2019* Highlights (dollars in billions)

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet Totals as of September 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>+3%</td>
<td>109.0</td>
<td>105.6</td>
<td>100.6</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>+8%</td>
<td>32.4</td>
<td>29.9</td>
<td>26.8</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>+1%</td>
<td>76.6</td>
<td>75.7</td>
<td>73.8</td>
</tr>
<tr>
<td>Results of Operations for the Year Ended September 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Net Cost of Operations</td>
<td>+3%</td>
<td>29.7</td>
<td>28.7</td>
<td>26.5</td>
</tr>
<tr>
<td>Budgetary Resources for the Year Ended September 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Budgetary Resources</td>
<td>+4%</td>
<td>74.9</td>
<td>72.3</td>
<td>71.0</td>
</tr>
<tr>
<td>Visas Issued at Foreign Posts</td>
<td></td>
<td>8.7 million</td>
<td>9.0 million</td>
<td>9.7 million</td>
</tr>
</tbody>
</table>

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

Years Served

<table>
<thead>
<tr>
<th>Years Served</th>
<th>Secretary &amp; President They Served Under</th>
</tr>
</thead>
</table>
| 1            | 1790-1793 Thomas Jefferson
              | George Washington (1)                   |
| 2            | 1794-1795 Edmund Jennings Randolph      |
              | George Washington (1)                   |
| 3            | 1795-1800 Timothy Pickering              |
              | George Washington (1) & John Adams (2)  |
| 4            | 1800-1801 John Marshall                  |
              | John Adams (2)                           |
| 5            | 1801-1809 James Madison                  |
              | Thomas Jefferson (3)                    |
| 6            | 1809-1811 Robert Smith                   |
              | James Madison (4)                        |
| 7            | 1811-1817 James Monroe                   |
              | James Madison (4)                        |
| 8            | 1817-1825 John Quincy Adams              |
              | James Monroe (5)                         |
| 9            | 1825-1829 Henry Clay                     |
              | John Quincy Adams (6)                    |
| 10           | 1829-1831 Martin Van Buren               |
              | Andrew Jackson (7)                       |
| 11           | 1831-1833 Edward Livingston              |
              | Andrew Jackson (7)                       |
| 12           | 1833-1834 Louis McLane                   |
              | Andrew Jackson (7)                       |
| 13           | 1834-1841 John Forsyth                   |
              | Andrew Jackson (7) & Martin Van Buren (8) |
| 14           | 1841-1843 Daniel Webster                 |
              | William Harrison (9) & John Tyler (10)  |
| 15           | 1843-1844 Abel Parker Upshur             |
              | John Tyler (10)                          |
| 16           | 1844-1845 John Caldwell Calhoun          |
              | John Tyler (10)                          |
| 17           | 1845-1849 James Buchanan                 |
              | James K. Polk (11)                       |
| 18           | 1849-1850 John Middleton Clayton         |
              | Zachary Taylor (12) & Millard Fillmore (13) |
| 19           | 1850-1852 Daniel Webster                 |
              | Millard Fillmore (13)                    |
| 20           | 1852-1853 Edward Everett                 |
              | Millard Fillmore (13)                    |
| 21           | 1853-1857 William Learned Marcy          |
              | Franklin Pierce (14)                     |
| 22           | 1857-1860 Lewis Cass                     |
              | James Buchanan (15)                      |
| 23           | 1860-1861 Jeremiah Sullivan Black        |
              | James Buchanan (15)                      |
| 24           | 1861-1869 William Henry Seward           |
              | Abraham Lincoln (16) & Andrew Johnson (17) |
| 25           | 1869-1869 Elihu Benjamin Washbourne      |
              | Ulysses S. Grant (18)                    |
| 26           | 1869-1877 Hamilton Fish                  |
              | Ulysses S. Grant (18) & Rutherford B. Hayes (19) |
| 27           | 1877-1881 William Maxwell Evarts         |
              | Rutherford B. Hayes (19)                  |
| 28           | 1881-1881 James Gillespie Blaine         |
              | James A. Garfield (20) & Chester A. Arthur (21) |
| 29           | 1885-1889 Thomas Francis Bayard          |
              | Grover Cleveland (22)                    |
| 30           | 1889-1892 James Gillespie Blaine         |
              | Benjamin Harrison (23)                   |
| 31           | 1892-1893 John Watson Foster             |
              | Benjamin Harrison (23)                   |
| 32           | 1893-1895 Walter Quintin Gresham        |
              | Grover Cleveland (24)                    |
| 33           | 1895-1897 Richard Olney                  |
              | Grover Cleveland (24)                    |
| 34           | 1897-1898 John Sherman                   |
              | William McKinley (25)                    |

