign policy goals and priorities. However, OIG's work finds that staffing gaps, frequent turnover, and inexperienced and undertrained staff frequently contribute to the Department's other management challenges. Workforce management issues are pervasive, affecting programs and operations domestically and overseas and across functional areas and geographic regions.

Maintaining Adequate Staffing Levels to Meet Operational Needs

OIG frequently encounters Department entities that experience difficulty maintaining staffing levels. For example, in the inspection of the Bureau of African Affairs, OIG identified the bureau's profound difficulties in attracting Foreign Service Officers to its overseas posts.[97] The bureau experienced the same issues domestically, and OIG noted that staffing gaps inhibited its ability to support crucial functions such as strategic planning. Similarly, SCA faced problems filling overseas posts in its region as well as Civil Service vacancies in Washington, D.C.[98] DS also faced a bureau-wide shortage of agents. This shortage was felt in the Office of Mobile Security Deployment, an organization with a strong reputation for fulfilling its substantive mission despite working with a 38 percent staffing shortfall in 2017.[99]

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92 *Ibid*.

93 AUD-MERO-18-31, March 2018.

94 *Ibid*.

95 OIG, *Inspection of Yemen Affairs Unit* (ISP-I-18-21, March 2018).

96 *Ibid*.

97 OIG, *Inspection of the Bureau of African Affairs* (ISP-I-18-01, October 2017).

98 ISP-I-18-11, February 2018.irm/

99 OIG, *Inspection of the Bureau of Diplomatic Security's Office of Mobile Security Deployments* (ISP-I-18-05, October 2017).

Understaffing is often at play where OIG sees problems with oversight of contracts and grants. In one illustrative example, OIG found that in IRM/GRP, only one COR was responsible for overseeing 14 complex contracts worth well over $100 million per year in FY 2016 and FY 2017.[100] As a result of this poor distribution of oversight staff, OIG found a number of oversight weaknesses, including approval of invoice payments without appropriately verifying that goods have been received. Conversely, when the Department places adequate oversight personnel in charge of contracts, it sees positive results. For example, during the period when INL maintained its optimal staffing level of four permanent CORs for overseeing contracts in Afghanistan, OIG found that, without exception, invoices were reviewed in compliance with Federal regulations and Department policies.[101]

Likewise, understaffing can play a role in internal control deficiencies. In an inspection of the Bureau of the Comptroller and Global Financial Services' (CGFS) oversight of the Department's management control program, we found the program for non-financial operations was insufficient.[102] The responsible office did not request the personnel resources it needed to design and oversee the Department's non-financial management control program, and staff members told OIG they had neither the experience nor the resources to develop, monitor, and evaluate the Department's non-financial management control program.[103] This lack of oversight is significant because it goes to the Department's overall assessment of material weaknesses and areas of control weakness.

During the course of our FY 2018 work, some Department officials referenced a Department-wide hiring freeze when discussing work obstacles.[104] We reported in our inspection of Embassy San Jose, for example, that INL's projects to improve the host government's ability to seize narcotics transiting through its territory included a $50 million project to provide two refurbished U.S. Coast Guard cutters and related maritime support infrastructure and an $11.9 million project to supply three helicopters. Staff, however, reported that they lacked technical expertise on aviation and that the section did not have a dedicated maritime advisor to effectively manage the projects. The embassy had planned to hire a personal services contractor for this purpose but could not do so because of the hiring freeze; although INL had sought waivers to fill the position, it was unclear at the time of the inspection whether they would be approved.[105] In another example, we reported that key property management positions in the DS Office of Training and Performance Standards were left vacant as a result of the hiring freeze, contributing to weaknesses in the process by which protective equipment was issued and managed.[106] Finally, management sections in several overseas posts stated that the inability to hire eligible family members—who have historically provided a talented, accessible, and cost-effective pool of labor to fill widespread support positions—was a hardship that affected their posts' programs and operations.[107]

OIG emphasizes that its work to date has not attempted to assess any overall consequences of the hiring freeze but has instead reported concerns expressed by some Department officials in the course of other projects. In response to language in the explanatory section of the conference report for the Consolidated Appropriations Act, 2018, OIG will, however, engage in a more general analysis of this issue.[108]

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[100] ISP-I-18-15, April 2018.

[101] OIG, *Audit of the Bureau of International Narcotics and Law Enforcement Affairs Invoice Review Process for Contracts in Afghanistan* (AUD-MERO-18-30, February 2018).

[102] OIG, *Inspection of the Bureau of the Comptroller and Global Financial Services' Office of Management Control* (ISP-I-18-07, June 2018).

[103] *Ibid*.

[104] A government-wide hiring freeze was first announced by the Office of Management and Budget on January 23, 2017. Although most vacant positions could not be filled, the Secretary could approve specific exemptions. The freeze was lifted effective May 15, 2018.

[105] ISP-I-18-13, April 2018.

[106] AUD-SI-18-49, August 2018.

[107] ISP-I-18-22, May 2018; ISP-I-18-17, May 2018; ISP-I-18-19, May 2018; ISP-I-18-14, April 2018; ISP-I-18-13, April 2018; ISP-I-18-12, March 2018.

[108] "The OIG shall review the current status of the freeze on hiring, including EFM employment and lateral transfers, and assess the impact of such freeze during calendar year 2017 on: (1) the day-to-day function and mission of the Department of State, United States embassies, and consulates; (2) the safety, welfare, and morale of Department personnel; and (3) the personnel costs of the Department. The review shall also examine the impact of the suspension of EFM employment on embassy and consulate operations, and on other Federal agencies." 115 Cong. Rec. H2842 (daily ed. March 22, 2018).

Ensuring Staff Are Appropriately Qualified

Underqualified staff is an issue that frequently intersects with the Department's difficulties managing and overseeing contracts. One prominent example is the OIG audit of food safety controls under the Baghdad Life Support Services contract. The COR and Alternate CORs had no experience in food safety and received no training on food safety before or after assuming oversight responsibilities. OIG found myriad deficiencies, including missing documentation of food service inspections and untimely performance assessment reports. The Department acknowledged a lack of expertise and capacity to properly oversee the contract.[109]

Beyond the realm of contract and grant management, OIG finds Department personnel holding positions that are poorly tailored to their experience or qualifications. For example, in the inspection of Consulate General Hong Kong, OIG found that eight of ten language designated positions list Mandarin as the primary language even though 90 percent of Hong Kong's population speaks Cantonese and English is widely spoken. Seven of the eight officers in the Mandarin-designated positions said they rarely used their language training. Conversely, in the inspection of Embassy Beijing, OIG found that only one of six designated post occupational and safety health officers had received required training, and even that training had occurred more than 5 years ago. OIG noted that this contributed to problems with the residential housing program, which had consequences for the health and safety of Department personnel.

7 Promoting Accountability Through Internal Coordination and Clear Lines of Authority

Promoting accountability through careful internal coordination and clear, well-defined lines of authority is still a challenge for the Department. OIG finds that poor coordination and vague or dispersed authority are at the root of some of the Department's other deficiencies. This is a concern that affects a wide range of Department functions: it is often implicated in problems particular to certain Department programs or projects, and it is likewise relevant to some of the Department's more longstanding and systemic difficulties, including ensuring physical and information security.

A good illustration of a bureau-specific lack of coordination was set forth in our inspection of the Bureau of African Affairs' foreign assistance program.[110] As discussed previously, this inspection found deficiencies in the management and oversight of foreign assistance at the program level and the individual award level. Many of the deficiencies, however, had their roots in the bureau's decentralized structure in which four different offices with four different reporting mechanisms play a role in managing foreign assistance programs. This management structure inhibited efficient and effective program oversight necessary to ensure programs met policy goals. For example, one office within the bureau spent $324,647 in travel funds in FY 2016 but did not coordinate contract and grant site visits across programs.

OIG also has concerns with coordination across bureaus and other Department entities. Of particular note, OIG concluded that the Department had taken a "fragmented approach" to implementing its non-financial management control program. Although, according to the Foreign Affairs Manual (FAM), CGFS has overall responsibility for designing this program, in practice, CGFS had neither the staff nor the expertise to fulfill these obligations. Moreover, the Department's Comptroller stated that the FAM did "not accurately reflect the entities responsible for particular tasks" and that these obligations are split between CGFS and the Office of Management Policy, Rightsizing, and Innovation (M/PRI). OIG concluded, though, that M/PRI and CGFS had not coordinated or maintained close communication and did not have the same understanding of their respective obligations. Unclear lines of responsibility make it more difficult for the Department to manage its overall risks.

Furthermore, we found that dispersed and unclear authority contributed to weaknesses in the implementation of the Department's aviation program. Our audit report explained that the Aviation Governing Board Charter had not been revised since 2011 and did not align with the board's

[109] AUD-MERO-18-38, May 2018.

[110] ISP-I-18-02, October 2017.

actual practices. To assist in addressing several program management deficiencies, we recommended that the Department centralize management of aviation programs and assets and update the board's charter to reflect the roles and responsibilities as set forth in the FAM.[111]

In another example, the Department risked costly delays in a construction project at Embassy Guatemala City because the embassy did not coordinate systematically with OBO to establish accurate staffing levels for a planned new embassy compound.[112] The Department awarded a $287.6 million contract in September 2017 to construct the new compound, but the embassy later estimated that it had established at least 89 desk positions that were not included in OBO's space requirements plan and was considering proposals to add another 48 new positions.

A lack of coordination also affects the Department's overall difficulties in tracking and prioritizing physical security needs at overseas posts and its struggle to implement an effective information security program. On the former, we have long noted in past reports a lack of coordination between OBO and DS, both of which have responsibilities for physical security at diplomatic facilities.[113] The creation of a physical security deficiency database reflects improved coordination between the bureaus, but until the Department develops and implements a process to prioritize physical security deficiencies at overseas posts to improve allocation of funding, the underlying deficiency will persist. With regard to information security, OIG remains concerned with the overlapping and poorly defined responsibilities between DS and IRM and the organizational placement of the CIO, which impedes the position's ability to effectively implement an agency-wide information security program. In addition to addressing these structural and organizational concerns through its reports and recommendations, OIG has repeatedly emphasized these matters in testimony, presentations, and other communications with the Department and with Congress.

The Department has made efforts to streamline organizational structures in some instances, and, when it has done so, there have been positive effects. For example, an inspection of the Bureau of South and Central Asian Affairs concluded that intra-bureau coordination on foreign assistance was generally positive.[114] Department stakeholders felt collaboration was improved by the reintegration of the Special Representative for Afghanistan and Pakistan—formerly in the Office of the Secretary—into the bureau, which allowed for a single entity with authority to coordinate U.S. policy and programs for the entire region.