ABOUT THE FRONT COVER

The front cover images include: (center) Secretary Pompeo cuts a celebratory cake with former Secretary of State Dr. Henry Kissinger at the Department’s 230th anniversary celebration in Washington, D.C., July 29, 2019; and (left to (right) the first thirty-five Secretaries of State (1790 to 1898). The Secretaries of State and the presiding President(s) are listed and shaded by row on the left inside front cover bar.
# Table of Contents

## Introduction

2
- About This Report
- How This Report is Organized

4
- Message from the Secretary

## Section I: Management’s Discussion and Analysis

7
- About The Department
- Strategic Goals and Government-wide Management Initiatives
- Performance Summary and Highlights
- Financial Summary and Highlights
- Management Assurances and Other Financial Compliances

## Section II: Financial Section

42
- Message from the Comptroller
- OIG Transmittal and Independent Auditor’s Report
- Comptroller Response to the OIG
- Principal Financial Statements
  - Consolidated Balance Sheet
  - Consolidated Statement of Net Cost
  - Consolidated Statement of Changes in Net Position
  - Combined Statement of Budgetary Resources
- Notes to the Principal Financial Statements
- Required Supplementary Information

## Section III: Other Information

111
- Inspector General’s Statement on the Department’s Major Management and Performance Challenges
- Management’s Response to Inspector General
- Summary of Financial Statement Audit and Management Assurances
- Payment Integrity and Other Laws and Regulations
- Federal Civil Penalties Inflation Adjustment Act
- Fraud Reduction Report
- Resource Management Systems Summary
- Heritage Assets
- Reduce the Footprint

## Appendices

159
- A: Abbreviations and Acronyms
- B: Department of State Locations
About This Report

The U.S. Department of State’s Agency Financial Report (AFR) for Fiscal Year (FY) 2019 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/plans-performance-budget/agency-financial-reports) 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 (CFO) 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, as amended, and

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 January 2020; and (2) an agency Annual Performance Plan and Annual Performance Report. These reports will be available online at www.state.gov/plans-performance-budget.

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

Certificate of Excellence in Accountability Reporting

In May 2019, 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 2018 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 twelfth time the Department has won the CEAR award. The Department also received a Best-in-Class Award for its comprehensive enterprise risk management program description. In addition, the League of American Communications Professionals (LACP) awarded the Department’s AFR the Gold Award for excellence within its industry. The LACP also ranked the AFR in their Top 100 Reports Worldwide (ranking at 42nd overall from more than 6,000 entries).
How This Report is Organized

The State Department’s Fiscal Year 2019 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2018, and ending on September 30, 2019, 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.

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.
I am pleased to present the Department of State’s Agency Financial Report (AFR) for Fiscal Year (FY) 2019. Our mission set is straightforward: The Department is determined to spend and invest American taxpayer funds carefully and effectively.

Positioned in every corner of the world, the men and women of the Department of State are advancing America’s interests and values on a daily basis. Within the context of today’s challenging global environment, this work is never easy – and is often dangerous. Both state and non-state actors are increasingly applying unconventional measures aimed at eroding our national security and economic interests and, ultimately, threatening our way of life.

The Department of State continues to focus 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. We remain committed to the complete dismantling of the ISIS threat and the ongoing fight against radical Islamic terrorism. We continue to be vigilant against security threats emanating from our own hemisphere, some of which are concentrated near our southern border. Protecting America’s security also continues to demand clear-eyed, skillful engagement on Iran’s outlaw behavior; on North Korean weapons of mass destruction programs; and on Chinese and Russian aggression in military, economic, information, and cyber domains, among others.

Renewing America’s Competitive Advantage for Sustained Economic Growth and Job Creation: Other Department leaders and I, whether advancing U.S. interests in Asia, Europe, or elsewhere in the world, consistently champion the formula that helps nations achieve prosperity: property rights, the rule of law, lower taxes, and an overall lighter touch from government regulation. We will pursue American prosperity by advocating for robust, reciprocal, free, and fair international trade and economic cooperation. Our teams will continue to help open new markets abroad for American businesses. We will reinforce our commitment to partnerships that serve both the United States and our friends, in contrast to other nations, such as China, that adopt a predatory economic posture toward other nations.

Promoting American Leadership through Balanced Engagement: We aim to defend American sovereignty and values and help our partners and allies do the same for themselves. We aspire to shape a free and open international order that reflects and upholds democratic values and human rights. I am proud that we helped do this for the second year in a row by hosting more than 100 nations for the Ministerial to Advance Religious Freedom, the largest human-rights conference ever held at the Department of State. We will strive to ensure that international organizations are agile, respectful of national sovereignty, committed to delivering on their stated missions, and dedicated to creating value for those nations that comprise and contribute to them.

Ensuring Effectiveness and Accountability to the American Taxpayer: In the past year, we have taken several important steps to honor the confidence that the American people place in the Department of State. You will see throughout this year’s AFR references to our Department Ethos, a defining and guiding statement for all members of the Department of State team. By unifying our efforts, we expect to achieve even greater success on behalf of the American people. In addition, we have instituted regular investment and strategic performance reviews, which enable our senior leaders to ensure that our efforts and resources are aligned with our most important strategic goals.

This AFR is not merely a key accountability document; it 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, the Department of State maintains a robust system of management controls. The Department conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with Appendix A of OMB Circular A-123. Based on the results of this assessment and the results of the independent audit, the Department can provide reasonable assurance that the FY 2019 Financial Statements are complete and reliable. The “Message from the Comptroller” in this AFR underscores our improvements in FY 2019 and includes the results of the independent audit of our FY 2019 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. We will continue to be a force for good.

Michael R. Pompeo
Secretary of State
January 17, 2020
The images include: (top) Secretary Pompeo poses with Ministers who attended the Meeting of Ministers of the Global Coalition to Defeat ISIS in Washington, D.C., February 6, 2019; (middle left) Secretary Pompeo delivers remarks at the American Israel Public Affairs Committee Policy Conference in Washington, D.C., March 25, 2019; (middle right) President Trump conducts a meet and greet with the staff and families of Embassy Buenos Aires along with Secretary Pompeo in Buenos Aires, Argentina, November 30, 2018; (bottom left) President Trump addresses journalists during a press conference of the 74th Session of the United Nations General Assembly in New York City, New York, September 25, 2019; and (bottom right) President Trump, Canadian Prime Minister Trudeau, and Mexican President Enrique Peña Nieto sign the U.S.-Mexico-Canada trade agreement during a ceremony on the margins of the G-20 Leaders’ Summit in Buenos Aires, Argentina, November 30, 2018. Department of State
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.

The Department of State and the United States Agency for International Development (USAID) work together to harmonize the administration and structure of assistance programs to ensure maximum impact and efficient use of taxpayer funds. Each agency is responsible for its own operations and produces a separate AFR.

Did You Know?

Michael R. Pompeo has visited more than 50 countries, traveling over 230,000 miles during his 17 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.

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

More information on the duties of the Secretary can be found at: https://www.state.gov/duties-of-the-secretary-of-state
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 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 23 passport agencies, six passport centers, 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.