Conclusion

Effectively implementing U.S. foreign policy through diplomacy, advocacy, and assistance is essential to our nation's security and prosperity. However, each of the management challenges described in this report has an outsized effect on the Department's ability to perform its mission and to safeguard taxpayer resources while doing so.

OIG observes that where multiple challenges overlap, unique vulnerabilities emerge for the Department. OIG is particularly concerned with the Department's information systems, which are relied on by all programs and operations for carrying out the Department's mission. Longstanding information security weaknesses put every other function at risk. For example, IT vulnerabilities can affect the integrity of financial applications, which, in turn, increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be accidentally or intentionally altered.

Additionally, widespread workforce management issues hinder oversight of contracts and grants and weaken internal controls, exposing the Department to the risk of fraud and waste, particularly in critical and contingency environments. In fact, our body of work on the construction projects at Embassy Kabul illustrates the interplay of all these issues.

[111] AUD-SI-18-59, September 2018.

[112] ISP-I-18-16, May 2018.

[113] *See* 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).

[114] ISP-I-18-11, February 2018.

Pressure to quickly complete construction projects coupled with poor coordination among stakeholders and inadequate personnel to provide quality assurance oversight can lead to contract management mistakes with financial and security implications for the Department.

Where these challenges intersect and contribute to one another is also where the Department would benefit most if deficiencies were properly addressed. OIG accordingly encourages the Department to consider how these challenges interact and how it can address them systemically. OIG remains committed to assisting the Department as it works to improve the effectiveness and efficiency of its programs and operations.

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Management's Response to Inspector General

In 2018, the Department of State's Office of Inspector General (OIG) identified management and performance challenges in the areas of: protection of people and facilities; oversight of contracts, grants, and foreign assistance; information security and management; financial and property management; operating in contingency and critical environments; workforce management; and promoting accountability through internal coordination and clear lines of authority. 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. In a very dangerous world, the Department is succeeding in keeping its personnel and facilities safe. Threats to our people and facilities will continue to evolve and requires constant focus and risk mitigation. The Department has various processes to manage risk, and has also created the Enterprise Risk Management Council (ERMC) led by the Deputy Secretary to look at strategic risks comprehensively. The Department annually revises the Security Environment Threat List and conducts High Threat Post Review Board assessments, and it is increasing the number of posts for which the Foreign Affairs Counter Threat training is mandatory. Despite these and other efforts, the challenge of eliminating risk and preventing attacks will continue given the nature of diplomacy and the operating environments in which the Department works in. The Department will continue to focus on mitigating risks.

Below is additional information about specific issues raised by the OIG and improvements the Department has made in its systems for protecting people and facilities. However, there are some areas in which the Department would like to clarify some perceived weaknesses by the OIG.

Constructing and Maintaining Safe and Secure Diplomatic Facilities

- The OIG found that Embassy Georgetown warehouse facilities did not meet Department standards. The embassy has since removed all offices and equipment from the warehouse, and a contractor from the Bureau of Overseas Buildings Operations (OBO) conducted an appraisal survey in April in preparation for the sale of the property. The embassy will move the Facilities' shops upon completion of the fire suppression system at the new leased warehouse at which time OBO will commence the disposition process for the old property.
- The OIG states that poor quality assurance and oversight of the construction process of two buildings at Embassy Kabul led to failure to adhere to electrical and fire safety standards. However, OBO has previously made and continues to stand by their assessment that the company that was consulted on these deficiencies had a conflict of interest. It was actively negotiating a maintenance contract with the U.S. Government and could have benefitted from identifying maintenance issues that required mitigation. In addition, the OIG conducted this audit during the warranty period. The contractor is mitigating the majority of construction issues noted in the report.

- In addition, OBO respectfully disagrees with the OIG's assertion of risks to personnel and property due to the improper installation of Embassy Kabul's fire alarm system as part of a major office and residential expansion. A separate redundant network circuit is not required by National Fire Protection Association regulation 72. Furthermore, disruption of communication across a network does not diminish or degrade the individual operations of a Fire Alarm Control Unit. The conditions presented by the OIG did not require immediate action. Nonetheless, as of July 9, 2018, the fire alarm redundant loop was completed to assuage OIG's concerns.

Operation of Official Vehicles Overseas

- The OIG noted that there were lapses in medical clearances for operators of official vehicles. The Bureau of Medical Services is finishing a complete rewrite of the Drivers Physical form, which will be routed through a technical platform that follows progress from the time Motor Pool recommends a driver for medical clearance to the time that MED provides clearance.

2 Oversight of Contracts, Grants, and Foreign Assistance

In response to the OIG recommendations, the Department took a number of actions to improve oversight of contracts and grants, including those that appear below. The Department will continue to take steps to address OIG's recommendations.

Procuring Goods and Services Cost Effectively

- The OIG had found that the Department had not been implementing a Value Engineering program enterprise-wide. In response, the Office of the Under Secretary for Management has established the Head of Contracting Activity in the Bureau of Administration (A) as the Senior Accountability Officer of Value Engineering for the Department, in September. In addition, the Office of the Procurement Executive (A/OPE) will develop and implement Value Engineering policies and procedures, in accordance with OMB Circular A-131 requirements, through the Department's Acquisitions Planning process found in the Department of State Acquisitions Regulation. These policies and procedures will follow the content requirements set forth in FAR 7.105 (Contents of Written Acquisition Plans). A/OPE expects the policies and procedures to be in place by the end of FY 2019.

Overseeing Construction Contracts

- Regarding the OIG's perceived oversight weakness which contributed to unapproved design changes to the facades of new buildings at Embassy Islamabad, A and OBO completed a joint review of contract oversight activities and concluded from their review that no unauthorized contract actions or unauthorized changes or alterations to the design issued for construction have occurred.
- A and OBO added that an Alternate Contract Officer Representative (ACOR) was onsite and fully capable of performing contract oversight in lieu of an appointed Contracting Officer Representative (COR). The Office of Logistics Management (A/LM) acknowledges the ACOR appointment letter is not as robust in content as a COR appointment letter; however, A/LM states that the ACOR was nonetheless delegated contract oversight duties. The bureaus concluded that the Contracting Officer (CO) determined that no lapse in contract oversight occurred, with the exception of the 20 days between the end of the ACOR appointment and the delegation of duties to the

successor COR. The bureaus state that in the future the CO will ensure a COR and ACORs are nominated and appointed prior to departure of the incumbent personnel and will work with OBO to ensure COR and ACOR changes are adequately forecasted, broadcast, and appointed as needed.

- In response to an OIG report on the new compound in Taipei, Taiwan, the Office of Acquisitions (A/OPE/AQM) is including training on issuance of limited or final notices to proceed as part of their annual training sessions. AQM is also developing and implementing a process that notifies Assessing Officials and Assessing Official Representatives when contractor performance evaluations are due. A/OPE/AQM is in the process of developing an automated reminder for this requirement.
- As part of the Department's ongoing efforts to improve contract oversight, the Bureau of South and Central Asian Affairs (SCA) worked with the CORs on the Afghanistan Life Support Services Contract to establish a quality assurance process to track invoice review results and periodically test invoice reviews for accuracy. SCA updated existing SOPs and developed a new procedure for random sampling of invoices.

Ensuring Foreign Assistance Programs Achieve Intended Objectives and Policy Goals

- In regards to the tracking and reporting of programmatic details of foreign assistance, the Department appreciates the OIG's acknowledgement that the Department took positive steps during FY 2018 to alleviate some of its concerns. The Department has made significant progress on data quality under the Foreign Assistance Data Review (FADR), and it continues to progress against the timeline and report sent to the Committees on Appropriation. In October 2017, the Director of U.S. Foreign Assistance Resources (F) was assigned by the Deputy Secretary of State as the senior Department official to oversee the process of developing and executing a plan with clear milestones and target completion dates to address foreign assistance tracking and reporting requirements. Since that assignment, while analysis has begun to design a long-term solution for improved Foreign Assistance reporting and management, F and the Bureau of the Comptroller and Global Financial Services (CGFS) have worked on an interim solution that makes use of available system fields that map directly or can be inferred from existing data to the FADR Index data elements. In addition, F has worked with CGFS to improve foreign assistance data quality including engaging with all foreign assistance bureaus in the Department. This continued leadership and engagement resulted in the publication of over 395,000 rows of obligation and disbursement data at the transaction level on ForeignAssistance.gov for FY 2018.

3 Information Security and Management

The Department recognizes the significant threats that exist to its information systems and is constantly taking actions to reinforce its defenses against those threats.

Strengthening Cyber Security Performance

- In response to the OIG's concern about clear lines of authority within the Bureau of Information Management and Resource's (IRM) Office of Governance, Resource and Performance (IRM/GRP), GRP and the Deputy Chief Information Officer (DCIO) for Budget and Management Policy have directly engaged with the Bureau for Human Resources' Office of Resource Management Analysis (HR/RMA) to perform a comprehensive organizational assessment of the GRP office. This assessment has been completed and RMA recommendations have been provided to the Principal DCIO and CIO for review and potential implementation.

- OIG also recommended that IRM implement procedures to centrally authorize and register Dedicated Internet Networks (DINs). IRM has since established, and is implementing, procedures to centrally manage DINs levering two existing registration tools. DINs must be now registered as IT assets in IRM's iMATRIX system, the Department's official record for IT investments. System owners must obtain an iMATRIX ID number to register a DIN with the IT Configuration Control Board (CCB). Integrating iMATRIX ID into the IT CCB DIN Registration site requirements has improved data integrity and data quality. These two systems serve different purposes: iMATRIX manages asset inventory while IT CCB registration maintains records of approval and authorization.

- In order to centralize oversight of information security, IRM's Information Systems Security Officers (IRM/IA/ISSO) program is currently being rolled out to posts worldwide. IRM/IA/ISSO's recent submission to purchase additional licenses for the ISSO Dashboard will enable IA/ISSO to complete its rollout (currently 60 percent or approximately 157 posts and 11 domestic sites are using the ISSO Dashboard). The ISSO Dashboard is a web based interface that allows ISSOs in the field to access server log data. Being web based, there is no need to create command line queries to the database – instead relevant information is shown simply by checking the ISSO Dashboard's web page. A daily review of the ISSO Dashboard will allow the ISSO to develop a baseline to determine normal behavior on their network and allow for the detection and follow-up of anomalies, either on site or with the help of the Cyber Incident Response Team (CIRT).