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 2019, the Department was comprised of approximately 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 2018, there were 4,059 adoptions to the United States, and 81 adoptions from the United States to other countries. In calendar year 2018, we worked on international parental child abduction cases involving 1,444 children – resulting in the return of 252 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
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 2019, we issued 20.7 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.
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/department-of-state-organization-chart.

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 CFO for the Department. The Comptroller has delegated authority for many of the activities and responsibilities mandated as CFO functions, including preparation of the AFR.

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?

James Madison was the fifth Secretary of State (1801-1809) and served two terms as President (1809-1817).

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/department-of-state-organization-chart.
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 7,600 public and 600 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 2019, 1,042 new cases were opened. In addition, 1,096 cases were closed and DS made 39 arrests.

DS agents in New York, Washington, D.C., and the Dominican Republic collaborated to investigate a visa fraud bribery scheme operating in the Dominican Republic and New Jersey. The main subject, Luis Santos, attempted to bribe Department officials in order to obtain visas for Dominican citizens who would otherwise be ineligible. Santos used relatives in the Dominican Republic to advertise and recruit his services. Santos’ mother, Brigida Santos Paulino, pled guilty in April 2019 for her role in the conspiracy. More information on the case can be found at: https://www.justice.gov/usao-nj/pr/bergen-county-new-jersey-man-charged-bribing-state-department-employee.

Reflecting on his first year at the Department, the Secretary recounted his commitments to the President, to communicate with Department staff, and work toward unifying the Department around the idea of “One Team, One Mission, One Future.” Secretary Pompeo described the actions taken to fulfill these commitments: communicating with State personnel throughout the world, increasing Department staffing levels – in particular Foreign Service officers of all ranks – and meeting with domestic audiences to tell the story of American diplomats here at home.

Secretary Pompeo introduced the Ethos in an effort to build upon the commitments made in his first year, explaining that his experience leading organizations had taught him that “It’s incredibly important that we have a common set of understandings about the expectation for every individual, be they a Foreign Service officer, a locally employed staff, or Civil Servant.”

Developing the Ethos began in fall 2018 after scores of embassy visits, as well as several ‘Meet with Mike’ gatherings and Town Halls with employees. Secretary Pompeo formed a core group, comprised for the most part of highly respected career senior leaders, to craft a set of principles that reflect the unique spirit and excellence of the U.S. Department of State. Development involved gathering insights from successful organizations, both private and public, as well as a broad range of employees within the Department. On April 26, 2019, Secretary Pompeo unveiled the results, the Department’s new Ethos, a unifying statement that reflects the Department’s established strengths in an effort to inspire and engage members of the State team in their daily work. See the back cover for the full Ethos text.

The Secretary underscored the care that had gone into building the Ethos as a statement that was both distinctive to the Department and one that could provide guidance.

Ambassador Dan Smith, Director of the Foreign Service Institute and Ambassador Carol Perez, Director General for Human Resources, followed up on Secretary Pompeo’s remarks by outlining initiatives designed to make the Ethos an enduring part of the Department’s DNA. Ambassador Smith explained that the Foreign Service Institute would launch its pilot “One Team” course, which will bring together Foreign Service, Civil Service, and non-career new employees for an experience designed to underscore the Department’s proud history and the principles and behavior expected of all Department professionals. Ambassador Perez announced plans for an annual Ethos award to recognize a member of the State team who best embodies the spirit of the Ethos.
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 programs with best practices and policy priorities. The Department uses the Managing for Results (MfR) Framework to foster enterprise-wide linkages of strategic planning, budgeting, managing, and improving results. Bureaus and missions can achieve better outcomes by engaging in policy, resource, and program decision making that is informed by strategic planning and data gleaned through rigorous monitoring and evaluation practices.

Joint State-USAID Strategic Goals

The Department’s major strategic planning processes and documents are implemented at three organizational levels:

- The State/USAID FY 2018-2022 Joint Strategic Plan (JSP) – Four-year agency strategic plan that outlines State and USAID overarching goals and objectives, and guides bureau and mission planning for U.S. diplomacy and development efforts. The State/USAID JSP and budget synchronize how the Department achieves its foreign policy priorities.

- 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.


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 outlines the strategic direction of U.S. diplomacy and development efforts during this four-year period. 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 State-USAID Joint Regional Strategies, 40 Functional Bureau Strategies, and Integrated Country Strategies. The goals and objectives established in the JSP provide both a policy and strategic vision for all Department bureaus and posts by laying out actions and performance goals, which all bureaus and posts needed to consider in developing their respective strategies. The goals and objectives in each bureau- and mission-level strategy are available to the public through the Department’s internet site at [https://www.state.gov/plans-performance-budget/](https://www.state.gov/plans-performance-budget/).

## Agency Priority Goals

Agency Priority Goals (APG) are a performance accountability component 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. 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. The Department of State has had four APGs for the FY 2018 – FY 2019 cycle (see italicized goal statements below), which align with the updated goals and objectives in the FY 2018-2022 Joint Strategic Plan:

- **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." This APG aligns with JSP Goal 1: Protect America’s Security at Home and Abroad.

- **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." This APG aligns with JSP Goal 4: Ensure Effectiveness and Accountability to the American Taxpayer.

- **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." This APG aligns with JSP Goal 3: Promote American Leadership through Balanced Engagement.

- **Category Management:** “By September 30, 2019, meet or exceed Federal targets for Best-In-Class contract awards.” This APG aligns with JSP Goal 4: Ensure Effectiveness and Accountability to the American Taxpayer.

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 publicly 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 2019, the Department contributes to 11 CAP goals: IT Modernization; Data, Accountability and Transparency; Workforce for the 21st Century; Improving Customer Experience; Sharing Quality Services; Shifting from Low-Value to High-Value Work; Category Management; Results-Oriented Accountability for Grants; Getting Payments Right; Federal IT Spending Transparency; and Improve Management of Major Acquisitions. Progress updates on CAP goals are published on Performance.gov at https://www.performance.gov/CAP/CAP_goals.html.
The corrupt and brutal Maduro regime has plunged the country and region into a complex humanitarian crisis, causing the largest displacement of individuals in the history of the Western Hemisphere. Maduro and those who support him have systematically destroyed the economy, caused devastating damage to the environment, threatened the livelihoods of indigenous populations, and perpetrated egregious human rights abuses, including torture and thousands of extrajudicial killings. There are more than 4.5 million Venezuelans outside of Venezuela, including 1.4 million in Colombia, nearly 861,000 in Peru, and more than 330,000 in Ecuador. In 2019, the security environment collapsed, and Embassy Caracas suspended operations in Venezuela on March 14th. The Bureau of Western Hemisphere Affairs (WHA) has leveraged the One Team, One Mission, One Future Ethos to address this man-made economic and political crisis.

We officially established the Venezuela Affairs Unit (VAU) on August 5, 2019 to engage with interim President Juan Guaidó and the National Assembly. The VAU, led by Chargé d’Affaires James Story, is the interim diplomatic office of the U.S. Government to Venezuela, located at the U.S. Embassy in Bogota, Colombia. The VAU is continuing the work of the U.S. mission to the legitimate Government of Venezuela and the Venezuelan people. The Unit works for the restoration of democracy and the constitutional order in Venezuela, and the security and well-being of the Venezuelan people.

The One Team, One Mission, One Future Ethos helped the WHA Bureau coordinate a U.S. Government-wide effort to increase the diplomatic pressure on the Maduro regime. Thanks to a global diplomatic push, the United States and more than fifty other countries have officially recognized the interim Guaidó government. In addition, signatory countries invoked the Inter-American Treaty of Reciprocal Assistance (Rio Treaty) to increase pressure on the Maduro regime. The last time Rio Treaty signatories did so was in response to the terrorist attacks on September 11, 2001.