- After the inspection of Embassy Guatemala City identified several IT security vulnerabilities, post took steps to modernize its classified and unclassified standard operating procedures. Post has established checklists and SOPs to ensure all IT staff are performing Department specified duties. Earlier this year the Bureau of Western Hemisphere Affairs (WHA), Embassy Guatemala City, and IRM conducted a table top exercise, successfully testing IT contingency plans and making eleven updates. A recent IT Contingency test included a satellite Internet test providing wireless Internet access to handheld mobiles all running on battery. The Regional Cyber Security Officer is currently in Guatemala conducting a Cyber Security Assessment.

- The Department recently completed a major revision to its Information Security Risk Management Strategy to align with federal guidelines. This change makes explicit the need to manage risk at the Department, bureau and information system levels with interlinking processes. The initial version of this revision was approved by the Chief Information Officer for sharing more broadly with key partners and bureau stakeholders. In addition, the documented strategies are undergoing implementation planning to integrate risk indicators into existing IT governance processes including, but not limited to, investment, acquisition and security oversight.

Tracking IT Assets

- The OIG has highlighted the need for the Department to better track its IT assets. To address this deficiency, the Department purchased the Software Asset Management (SAM) module of ServiceNow. This tool supports life cycle management of software licensing. ServiceNow SAM will support enhanced alignment of software needs to mission requirements, ensure more intelligent purchasing strategies, and manage overall software inventories to adhere to compliance requirements through automated reporting. The implementation of software inventory licensing is currently undergoing a pilot phase and is expected to be complete by November 30, 2018.

4 Financial and Property Management

The Department operates in a complex and challenging global environment. As a result, the Department manages one of the U.S. Government's most complex financial operations. Operating around-the-clock in over 270 locations and 180 countries, the Department conducts business in over 135 currencies, accounts for $100 billion in assets, maintains 225 bank accounts around the world, executes over 6,000 annual foreign currency purchases and sales valued at over $4 billion, and manages real and personal property capital assets with historical costs of more than $34 billion.

Department officials at all levels, both at home and abroad, are dedicated to ensuring effective management controls and oversight over the resources entrusted to the Department. In doing so, the Department has received six consecutive unmodified opinions (FY 2012-2017) from the external Independent Auditor on our annual Department-wide financial statements. In addition, the Department ended FY 2017 with no reported material weaknesses in internal controls over financial reporting and was able to resolve a previously reported significant deficiency for financial reporting. Last year, in recognition of the exceptional quality of the Department's Agency Financial Report, the Association of Government Accountants awarded the Department the prestigious Certificate of Excellence in Accountability Reporting.

Complying With Internal Controls

- In 2018, in addition to improved processes that bureaus themselves have established, CGFS provided lists of transactions to help facilitate bureaus' reviews so they can concentrate on potentially invalid unliquidated obligations (ULOs). CGFS appreciates the OIG's acknowledgment of our efforts in this regard in their report (AUD-FM-18-27). In 2018, CGFS transmitted ULOs with a value of $2.7 billion for bureaus to review. Additionally, CGFS has assigned personnel to work at specific bureaus CFGS identifies as high-risk and requiring additional attention for ULO validation.

- The OIG identified deficiencies in cashiering operations. The Department uses several tools to actively monitor cashiering operations, including cashier system controls and an oversight cashier monitor function carried out by CGFS. CGFS measures posts' performance with this compliance on a monthly basis and has developed an annual Cashier Operations Based Risk Assessment (COBRA) tool to help prevent theft, fraud and misuse of cash within the operations deemed higher risk. The tool analyzes operational risk, verification and controls and an overall cashier operation assessment. CGFS ensures the risk measurement factors in the COBRA tool are reviewed and updated yearly to reflect current trends as noted by our Cashier Monitors. CGFS also conducts on-site reviews of all Class B Cashier operations at least every five years, which provides an in-depth history of operations and post actions on findings.

- In response to an OIG-identified need for an acquisition plan for procuring goods and services, Embassy Georgetown created and distributed a Management notice to the entire Embassy to solicit input for a plan. In addition, the General Services Officer now works with Mission offices to develop their procurement plans prior to each fiscal year to include acquisition background and objectives, a plan of action, and proposed timeline.

- The Department continues to work to improve the Statement of Assurance (SoA) process. Improvements made to the SoA process during FY 2018 included the expansion of assurances in the SoA regarding Federal financial assistance. The SoA guidance distributed to Assistant Secretaries and Chiefs of Mission was also expanded to emphasize the role of managers throughout the Department in performing reviews of programs. CGFS has coordinated closely with the Bureau of Budget and Planning (BP) over the years to meet the Department's compliance objectives in an efficient way to avoid duplication of effort regarding program reviews. The increased emphasis on program reviews in the SoA guidance additionally outlined Department managers' responsibilities updated in response to the Program Management and Improvement and Accountability Act. In addition, improved training was delivered through classroom instruction to all Domestic and Regional Bureau Management Control Coordinators. An updated and expanded Management Controls Checklist was distributed to Assistant Secretaries and Chiefs of Mission, and training materials on the SoA process for inclusion into multiple Foreign Service Institute courses including courses for Chiefs of Mission and Deputy Chiefs of Mission, was developed. Finally, live instruction was delivered at the Bureau's request to all managers within the Arms Control and International Security bureaus.

Tracking and Reporting Department Assets

- The Department took steps to enhance the tracking and usage of U.S. Government vehicles overseas by declaring 2018 "The Year of the Vehicle". The Department required posts to certify that Department of State vehicles were properly entered into ILMS; vehicle trips were properly logged in FMIS; fuel and maintenance information were properly recorded, and fleet sizes are properly aligned.

Collecting, Analyzing and Applying Financial Information

- The OIG's mandated *Audit of the Department of State's Implementation of the Digital Accountability and Transparency Act of 2014* noted ongoing difficulties in collecting and assessing the required data and in particular overseas transactions. In addition, the audit noted that more than 64 percent of domestic transactions that were tested did not meet OMB's quality requirements. The Department's ongoing DATA Act efforts include the implementation of system interfaces and new procedures for overseas activities that improve financial data. Specifically, these implementations align key data attributes, such as the procurement ID (PIID) and the grant ID (FAIN), across the relevant Department's source systems for procurement and financial assistance activity conducted overseas. The Department continues its rollout of a modernized Grants management system (SAMS) for overseas assistance and integration with RFMS. By the end of FY 2019, all posts will have implemented SAMS. The Department recognizes and respects that the mandated audit by OIG was required to be conducted, and results reported, in accordance with the CIGIE Guide, "Inspectors General Guide to Compliance Under the DATA Act." However, unfortunately, the CIGIE approach provides an extremely conservative picture of the status of the data. For example, a record with 57 data fields with an error in a single data field is considered 100 percent in error versus 2 percent (i.e., one 57th) in error. This produces an exceptionally high error rate due to a small discrepancy. It would infer that all of the other data fields cannot be relied upon. Irrespective, the Department continues to work to achieve 100 percent accuracy.

5 Operating in Contingency and Critical Environments

In some cases, the Department must operate in "critical" environments, or areas that experience various challenges in the form of conflict, instability, disease, or natural disasters. These pose their own set of problems and contribute to existing challenges. The following examples demonstrate ways the Department strives to improve its operations in such environments.

- Due to the unreliability of Kabul's electricity service provider, Embassy Kabul and Camp Sullivan generate power using fuel-burning electrical generators. The Embassy also maintains its own vehicle-fueling station on the embassy compound, which is used by staff located at both Embassy Kabul and Camp Sullivan. A new vehicle maintenance facility (VMF) and vehicle-fueling station are expected to come online at Camp Qasemi in the next few months and will service the majority of vehicles that travel off-compound. This VMF fuel point is outfitted with a modern fuel distribution system that will handle the distribution and tracking of the fuel used by these vehicles. The Embassy has put in place internal controls to monitor and control the fuel distribution.
- To address weaknesses in security for Embassy Baghdad's cafeteria, the Department is looking at the feasibility of a point of sale system and is taking steps to prevent unauthorized use of the cafeteria.
- The Department has been working to implement Enterprise Risk Management (ERM) per OMB Circular A-123 requirements, defining risk management as events or circumstances that impact the Department's ability to achieve its strategic objectives. ERM looks at risks in a cross-cutting manner, and the Department has many existing risk management processes that feed into the enterprise risk process. The Deputy Secretary chairs the Enterprise Risk Management Council, which is comprised of six Under Secretaries and representatives from INR, L, BP and F. A working group has also been established comprised of several stakeholder bureaus, and representatives of all Under Secretaries, which work on developing the program and will support the Council. The ERMC and the working group are well-positioned to consider the risks associated with operating in contingency and critical environments.

6 Workforce Management

The Department considers its employees its greatest asset. The Department invests considerable time in recruiting and retaining the best talent possible. Though the Department has experienced periods of transition in the past fiscal year, it continues to strive to be flexible and meet its resource needs, and well as providing adequate compensation in challenging areas.

- Recognizing the challenge of attracting bidders to certain posts, specifically those overseen by the Bureau of African Affairs (AF) and SCA, HR raised the threshold for posts that satisfy the "Fair Share" bidding requirement from 15 percent combined differential to a 20 percent combined differential.
- HR introduced new Professional Development Plans for Foreign Service Officers and for Office Management Specialists, which require "A completed tour at a 25 percent or greater hardship differential post from entry into the Foreign Service OR a completed tour at an unaccompanied post from entry into the Foreign Service AND Another completed tour at a 20 percent or greater hardship differential post after tenure" in order to compete for promotion to the Senior Foreign Service (FSO) or the FP-02 grade (OMS).

- After the OIG identified the impacts of the hiring freeze on key programs, the Bureau of International Narcotics and Law Enforcement (INL) hired a Senior Maritime Advisor, and is in the final process of hiring a Senior Aviation Advisor, who will join the team before the end of the year. In addition, one third-party contractor with specific maritime expertise has been hired, another is in the hiring process, as are two locally employed staff program assistants (currently awaiting MCLASS) who will support the maritime and aviation projects, respectively.

7 Promoting Accountability Through Internal Coordination and Clear Lines of Authority

The Department acknowledges that clear lines of authority are necessary for insuring that the Department is able to hold decision makers accountable. It also recognizes that an organization as diffuse and diverse in mission as the Department is, requires a great deal of coordination between internal and external partners. The following illustrates how the Department has worked to improve on areas of vulnerability identified by the OIG.

- In response to previous OIG recommendations and new regulations enshrined in the 18 FAM 301.4, the bureau of Diplomatic Security (DS) and the Bureau of Counterterrorism (CT) designed a new process to ensure continuous monitoring of foreign assistance expenditures with Specific, Measurable, Actionable, Relevant, and Time-bound (SMART) Objectives that are clearly linked to national security policy objectives and priorities. This new program has been introduced, and the bureaus are in the process of determining resource requirements, finalizing templates, and preparing for the pilot implementation program. Following the pilot, DS expects to have monitoring plans for the office of Anti-Terrorism Assistance programs ready by the 18 FAM 300 deadline of May 31, 2019. These plans will be included with the FY 2020 Country Implementation Plans, with analysis and monitoring reports completed in that year. This new process introduces a tiered approach to evaluating our programs that will meet the requirements while taking resource limitations into account.

- CGFS and M/PRI coordinate closely on non-financial management controls as they pertain to ERM. The Department's approach to ERM is comprehensive and goes beyond internal management controls compliance to assess risks that may impact the Department's ability to achieve its strategic goals. The Department's ERM program incorporates a broad scope of risk management processes which requires a strategic view of what is happening across the Department and the broader external foreign affairs environment. ERM includes risk management processes related to foreign policy, Congressional actions, and reputational risk. The Deputy Secretary chairs the ERMC comprised all six Under Secretaries, ensuring ERM is coordinated at the highest levels in the Department. Recognizing that CGFS is not well-positioned organizationally to coordinate across all of these functions, M/PRI takes the lead in supporting the ERMC and coordinates with a wide array of bureaus – including CGFS – to develop and implement an integrated ERM program. M/PRI and CGFS have a strong partnership and continue to work closely to ensure ERM and management control programs are coordinated appropriately. The Department's Comptroller contributed to the development of the ERM program at every step, including the creation of the enterprise risk profile which incorporates management controls risks. CGFS/Management Controls (MC) is a key participant in the ERM working group, and M/PRI is a member of the Management Controls Steering Committee and the Senior Assessment Team.

Through these formal mechanisms and through regular informal communication, M/PRI closely coordinates with CGFS and other key risk management stakeholders to ensure the ERM policies and processes reflect an integrated risk management approach

- The OIG found that the Embassy at Guatemala City did not coordinate systematically with OBO on establishing accurate staffing levels for the new embassy compound, resulting in an anticipated shortage of space. The Embassy worked with the Office of Management Policy, Rightsizing and Innovation (M/PRI) to prepare a 2018 table revision of the Mission to address the shortage. Post worked with OBO to economize the furniture configuration in the New Embassy Compound, ensuring that the current accurate staffing could be accommodated in the existing construction plans without costly delays.

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	No lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of 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.

Payment Integrity and Other Laws and Regulations

Improper Payments Information Act, as Amended

Over the past decade, laws and regulations governing the identification and recovery of improper payments have evolved to strengthen improvements in payment accuracy and raise public confidence in Federal programs. The Improper Payments Information Act of 2002 (IPIA), as amended and expanded by other related laws, collectively requires agencies to periodically review all programs and activities to identify those susceptible to significant improper payments, to conduct payment recapture audits, and to leverage Government-wide Do Not Pay initiatives. In FY 2018, OMB issued memo M-18-20 – a revised OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement,* to transform the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements. comprehensive, and less burdensome set of requirements.

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.

Payment Integrity 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. As such, 2018 is an interim year.

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 the Special Inspector General for Afghanistan Reconstruction 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 2018, 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 12 programs assessed were: Diplomatic and

Inspector General Programs; Diplomatic and Consular Terrorism Related Programs (D&CP); Passport Generation and Related Programs; D&CP Other Operations Programs; International Security Programs; Population Refugees and Migrations Programs; International Cooperative Administrative Support Services; Working Capital Fund Programs; Educational Programs; Embassy Operations Programs; Peacekeeping Operations Programs; and Security Training and Related Programs. Based on these procedures, the Department determined that none of its programs in 2018 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 Office of Claims (CGFS/F/C) and Office of Global Compensation (CGFS/GC). 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/C and CGFS/GC 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.

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 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/C in both payments generation and internal post-payment review process have contributed to overall lower improper recapture audit amounts. 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 2018, OMA contract recapture audit efforts identified $66,793 contract overpayments. Of that amount, $3,166 was recovered and returned to the originating appropriations.

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 "Overpayment Payment Recaptures with and without Recapture Audit Programs" table, in 2018 OMA identified $139,701 in travel program recapture audit overpayments, and collected $63,794 which was returned to the originating appropriation.

During 2018, OMA built on prior year recapture audit activities in additional areas.

- **Grants payments.** OMA continued manual sampling and testing of grants payments including those made on behalf of the Department by the Department of Health and Human Services through their Payment Management System (PMS).

- **Foreign Service Retirement Disability Fund annuitant payments.** In 2018, OMA efforts continued regarding FSRDF annuitant payments by reviewing annuity supplemental payments.

OVERPAYMENT PAYMENT RECAPTURES WITH AND WITHOUT RECAPTURE AUDIT PROGRAMS *(dollars in thousands)*							
Does this include funds recaptured from a High-Priority Program (Y/N)	Program or Activity	Overpayments Recaptured through Payment Recapture Audits				Overpayments Recaptured outside of Payment Recapture Audits	
		Amount Identified in FY 2018	Amount Recovered in FY 2018	Recapture Rate in FY 2018	FY 2018 Recapture Rate Target	Amount Identified in FY 2018	Amount Recovered in FY 2018
N	Travel Program	$ 139.7	$ 63.8	46%	50%	$ 9.5	$ 26.3
N	Diplomatic and Consular Programs	66.8	3.2	5%	85%	517.8	529.4
N	Foreign Service Annuities					570.5	134.2
N	American Compensation					6,649.3	4,893.9
N	Working Capital Fund					285.7	344.1
N	Nonproliferation, Antiterrorism, Demining					600.3	374.9
N	International Narcotics Control and Law Enforcement					86.9	135.2
N	Other Programs					60.7	95.9
N	Office of Inspector General					11,502.0	11,502.0
N	Defense Contact Audit Agency					10,660.0	10,660.0
N	Single Audit					215.0	215.0
	Total	$ 206.5	$ 67.0			$ 31,157.7	$ 28,910.9

- **American Employee (AE) and Foreign Locally Employed (LE) Staff Compensation payments.** In addition, during 2018 OMA continued recapture efforts of AE and 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 systematic analysis and targeted payment reviews will continue to expand efforts in the Grants, Annuity Payments, 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, grant payment, 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 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 Accounts Payable operations in CGFS/F/C. As such, CGFS/F/C 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/C identified improper payments in 2018 include: Diplomatic and Consular Programs; Working Capital Fund Programs; Nonproliferation, Antiterrorism, Demining; International Narcotics Control and Law Enforcement; and other State

programs. Collectively, as shown in the "Overpayment Payment Recaptures with and without Audit Programs" table, during 2018, CGFS/F/C identified and confirmed transactions totaling $1.6 million of actual duplicate/improper payments, of which we recovered $1.2 million in addition to collecting $243,609 of the prior year unrecovered balance. Also, in 2018 the Department identified and confirmed employee claims overpayments totaling $9,546, of which we recovered $1,754. Additionally we recovered $24,589 from prior year identified travel overpayments. Total recovered travel amounts in 2018 of $26,343 were returned to the original appropriations.

CGFS/GC 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/GC continues to implement additional measures to prevent and identify overpayments. In 2018, the Department's CGFS American Pay Processing Division identified and confirmed payroll overpayments totaling $6.6 million, of which $3.9 million has been recovered. Additionally $935,871 of prior year payroll debts were recovered, bringing the total recovered in 2018 to $4.9 million. To date, CGFS/GC has collected 82 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 ongoing 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 2018, the CGFS/GC Annuitant Pay Processing (ANP) identified and confirmed overpayment transactions totaling $570,470 and recovered $134,189 of this amount. All amounts recovered were returned to the original appropriation. 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.

Additionally, the Office of Inspector General (OIG) conducted a number of audits, evaluations, inspections and investigations to prevent and detect fraud, waste, abuse and mismanagement in programs and operations of the Department. The OIG disclosed disallowed costs identified from their activities in the OIG's FY 2018 Semiannual Reports to Congress that were presented in the "overpayments" table. Despite efforts made to obtain actual collections data for OIG's identified disallowed costs, we were unable to ascertain the exact status. Multiple collection techniques are utilized by contracting and grants officers, which can include collecting cash, applying agreed-upon reductions of current billings due to the vendor, and other appropriate offsets which effectively serve to recover the funds for the government. OIG disallowed costs are occasionally related to matters that are referred to the Department of Justice for litigation. Given the majority of disallowed costs are recovered by various means, we disclosed collections as equal to amounts identified as disallowed, which we believe are materially correct. Developing a process to individually contact contracting and grants officers and obtain collection data for each transaction identified by the OIG would be overly resource intensive and not cost effective. However, we will continue to research for new and automated ways to obtain more exact collection data for the OIG in FY 2019. The OIG also disclosed disallowed costs associated with the Defense Contract Audit Agency and Single Audits within the OIG's semiannual reports that are presented in the "overpayments" table as well. Detailed information and supporting documentation was more readily available and obtained to support those activities.

DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDIT PROGRAMS *(dollars in thousands)*		
Program or Activity	**Amount Recaptured**	**Original Purpose**
Travel Program	$ 63.8	$ 63.8
Diplomatic and Consular Programs	3.2	3.2
Total	$ 67.0	$ 67.0

AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDIT PROGRAMS *(dollars in thousands)*				
Program or Activity	**Amount Outstanding (0–6 months)**	**Amount Outstanding (6 months to 1 year)**	**Amount Outstanding (over 1 year)**	**Amount determined to not be collectable**
Travel Program	$ 24.3	$ 67.7	$ 91.7	$ —
Diplomatic and Consular Programs	66.8	—	—	—
OBO Programs	—	—	16.7	—
Foreign Service Annuities	—	—	48.8	—
Total	$ 91.1	$ 67.7	$ 157.2	$ —

Additional Department Payment Integrity (previously referred to as Improper Payments) Information can be found at the following link: *https://paymentaccuracy.gov/*.

Agency Improvement of Payment Accuracy 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 FY 2018, the Treasury reviewed and disbursed 1,431,349 payments totaling $12.4 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, 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 1.1 million unmatchable payments, totaling $3.6 billion, and adjudicated 3 potential erroneous payment matches as part of the post payment review 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 2018, 201,435 annuitant payments totaling $953 million were reviewed against the DMF and 75 payments totaling $266,193 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 2018, potential payment matches were reviewed and resulted in one stopped payment totaling $41.

In addition, in 2018 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 2018, the Department was notified of two recipients that appeared ineligible due to results of the Do Not Pay process. In addition, in 2018, seven recipient payments were stopped as a result of the Treasury Offset Program.