The Bureau further demonstrated the power of the One Team, One Mission, One Future Ethos through partnerships with other Department of State bureaus and with USAID. The U.S. Government has provided nearly $644 million in foreign assistance, including nearly $473 million in humanitarian aid and over $171 million in development assistance to the people of Venezuela. The humanitarian assistance is supporting people in Venezuela, Venezuelans who have fled the country due to the crisis, and the governments of the region that are supporting displaced Venezuelans. We also work shoulder-to-shoulder with interagency partners to leverage their expertise and assets to aid the Venezuelan people and support interim President Guaidó and the National Assembly as they work to return democracy to Venezuela.
Performance Summary and Highlights

**PERFORMANCE REPORTING**

The Department of State reports 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 – can be found in the FY 2020 APP/FY 2018 APR at [https://www.state.gov/plans-performance-budget/performance-plans-and-reports/](https://www.state.gov/plans-performance-budget/performance-plans-and-reports/). The following are illustrative accomplishments from the APP/APR:

**Strategic Goal 1: Protect America’s Security at Home and Abroad**

- The Global Coalition to Defeat ISIS gained five new members: the Philippines, the Community of Sahel-Saharan States, Guinea, Kenya, and Fiji. Coalition stabilization and early recovery assistance helped restore essential services and remove explosive remnants of war, and encouraged the free and voluntary return of over 162,000 internally displaced persons to Raqqa, Syria.
- The U.S. Government funded 7,460 events, trainings, or activities, in which 359,766 people participated, designed to build support for peace or reconciliation on a mass scale.
- State had engagement on cyber issues with 126 countries, economies, and/or regional organizations.

**Strategic Goal 2: Renew America’s Competitive Advantage for Sustained Economic Growth and Job Creation**

- The United States reached or expanded six aviation agreements, including four new Open Skies Agreements with Caribbean partners.
- U.S. exports of information and communications technology grew by more than 4 percent to $70.9 billion.
- Forty-nine countries participated in State scientific fellowships and exchanges.

**Strategic Goal 3: Promote American Leadership through Balanced Engagement**

- The U.S. Government provided assistance to almost 7,700 civil society organizations engaged in advocacy of U.S. goals and values.
- Almost 2.7 million adults and children were newly enrolled on antiretroviral therapy.
- State’s American Spaces programs hosted 68.3 million visitors.

**Strategic Goal 4: Ensure Effectiveness and Accountability to the American Taxpayer**

- In support of State’s Category Management APG, 40 percent of addressable contract dollars were awarded to Best in Class vehicles and 25 percent of contract dollars were awarded to contract vehicles designated as Spend Under Management.
- State achieved $16.65 million in supply chain cost savings.
- State closed 17 percent of its domestic data centers due to Cloud efficiencies.
- Approximately 3,100 U.S. Government employees and local staff were moved into safer and more secure facilities.

The section starting on the following page 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 an important part of our efforts in combating violent extremism. Democratic governments work with the United States to build consensus and solve problems on the global stage.

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 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 respond rapidly 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 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. 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.

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**

Meeting twenty-first century diplomatic and development 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**

The Department under the leadership of the Under Secretary for Management this year has articulated a set of guiding principles – field-first focus, innovation, accountability, agility, and data-informed decision making – to integrate and improve the administration of foreign affairs. These principles guide action across the full range of Department activities but are focused on five action areas: talent, security and infrastructure, excellence and innovation, data and analytics, and technology. 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 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. Department leadership and financial managers seek to foster an expansive and forward-leaning approach to enterprise risk management, retaining the agility to respond to demands, events, conditions, or trends at times when significant changes trigger the need to take action.

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. Bureaus are responding to this updated and expanded policy, located in 18 FAM 300 (https://fam.state.gov/fam/18fam/18fam030104.html), by 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, achieve greater impacts, and learn what works and what’s not working in order to more effectively and efficiently achieve U.S. foreign policy objectives. Ongoing performance monitoring data provide a picture of how programs are doing, and program evaluation is used to understand why they are working.