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 2018, 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 1 percent ($13,941) in FY 2018, 4 percent ($47,536) in FY 2017, 4 percent ($32,242) in FY 2016, 15 percent ($157,144) in FY 2015, and 17 percent ($54,885) in FY 2014. OMB requires agencies to report improper payment errors based on six categories of errors: program design or structural issue, inability to authenticate eligibility, failure to verify, administrative or process error, medical necessity, and insufficient documentation to determine. 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 2019 to correct the deficiencies noted during the FY 2018 review.

Debt Management

Outstanding debt from non-Federal sources (net of allowance) increased from $38.6 million at September 30, 2017 to $58 million at September 30, 2018. Civil Monetary Penalties increased by $14 million while IBWC, Direct Loans, Administrative fees, and Passport non-sufficient funds increased by $5.4 million at September 30, 2018, resulting in an increase 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 $4.3 million to Treasury for cross-servicing in 2018. Of the current and past debts referred to Treasury, $1.6 million was collected in 2018.

Receivables Referred to the Department of the Treasury for Cross-Servicing

	2018	2017	2016
Number of Accounts	1,377	1,114	1,002
Amounts Referred *(dollars in millions)*	$4.3	$3.3	$3.6
Amounts Collected *(dollars in millions)*	$1.6	$1.5	$2.1

Electronic Payments

The payments made through Electronic Funds Transfer (EFT) were 99 percent of the total payments made for domestic and overseas payments. Domestic operations accomplished 99.2 percent of its payments with EFT this year. Overseas operations have a slightly lower EFT percentage (98.9 percent) than domestic operations due to the complexities of banking operations in some foreign countries. For 2018, 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 for such infractions as violating the terms of munitions licenses, exporting unauthorized defense articles and services, and valuation of manufacturing license agreements. In 2018, the Department assessed a $30 million penalty on one company, of which $15 million will be suspended on condition that the respondent undertake remedial compliance measures. During 2018, $1 million of the assessed penalty was collected. The balance outstanding as of September 30, 2018 was $14 million. The following table lists the current penalty level for infractions governed by the Department.

FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENTS

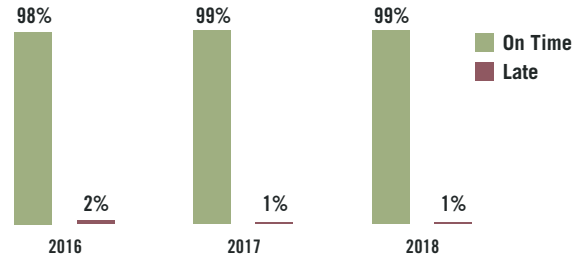
Statutory Authority	Penalty	Year Enacted	Latest Year of Adjustment	Current Penalty Level ($ Amount or Range)	Location for Penalty Update Details
Arms Export Control Act of 1976, 22 U.S.C. 2778(e)	International Traffic in Arms Regulations Violations – Export of Defense Articles and Defense Service	1985	2018	$1,134,602	Federal Register 83 234-237
Arms Export Control Act of 1976, 22 U.S.C. 2779a	International Traffic in Arms Regulations Violations – Prohibition on Incentive Payments	1994	2018	$824,959	Federal Register 83 234-237
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	2018	$981,935	Federal Register 83 234-237
False Claims Act of 1986, 31 U.S.C. 3729-3733	Penalty imposed on persons and companies who defraud governmental programs	1986	2018	$11,181 – $335,443	Federal Register 83 234-237
Chemical Weapons Convention Act of 1998, 22 U.S.C. 6761(a)(1)(A)	Prohibited acts relating to inspections	1998	2018	$37,601	Federal Register 83 234-237
Chemical Weapons Convention Act of 1998, 22 U.S.C. 6761(a)(1)(B)	Recordkeeping violations	1998	2018	$7,520	Federal Register 83 234-237
31 U.S.C. 1352 – Limitation on use of appropriated funds	Penalties for both improper expenditures and failure to disclose. First time offenders	1989	2018	$19,322	Federal Register 83 234-237
31 U.S.C. 1352 – Limitation on use of appropriated funds	Penalties for both improper expenditures and failure to disclose. Other offenders	1989	2018	$19,639 – $196,387	Federal Register 83 234-237

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 2018, the Department timely paid over 98.5 percent of the 596,997 payments subject to PPA regulations. The "Timeliness of DOS Payments" bar chart reflects the timeliness of the Department's payments from 2016 through 2018. During 2018, the Department paid $407,685 in interest penalties out of $10 billion in payments that were subject to PPA, compared to $271,158 in 2017.

TIMELINESS OF DOS PAYMENTS (2016 – 2018)



Fraud Reduction Report

Government leaders are under increasing pressure, with limited resources and more public scrutiny, to reduce or eliminate fraud, waste, abuse, misconduct, and improper payments in Federal programs and operations. Fraud in the Federal Government is a serious problem that wastes taxpayer dollars, prevents Federal programs from carrying out their intended purpose and serving target populations, and creates potential national security risks. Congress and Federal agencies have been working to combat fraud and reduce improper payments by creating policies and legislation that will give agencies the tools that they need to target and prevent fraud.

The Fraud Reduction and Data Analytics Act (FRDAA) of 2015 (Public Law No. 114-186) required OMB to establish guidelines for Federal agencies to establish financial and administrative controls to identify and assess fraud risks and design and implement control activities in order to prevent, detect, and respond to fraud, including improper payments. Agencies are required to report on their progress to implement financial and administrative controls in compliance with the OMB guidelines, GAO's *Standards for Internal Control in the Federal Government* (Green Book), and the OMB Circular A-123.

To help managers combat fraud and preserve integrity in government agencies and programs, GAO identified leading practices for managing fraud risks and organized them into the *Framework for Managing Fraud Risk in Federal Programs.* This framework, and other leading practice materials, provided a foundation for the Department's fraud reduction program. In FY 2018, an Internal Controls Fraud Working Group continued to improve implementation efforts to comply with FRDAA. CGFS conducted extensive outreach during FY 2018 to increase awareness and provided FRDAA information to program managers of consular services, payroll, beneficiary payments, grants, contracts, asset management, and purchase and travel cards. CGFS worked closely to assist program managers and supervisors conduct fraud risk assessments and populate fraud risk profiles, who identified specific risks to their processes, documented current risk mitigation efforts and residual risks after mitigation efforts, and assessed likelihood and impact.

Progress in implementing financial and administrative controls

The Department has a strong management controls program in place, and performs extensive work to provide value beyond complying with the myriad of laws and regulations applicable to the Department. Below are examples and highlights from a few of our accomplishments in FY 2018.

The Department's Bureau of Consular Affairs (CA) has historically analyzed financial and adjudicatory data pertaining to specific visa categories and passport applications to determine possible fraud trends or detect internal malfeasance.

In FY 2016, CA undertook the development of an advanced fraud analytics program to identify, combat, and prevent potential fraud through fraud prevention units (FPUs) located at 220 embassies and consulates abroad, as well as 29 domestic passport agencies and centers. In FY 2018, FPUs continue to use the results of this analysis in combination with their knowledge of local conditions to train consular adjudicators to identify potentially fraudulent applications.

To prevent external fraud, CA provides external training to consular personnel on fraud trends, techniques and counter measures during adjudicative training and in advanced fraud prevention training throughout their careers. CA adjudicators have access to on-line databases that assist with verification of genuine identity and travel documents and to detect counterfeit and altered documents. CA's Counterfeit Deterrence Laboratory contributes to the design and development of secure U.S. travel documents by sharing analysis and expertise with the interagency. CA personnel receive malfeasance training annually, either through management or as part of consular-specific training courses. To prevent internal fraud, CA maintains technology and other internal control mechanisms to deter unauthorized access to consular records and uses Consular Management Assistance Team and OIG visits to posts and passport agencies, as well as mandatory Annual Management Control Certifications and other reporting, to actively monitor and deter internal fraud, including financial fraud.

Progress in implementing the fraud risk principle in the Green Book

The Department conducts an annual entity-level control assessment to comply with the GAO's Green Book. The assessment includes Principle #8, which requires management to consider the potential for fraud when identifying, analyzing, and responding to risks. Overall, the Department's assessment of fraud included tests of operating effectiveness and utilized other existing fraud programs conducted within our bureaus. Other programs that identified fraud were considered including the Statement of Assurance process, as well as work performed by external auditors such as the OIG, GAO, and the Special Inspector General for Afghanistan Reconstruction.

Progress in identifying risks and vulnerabilities

Many Department managers have robust fraud preventive and detective measures, and fraud analytics programs that have operated for many years, while some areas have begun to build fraud prevention activities in response to the FRDAA Act. Below are examples and highlights from a few of our accomplishments in FY 2018.

Grants: The Federal Assistance Division in the Office of the Procurement Executive (A/OPE/AP/FA) implemented a new risk assessment and monitoring plan template, which can be applied with increased complexity to small, medium, and large-sized awards. This new risk assessment and monitoring plan, which was accompanied by improved training on its implementation, has resulted in its increased use, which focuses the user on the need for and type of financial monitoring and oversight required for each specific award. A/OPE/AP/FA has also improved training on improved monitoring of payment advances and draw-downs in order to encourage that payments are tied more strictly to program activities.

Consular: CA liaised with management and consular adjudicators worldwide to refine their fraud prevention strategies and tactics to combat new and evolving threats. CA disseminated anti-fraud information to a wide variety of clients via the CA/FPP website, the Fraud Digest, webinars, and other publications. CA also liaised with the Bureau of Diplomatic Security (DS), the Department of Homeland Security (DHS) and other Federal agencies and organizations concerned with immigration fraud and alien smuggling.

Property: During the 2018 annual inventory process the ILMS Analytics team uncovered irregular scanning activity: one employee on one day at one post, scanned 11 times more assets (worth $1.1 million) than the worldwide average. Post investigation revealed the employee had falsified annual inventory results by scanning a book of duplicate barcodes instead of actual physical assets in the warehouse.

Procurement: The ILMS Analytics team identified multiple cases of split purchases (where each transaction was below the micro-purchase threshold) which allowed posts to avoid the

competitive bid process. For one requesting office at one post there were three orders for the same type of service issued on the same day.

Beneficiary Payments: The use of Treasury's Secure Payment System continues to assist with successful identification and prevention of fraudulent payments to beneficiaries. In 2018, 201,435 annuitant payments totaling $953 million were reviewed against the DMF and 75 payments totaling $266,193 were stopped due to this initiative.

Purchase Card Program: 276 bureaus and posts completed and certified their FY 2017 Annual Review in PMARS (Purchase Card Management & Reporting System). This represents a significant increase from prior years when Annual Reviews were primarily a paper process. Beginning in FY 2018, all Bureaus and Posts were required to complete the Annual Review electronically in PMARS, which has led to a significant increase in worldwide compliance.

Travel Card Program: The Department's Travel Card Program office (TCP) utilizes an automated Misuse tool that has yielded 100 percent compliance with the Government Charge Card Abuse Prevention Act, which reviews all credit card transactions and compares the data to travel orders to determine if the card was used in compliance with government mandates. In 2017, 122,000 transactions totaling more than $24 million were inspected by the Misuse tool. 936 transactions were confirmed as misuse totaling $152,683. Annual 2018 results are not yet compiled; however, improved results are expected based on monthly reporting results. Cardholders who were found to have misused their cards were counseled on the appropriate use of the card and required to re-take training.

Ancillary benefits to fraud reduction work

Travel Card Program: Through conference calls and surveys, all embassies using a centrally billed account (CBA) have been contacted and have had flowcharts documenting internal controls and CBA reconciliation processes created. Prior to 2017, the Department did not have a centralized repository of these documents. This process implemented by TCP has already assisted posts with OIG visits, helped streamline post operations on reconciling their statements, and has assisted embassies with holding their Travel Management Centers to the terms of their contracts.

Progress on establishing strategies, procedures, and other steps to curb fraud

During FY 2018, the Department established and implemented *Consular Fraud Prevention (7 FAH-1 H-930)* policies to organize fraud prevention programs, analysis, and training within posts to identify, prevent and disrupt passport, visa and other types of consular fraud. The potential for fraud is investigated by the Office of Inspector General and other fraud investigations such as the Criminal Fraud Investigations office in DS. In addition, posts report on a semi-annual or annual basis the occurrences of fraud including the types of fraud, fraud risks and methods to mitigate those risks.

Fraud risk management is an important aspect of the Department's strategy to achieve its mission and goals. Overall, the Department expanded our capability to identify risk and vulnerabilities and prevent fraud by employing data analytic tools in our logistics systems, as well as utilized the collective knowledge of leaders to develop new data relationships to identify and prevent fraud. New policies and procedures were put in place to prevent, detect, and respond to fraud, and Bureaus collaborated with each other to advance an organizational culture to combat fraud across components, programs, and levels. The Department will advance its fraud reduction efforts and take further steps to reduce fraud in FY 2019.

Grants Oversight and New Efficiency (GONE) Act

The Department recognizes the importance of a timely closeout of grants and cooperative agreements and has made significant progress in reducing the number of expired awards. Over the past twelve months, the Department has achieved a two-thirds reduction in the overall number of open awards with a period of performance end date of September 30, 2015 or earlier. Of the 432 awards totaling $12,127,938 reported in our FY 2017 GONE Act Report, 144 awards totaling $4,471,510 remain.

The Department's commitment to improving its management of grants and cooperative agreements is demonstrated by the implementation of a standardized Federal assistance management system (State Assistance Management System (SAMS)) for domestic bureaus and overseas posts, coupled with updates to the Department's Federal assistance policies and training. Taking these steps have enabled the Department to better monitor, analyze, and report on the closeout of awards.

Challenges in closing awards still exist. While data does pass electronically between SAMS, the Department's financial systems, and the HHS Payment Management System (PMS), some critical closeout tasks remain a manual process in the payment system. As highlighted in the GAO report, *Actions Needed to Address Persistent Grant Closeout Timeliness and Undisbursed Balance Issues* (GAO-16-362), the manual steps required to reconcile differences between systems can be labor-intensive, especially in PMS.

The Department has taken numerous steps to mitigate and resolve these issues. SAMS utilizes a standardized closeout checklist and offers reporting capabilities to help target awards awaiting closeout. Additionally, Department of Interior services are used to negotiate indirect cost rates which facilitates timelier award closeout, and publication of a Federal assistance Human Capital Plan has resulted in increased training and guidance on Federal assistance management, including closeout requirements and procedures.

GRANTS OVERSIGHT AND NEW EFFICIENCY ACT SUMMARY TABLE

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	0	36	10
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	94	4
Total Amount of Undisbursed Balances	$ —	$4,465,793	$5,717

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 savings 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 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 financial management efforts are guided by three overarching goals: delivering world-class financial services and systems to our customers effectively and efficiently; establishing and administering an accountable, transparent, and prudent rigorous internal control, compliance and financial reporting environment; and facilitating inter-agency coordination and liaison activities that support Department operations.

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 systems. In our most recent survey, for the first time all nine financial systems received a satisfaction rating of 80 or higher from overseas users. Such scores exceed 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.

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. 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 integration 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 unauthorized access and to the integrity of data within our systems. This focus seeks to protect both the Department and its employees. CGFS' financial systems development activities are now operated under Capability Maturity Model Integration (CMMI) industry standards.

We continue to make use of proven COTS software in delivering resource management systems to the Department and our serviced customers. We have pushed to consolidate these 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. A COTS solution is the platform for our Global Foreign Affairs Compensation Systems (GFACS). By managing the process in this manner, we can deliver products that are compliant, controlled, and secure. OMB continues its initiative to standardize Government-wide business processes to address the Federal Government's long-term need to improve financial management. 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), and the Consolidated Overseas Accountability Support Toolbox (COAST).

The Global Financial Management System. GFMS centrally accounts for billions of dollars recorded through over 5 million transactions annually, 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 the Department's 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 2018, GFMS was updated to meet the OMB mandate to begin implementing Invoice Processing Platform (IPP). IPP is a shared service provided by the Department of the Treasury. Use of this service allows DOS to streamline domestic and overseas invoice processing. The Department and vendors will have access to the IPP platform to exchange data on orders, invoices, and payments. Internal controls will ensure that invoices are reviewed and approved in IPP by using configurable standard workflows. During 2018, development, testing, and implementation tasks were completed and pilots with three Department bureaus were started. Full deployment will continue into 2019.

DOS continued efforts to improve methods to track Interagency Agreements (IAAs) in GFMS, including providing the ability to create IAA forms directly from GFMS. Signed IAAs must be attached to the GFMS Agreement and Order documents providing for a central repository for all IAAs. During 2018, various development, testing, and implementation tasks were completed and pilots with two Department bureaus that have high volumes of IAAs were started. Full deployment with all bureaus will continue into 2019.

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. 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 related to leases and other recurring payments and includes reports and queries for managing future lease transactions. Ninety-two posts are currently live on PrOPP and full deployment efforts will continue in 2019. IPP will also be used by RFMS vendors to submit invoices. Interfaces from RFMS will extract orders to send to IPP and RFMS approving officials will review and approve invoices in IPP. IPP will send approved invoices to RFMS for payment. During 2018, analysis and design tasks were completed. Full deployment, starting with pilots in Lima and Rome, will continue into 2019.

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 2018, the Department continued with the RFMS/Cashiering (RFMS/C) project to replace COAST Cashiering with a centralized, web-based cashiering application installed in a single location. New functionality was designed to integrate transactions from RFMS/C to RFMS/M in real time. This will replace the existing COAST Cashiering process of sending transactions to RFMS/M through a batch file. Implementation of RFMS/C is slated to begin late in 2018. COAST Reporting and COAST Payroll Reporting capabilities will be discussed in more detail under the Business Intelligence Program.

Planning and Budget Systems Program

In 2018, the Budget System Modernization (BSM) project to standardize, consolidate, and simplify the budgeting systems of the Department expanded functionality for headquarters level financial planning of Diplomatic Engagement funds. This fully transitioned central budget office financial planning from the legacy Central Resource Management System (CRMS) to the new Integrated Budget Intelligence System (IBIS). The recording of State's 2018 service agreements through reimbursements with other Federal agencies and between Department offices fully transitioned from CRMS to the GFMS accounting system.

IBIS has deployed additional functionality so that all 2019 warrants and domestic and overseas fund allocations contained within the Department will be entered in IBIS and interfaced to the accounting system. The 2019 non-expenditure transfers, as well as prior year budgetary transactions, will be handled directly in the GFMS accounting system. The successful transition of reimbursements, headquarters financial planning and distribution of funds from CRMS to IBIS and the accounting system reduces the dependence on custom software in lieu of COTS software. CRMS continues to provide foreign currency fluctuation impact projections for use in managing the overseas budgets for the current year and fund allocation planning for the International Cooperative Administrative Support Services (ICASS) working capital fund. These remaining functions will be transitioned to COTS software in 2019. In 2018, 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. WebRABIT is in an operations and maintenance mode, with resources being aligned with this lower level of activity. Incorporating the current functionality of WebRABIT in the BSM project is part of the long-term strategy for planning and budget systems.

WebICASS 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.

Travel Systems Program

In 2016, the Department successfully transitioned to the next generation of the E-Government Travel Services (ETS2) contract with Carlson Wagonlit Travel. In 2016, the Department also implemented the Local Travel module allowing for the submission of local travel claims for expenses incurred in and around the vicinity of a duty station. The Department expanded the use of the Local Travel feature to also accommodate non-travel employee claims previously submitted through an SF-1164. In the Local Travel module, approvers will electronically approve claims and provide reimbursement to the employee's bank account via EFT. The Department has completed this implementation for 76 posts overseas.