The Department’s learning agenda is encompassed and supported in the MfR framework, which integrates planning, budgeting, managing, and learning processes to inform and support programmatic, budget, and policy decisions. Through this approach, the Department examines programs and operations in such a way that is relevant to its bureaus and the stakeholders they serve. The introduction of a program and project design and monitoring policy in 2018 further strengthened this framework. This program and project design work serves as a foundation for the collection and validation of performance monitoring data, confirming alignment to strategic objectives, and purposeful evaluative and learning questions.

The MfR intranet site offers guidance, tools, updates and opportunities to engage with technical experts. Bureaus can locate key strategic planning documents including the Department’s Joint Strategic Plan, bureau and mission-specific strategic plans, and tools for facilitating progress reviews against strategic plans. The site is essential to supporting bureaus in their program design and performance monitoring work as it houses all of the guidance and resources for these processes. The site also offers templates and guides for evaluation plans.
Examples of how the MfR framework develops into specific learning agendas throughout the Department follow.

In a broad, enterprise-wide learning effort, the Department researched the methodology and uses of strategic evaluations to determine how to facilitate them for learning and collect data within the agency. Strategic evaluations respond to strategic goals and often provide the kind of data that Congress requests on the success of global health, humanitarian assistance, rule of law, or other themes. The research process included reaching out to bureaus who were implementing strategic evaluations to follow their progress and develop specific examples. The results of this work will contribute to Department-wide learning, help build capacity by modeling evaluation to bureaus, and highlight the utility of this type of research to upper management.

Ongoing efforts to bolster the Department’s ability to plan and execute programs and projects in a way that encourages learning and adapting include:
The Public Diplomacy (PD) learning agenda guides public diplomacy research. Forty research questions are linked to 10 theories of change covering Public Diplomacy and Public Affairs activities. Over the last two years, PD has undertaken a number of evaluations aimed at addressing questions in the learning agenda. For example, the Youth Ambassadors program in France examines whether the youth leadership program affects people in the social networks around the program participants. This “multiplier” effect is a central concept in numerous PD programs. In 2019, PD is also concluding a major evaluation of the Young Transatlantic Innovation Leaders Initiative (YTILI), which examines whether participating in the Fellowship promotes economic prosperity in Europe, increases the entrepreneurial knowledge of Fellows, and strengthens the relationship between the YTILI Fellows and the United States. Public Diplomacy will continue to conduct evaluations that test the 10 theories of change contained in the learning agenda.

The Department also initiates studies to respond to pressing questions or needs in foreign assistance policy. In developing the agenda for this work, stakeholders from State, USAID, the non-governmental organization and the academic communities are invited to provide feedback. For 2018-2019, this process yielded three pressing questions: 1) how can the United States promote financial burden-sharing for foreign assistance with other countries; 2) can coordination with U.S. agencies and institutions be enhanced by creating a one-stop shop for economic assistance resources, connecting relevant experts, and training economic officers on coordinating overseas development assistance in the economic arena; and 3) to what extent has past U.S. and international donor foreign assistance prioritized and reduced future risks of violent conflict and instability, in line with established international principles for conflict prevention. The results of the first phase of the Strategic Prevention Project are available at https://www.state.gov/wp-content/uploads/2019/07/Strategic-Prevention-Project.pdf.

The Department is continuing to review the process by which it updates its learning agenda in order to ensure it is meeting all facets of the requirements as detailed in the Evidence Act.

Management Challenges: Providing an Independent Statement of the Agency

In the 2019 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 111-125). 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.
Film and television cultural and professional exchange has emerged as a public diplomacy priority for the Bureau of Near Eastern Affairs (NEA). Profound changes to the media entertainment landscape in the Middle East and North Africa (MENA) region are providing avenues for increased American engagement. The opening of a new entertainment industry in Saudi Arabia, the growing need for television, film and online content throughout the region, and the increasing presence of American online content providers in the MENA region provides critical opportunity. This programming advances American values, creates jobs, and builds cultural, professional, and commercial partnerships between the United States and the region.