The Department continues to work with our bureaus and posts to identify improvements that can be made to the travel system. The Department also participates with other agencies to prioritize travel system enhancements across the Federal Government landscape. The Department

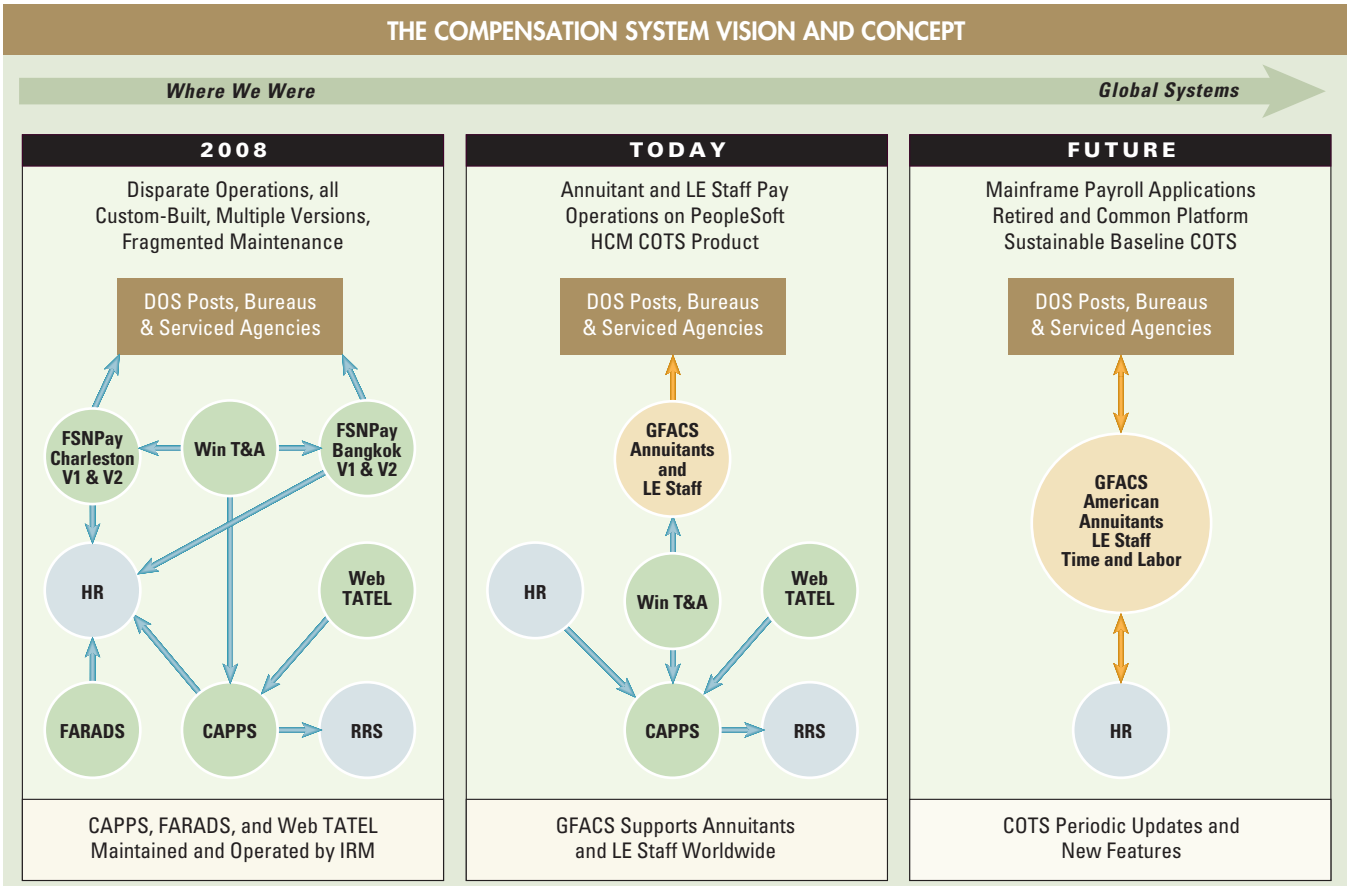
worked with Carlson Wagonlit Travel to complete the implementation of Single Sign-On in 2018. The Department has initiated work with the Diplomatic Security bureau to use the enhancement for DOS Long-term Temporary Duty Travel. Completion of this pilot bureau implementation will occur in 2019. The Department continues to work with Carlson Wagonlit Travel on enhancements to support the implementation of the Local Payments module domestically.

Compensation Systems Program

The Department serves 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 six 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 serviced. The "Compensation System Vision and Concept" diagram 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 complex statutes found across the Foreign and Civil Service Acts and local laws and practices applicable to all the countries in which civilian agencies operate. At the close of 2018, 186 countries and over 61,000 LE staff have been converted to GFACS.

The last pay module to be implemented in GFACS is American payroll. It is currently in final testing prior to full implementation. 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 a 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, COAST Payroll 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 2018, the GFMS DW was updated to implement new Distribution of Funds reports supporting the rollout of new BSM capabilities and to implement updates to reporting on spending and unliquidated obligations. The GFMS DW was also updated to implement a historical repository of data and a supporting capability for an overseas voucher management system. For 2019, work will continue to implement critical new and changing reporting requirements.

In 2017, the Department implemented the Global BI application, building on the infrastructure being used for the DW, and adding an in-memory appliance and a new data analytics tool. In 2018, the Global BI application continued to be used to import, reconcile, and export data that meets the requirements of the DATA Act. The Global BI application was updated to complete the full suite of financial reports for overseas posts as well as a second set of analytics information spaces for posts to drill into their overseas transactional data. The Department continued through an agile-like process utilizing a collection of overseas posts, a regional bureau, and accounting support staff in Charleston, S.C. to finalize overseas report and information space requirements and report functionality. Training was conducted for additional posts in the East Asian and Pacific, Western Hemisphere, Near Eastern, and South Central Asian regions. Training was also conducted for two domestic bureaus. New functionality added to Global BI in 2018 included an improved process for external reporting of the Department's foreign assistance data, as well as new processes to support a domestic pilot for providing vendor and purchase order data to Treasury's Invoice Processing Platform. In 2019, the Global BI application will be updated to include a new Pipeline report to show bureau spending by country and program, add new post payroll reporting, and provide a new initial foreign currency reporting capability. Improvements to the DATA Act processes will also occur in 2019 to meet evolving Treasury requirements. Post and domestic bureau use of Global BI will also be expended in 2019 as the rollout of Global BI continues. Analysis of GFMS DW reporting will also be conducted to support the planned 2020 migration of priority domestic bureau reporting to the Global BI application.

Did You Know?

Robert Bacon, the 39th Secretary of State, served only 37 days in 1909.

LEARN MORE

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

FOCUS

Department of State Preserves Symbol of U.S.-North African Ties

The Tangier Old American Legation, the first property acquired by the U.S. Government for a diplomatic mission, was presented in 1821 as a gift to the American people by Sultan Moulay Suliman. His generosity was inspired by the success of the Moroccan American Treaty of Friendship, of which both John Adams and Thomas Jefferson were signatories. The treaty, still in force today, is among the most durable in American history. The Legation served as a diplomatic post for a record 140 years. Of special significance in the building's history is the Cape Spartel Lighthouse Treaty of 1860, which was negotiated there. The treaty is considered to be the forerunner to the League of Nations and the United Nations as it speaks to broad cooperation within international law.

After structural cracks were noticed in the early 2000s, the Department of State began a foundation-up restoration of this entire iconic property. This work has involved reinforced concrete coated in the traditional manner called "Meblouk," which makes use of plaster made from raw earth elements found in the Atlas Mountains. With major work now complete, the Arab Pavilion section of the Legation is now used as a venue for art exhibits that commemorate cultural ties between Morocco and the United States.

Located within the ancient city walls, the original structure, an eighteenth-century stone building, was gradually incorporated into an enlarged complex surrounding a picturesque courtyard. Under U.S. Minister Maxwell Blake, whose long tenure as Consul General in Casablanca included the period during World War I and for a decade thereafter, the building was significantly restored and renovated, resulting in a harmonious blend of Moorish and Spanish architectural traditions. During World War II, the property was used by the then-newly formed Office of Strategic Services and served as the locus of military planning operations in North Africa. When the Consulate General moved in 1961, the property became a Foreign Service Arabic language school, and in 1971, a Peace Corps training center.

The Legation, following its restoration, was recently coined "the most important monument in Tangier" by the mayor of the city.
Department of State/OBO

Since 1976, the compound has been leased to the Tangier American Legation Institute for Moroccan Studies, a public non-profit organization established by a group of American citizens. The museum maintains a collection of engravings, maps, rare books, paintings, and other artifacts depicting events in the history of over 180 years of the Legation's role in U.S.-Moroccan diplomatic and cultural relations. The Legation was designated it a National Historic Landmark on December 17, 1982. This listing was the first such designation in a foreign country.

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 Blair House Garden Room welcomes diplomatic guests for dining, meetings, and special events throughout the year. *Department of State*

Art Bank works include "System III Colin: Produced Rough Seas Along the East" (2016), Julie Ann Greenberg, mixed media (left) and "Bright Grasses Autumn Barn" (2017), Mary Pritchard, pastel on paper (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 of 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 is a unique education and exhibition venue at the Department of State that explores the history, practice and challenges of U.S. diplomacy. It is a place that fosters a greater understanding of the role of U.S. diplomacy, past, present and future, and is an educational resource for students and teachers in the United States and around the globe. Exhibitions and programs 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 "Gild the Lily I" (2017), Carlos Rolon, pigment print on paper.

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 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.

A basic training obstacle course to enhance skillsets of new recruits located in Tondibiah, Niger. *Department of State*

FOCUS

TSCTP Builds Counterterrorism Capacity in Niger with Force Development Support

The Trans-Sahara Counterterrorism Partnership (TSCTP) launched in 2005 as a multi-year, whole-of-government mechanism works with willing partners in the Sahel and Maghreb to build counterterrorism capacity, improve regional coordination, and address the underlying drivers of radicalization. Niger joined TSCTP in 2005 as one of the charter members and utilizes Department support to build targeted capabilities within military, law enforcement, and civilian security sector stakeholders.

Regionally, Niger participates in the G5 Sahel Joint Force to counter threats in the Sahel and the Multinational Joint Task Force to counter Boko Haram. The Government of Niger also has contributed 864 troops to the United Nations Mission in Mali and 133 troops to the United Nations Mission in the Central African Republic. Despite Niger's commitment to counterterrorism missions in the region, lack of human and financial resources, compounded by inhospitable terrain and conflicts covering three borders, limits the efficacy of their military. In an effort to bolster their numbers and improve the basic skillsets of Nigerien soldiers, the Department has invested in the construction and development of both Basic Training and Officer Schools for the military.

Improvements to the existing facilities included the construction of barracks, classrooms, office space, an obstacle course, and a firing range. The obstacle course is the only one of its kind in West Africa, and instructors have noted improvements in recruits' fitness levels, including increased endurance and adaptability to varied terrain.

Nigerien recruits undergoing training at the newly constructed outdoor classrooms located in Tondibiah, Niger. *Department of State*

Reduce 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 "Reduce the Footprint" policy implementing guidance, all CFO Act entities must set annual targets to reduce the total square footage of their domestic office and warehouse inventory compared to the 2015 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 U.S. direct-hire employees under Chief of Mission authority work for other agencies; most 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 most agencies overseas.

The Department's overall Reduce the Footprint plan shows a slight increase from the 2015 baseline to FY 2017. The Department's current plans anticipate that the portfolio will remain at or close to the 2015 baseline in the immediate future and no significant acquisitions or disposals are planned for FY 2019. The Department continues to actively seek opportunities to maximize efficiencies and co-locate staff in order to reduce the costs of leased space, while also retaining the necessary resources to support the mission.

The Department strives for efficiency and best practices in its real estate program. The Department works closely with GSA on long-term strategic planning and housing for the Department's domestic staff. Additionally, the Department has space allocation standards that reduce workstation sizes and limit the number of private offices, 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 physical footprint. Whether it is reacting to crises such as the Zika outbreak and other immediate threats to our nation's security, or longer-term engagements such as coalition building and supporting U.S. citizens overseas, the Department must have the necessary personnel and facilities to respond rapidly to changing requirements. The Department commits however, to improving utilization rates and accommodating additional personnel within its current portfolio to the maximum extent possible.

The table "Reduce the Footprint Baseline Comparison" compares (1) the reported total square footage of Department-occupied assets and (2) the most recent annual operating costs associated with Department-owned assets to their respective 2015 baselines assigned by GSA. The operation and maintenance costs have been calculated from the 2015 Federal Real Property Profile data and include facilities other than office and warehouse space, such as data and training centers. The 2018 amounts are not available until after publication of the Agency Financial Report.

REDUCE THE FOOTPRINT BASELINE COMPARISON *(amounts in millions)*

	2017	2015 *Baseline*	Change
Square Footage	7.1	7.0	0.1

	2017	2015 *Reported Cost*	Change
Operation and Maintenance Costs	$21.9	$22	($0.1)

FOCUS

PREACT Supports Local Leaders in Building CVE Capacity Through Regional Networks in East Africa

Established in 2009, the Partnership for Regional East Africa Counterterrorism (PREACT) is a multi-year, whole-of-government initiative to work with willing partners in East Africa to build counterterrorism capacity, improve regional coordination, and address the underlying drivers of radicalization. PREACT funding supports programs in the areas of criminal justice, security, and countering violent extremism (CVE). Violent extremism is a regional threat in East Africa, where terrorist groups seek to expand their influence beyond their stronghold in Somalia by attracting vulnerable and marginalized individuals, particularly youth.

Since 2016, PREACT has partnered with the Uganda Muslim Youth Development Forum to implement two flagship regional programs, bringing together local leaders from across East Africa to create cross-border networks in CVE. The "East Africa Credible Voices Exchange Program" created a forum for 129 religious and cultural leaders from four countries to exchange ideas and build their capacity in communicating the role of religion in countering youth radicalization.

The "Community Change Agents Capacity Building Program" trained social workers, counselors, and teachers – groups who work with at-risk youth – on how to recognize early warning signs of vulnerability to violent extremism and the prevention of further radicalization. The project funded training for 144 participants from five countries in counseling vulnerable youth in their communities, enhancing their network, and creating channels for cross-border sharing on using their expertise to identify and address signs of radicalization to violent extremism.

These programs create important regional networks that allow participants to collaborate and develop regional solutions to the transnational threat of violent extremism. Participants gained skills in prevention, early intervention, rehabilitation, and reintegration that will help them build personal resilience, as well as identify and respond to signs of radicalization to violent extremism. More than 90 percent of the Credible Voices program participants reported that they carried out activities in their communities that applied their knowledge of how to engage on nonviolence, advocacy, and a culture of cooperation. One program participant reported that he held four meetings uniting religious, political, and cultural leaders in Zanzibar to disseminate the skills he learned in the program. In addition, because of their experience and exposure to new learning methods, two program participants were selected as teachers on the new Madrasa Education Curriculum in Uganda. They currently are teaching on subjects related to interfaith conflict resolution and peacebuilding, using resources and materials acquired from the program.

Community Change Agents participants showcase their training certificates after completing the regional exchange program in Djibouti City, Djibouti, August 2018.

Uganda Muslim Youth Development Forum

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)
31. **James Gillespie Blaine** (1889-1892)
32. **John Watson Foster** (1892-1893)
33. **Walter Quintin Gresham** (1893-1895)
34. **Richard Olney** (1895-1897)

Secretary Pompeo departs Beijing, China, October 8, 2018. *Department of State*

Secretary Pompeo meets with Chinese President Xi Jinping at the Great Hall of the People in Beijing, China, June 14, 2018. *Department of State*

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** (2013-2017)
69. **Rex Wayne Tillerson** (2017-2018)
70. **Michael R. Pompeo** (2018-Present)

LEARN MORE

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

Summit members work behind-the-scenes in support of historic signing at the Singapore Summit in Singapore, June 11, 2018. ***Department of State***

Appendices

Appendix A: Abbreviations and Acronyms

A	Bureau of Administration (DOS)
ACOR	Alternate Contracting Officer Representative
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
APG	Agency Priority Goal
APP	Annual Performance Plan
ASEAN	Association of Southeast Asian Nations
APR	Annual Performance Report
Appendix A	OMB Circular A-123, Appendix A
ATO	Authorization to Operate
BI	Business Intelligence
BLiSS	Baghdad Life Support Services
BP	Bureau of Budget and Planning (DOS)
BSM	Budget System Modernization
CA	Bureau of Consular Affairs (DOS)
CAP	Cross-Agency Priority
CBA	Centrally Billed Account
CBSP	Consular and Border Security Programs (DOS)
CCB	Configuration Control Board
CDM	Continuous Diagnostics and Mitigation
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
CGFS	Bureau of the Comptroller and Global Financial Services (DOS)
CGFS/F/C	Office of Claims (DOS)
CGFS/GC	Office of Global Compensation (DOS)
CIF	Capital Investment Fund
CIO	Chief Information Officer
CIO	Contributions to International Organizations
CIPA	Contributions to International Peacekeeping Activities
CIRT	Cyber Incident Response Team
CMMI	Capability Maturity Model Integration
CO	Contracting Officer
COAST	Consolidated Overseas Accountability Support Toolbox
COBRA	Cashier Operations Based Risk Assessment
COM	Chief of Mission
COR	Contracting Officer Representative
COTS	Commercial Off-the-Shelf
CRMS	Central Resource Management System
CSRS	Civil Service Retirement System
CT	Bureau of Counterterrorism and Countering Violent Extremism
CVE	Countering Violent Extremism
CY	Current Year
DATA Act	Digital Accountability and Transparency Act
D&CP	Diplomatic and Consular Programs (DOS)
DCF	Defined Contributions Fund
DCIO	Deputy Chief Information Officer
DCP	Defined Contribution Plan
Department	U.S. Department of State
DFC	Development Finance Corporation
DHS	Department of Homeland Security
DIN	Dedicated Internet Network
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
DS	Bureau of Diplomatic Security (DOS)
DW	Data Warehouse
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
ERMC	Enterprise Risk Management Council
ESCM	Embassy Security, Construction, and Maintenance
ETS	E-Government Travel Services
EUR	Bureau of European and Eurasian Affairs (DOS)
EWC	East-West Center
F	Office of U.S. Foreign Assistance Resources (DOS)
FADR	Foreign Assistance Data Review
FAM	Foreign Affairs Manual
FAO	Food and Agriculture Organization (UN)
FASAB	Federal Accounting Standards Advisory Board
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
FPU	Fraud Prevention Unit
FRDAA	Fraud Reduction and Data Analytics Act
FSI	Foreign Service Institute
FSN	Foreign Service National
FSN DCF	Foreign Service National Defined Contributions Fund
FSO	Foreign Service Officer
FSRDF	Foreign Service Retirement and Disability Fund
FSRDS	Foreign Service Retirement and Disability System
FSPS	Foreign Service Pension System
FWCB	Federal Workers' Compensation Benefits
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDF	Gold Dried Fruits
GeT	Global eTravel
GFACS	Global Foreign Affairs Compensation System
GFMS	Global Financial Management System
GOR	Grants Officer Representative
GPRA	Government Performance and Results Act
GRP	Office of Governance, Resource, and Performance (DOS)
GSA	U.S. General Services Administration
HHS	U.S. Department of Health and Human Services
HIV	Human Immunodeficiency Virus
HST	Harry S Truman
IAA	Interagency Agreement
IAS	International Accounting Standards
IBIS	Integrated Budget Intelligence System
IBWC	International Boundary and Water Commission
ICAO	International Civil Aviation Organization (UN)
ICASS	International Cooperative Administrative Support Services (DOS)
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)
ISIS	Islamic State in Iraq and Syria
ISSO	Information Systems Security Officer
IT	Information Technology
IUS	Internal Use Software
JSP	Joint Strategic Plan
LACP	League of American Communications Professionals
LE Staff	Locally Employed Staff
LSSS	Local Social Security System
MCSC	Management Control Steering Committee (DOS)
MD&A	Management's Discussion and Analysis
MfR	Managing for Results
MRA	Migration and Refugee Assistance
NADR	Nonproliferation, Antiterrorism, Demining, and Related Programs
NATO	North Atlantic Treaty Organization
NEA	Bureau of Near Eastern Affairs (DOS)
NIV	Non-Immigrant Visa
NPT	Treaty on the Non-Proliferation of Nuclear Weapons
NSS	National Security Strategy
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
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
PBO	Projected Benefit Obligation
PII	Personally Identifiable Information
PKO	Peacekeeping Operations
PMS	Payment Management System
PMARS	Purchase Card Management and Reporting System
PP&E	Property, Plant, and Equipment
PPA	Prompt Payment Act
PREACT	Partnership for Regional East Africa Counterterrorism
PRM	Bureau of Population, Refugees, and Migration (DOS)
PrOPP	Property related Obligation and Payment
PY	Prior Year
R&I	Repair & Improvement
RFMS	Regional Financial Management System
SAM	Software Asset Management
SAMS	State Assistance Management System
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
SoA	Statement of Assurance
SSA	Social Security Administration
T&A	Time and Attendance
TCP	Travel Card Program
Treasury	U.S. Department of the Treasury
TSCTP	Trans-Sahara Counterterrorism Partnership
TSP	Thrift Savings Plan
UDO	Undelivered Orders
UK	United Kingdom
ULO	Unliquidated Obligation
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
USG	U.S. Government
USSGL	U.S. Standard General Ledger
VAT	Value Added Tax
VCP	Voluntary Contribution Plan
VE	Value Engineering
VMF	Vehicle Maintenance Facility
WebRABIT	Resource and Budget Integration Toolkit
WHA	Bureau of Western Hemisphere Affairs (DOS)
WSP	Worldwide Security Protection

Appendix B: Department of State Locations

Boundaries are not necessarily authoritative

OCTOBER 2018

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

1899 10-18 STATE (INR)

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Chemonics International: *Page 103*

CIVITAS Democracy and Human Rights Education Center: *Page 22*

Uganda Muslim Youth Development Forum: *Page 155*

Back Cover: *Secretary Pompeo, flanked by U.S. Permanent Representative to the United Nations Nikki Haley, addresses staff and families from the U.S. Mission to the United Nations in New York City, New York, July 20, 2018.* Department of State

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