The Middle East Media Initiative (MEMI) is an innovative professional exchange funded by NEA with the support of the Bureau of Educational and Cultural Affairs (ECA). The University of Southern California (USC) School of Cinematic Arts implements this effort in conjunction with Hollywood industry leaders and Middle East television industry partners. MEMI recognizes the societal impact of television, and trains the region’s leading and up-and-coming generation of Arab screenwriters and content creators to both entertain their audiences and spark important conversations about pluralism and mutual understanding. In addition to supporting Arab TV writers and showrunners to develop original content for broadcast on local networks and streaming platforms, MEMI connects American and Arab television industries for increased collaboration and investment.

Alongside MEMI, NEA posts participate in several complementary ECA programs. ECA’s American Film Showcase (AFS) is a film-based exchange program that promotes awareness, dialogue, and engagement around foreign policy issues. The USC School of Cinematic Arts manages AFS and recruits top U.S. filmmakers and film/television experts to participate in one- to two-week programs that include screenings, discussions, workshops, and tours to more than 50 countries per year.

The NEA Office of Assistance Coordination advances economic development in film and television production through the MENA Media Fund, implemented by New York-based Visionaire Media. Initiated in 2018, the fund will invest up to 50 percent of development costs for the pilots of regional media projects, the balance coming from local and international presales and partners. Leveraging American partners to improve the quality of the productions, the fund builds capacity in Arab content-generators.

The long-term impact of these programs is multi-faceted. Examples of connections between the American and NEA industries continue to grow, with multiple MEMI alumni hired or signed by American Media companies including Netflix and Vuclip and Creative Artists Agency. In addition to creating content that reinforces mutual respect, tolerance, and pluralism among younger audiences, U.S. investment in regional scriptwriters and producers enhances mutual economic prosperity by developing local talent and partnerships with American industry leaders. When the next generation in the MENA region connects to the American brand, they develop ties to the United States that advance our interests in the rapidly changing entertainment and digital communication space.
Financial Summary and Highlights

The financial summary and highlights that follow provide an overview of the 2019 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, 2019 and 2018, along with the Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statement of Budgetary Resources. The Department received an unmodified (“clean”) audit opinion on both its 2019 and 2018 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)

<table>
<thead>
<tr>
<th>Summary Consolidated Balance Sheet Data</th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Balance with Treasury</td>
<td>$61.2</td>
<td>$58.9</td>
<td>$2.3</td>
<td>4%</td>
</tr>
<tr>
<td>Investments, Net</td>
<td>19.4</td>
<td>19.3</td>
<td>0.1</td>
<td>1%</td>
</tr>
<tr>
<td>Property and Equipment, Net</td>
<td>25.6</td>
<td>24.3</td>
<td>1.3</td>
<td>5%</td>
</tr>
<tr>
<td>Cash, Receivables, and Other Assets</td>
<td>2.8</td>
<td>3.1</td>
<td>(0.3)</td>
<td>(10)%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$109.0</td>
<td>$105.6</td>
<td>$3.4</td>
<td>3%</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$2.3</td>
<td>$2.6</td>
<td>(0.3)</td>
<td>(12)%</td>
</tr>
<tr>
<td>After-Employment Benefit Liability</td>
<td>24.2</td>
<td>22.6</td>
<td>1.6</td>
<td>7%</td>
</tr>
<tr>
<td>International Organizations Liability</td>
<td>3.8</td>
<td>2.7</td>
<td>1.1</td>
<td>41%</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>2.1</td>
<td>2.0</td>
<td>0.1</td>
<td>5%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$32.4</td>
<td>$29.9</td>
<td>$2.5</td>
<td>8%</td>
</tr>
<tr>
<td>Unexpended Appropriations</td>
<td>46.6</td>
<td>46.5</td>
<td>0.1</td>
<td>0%</td>
</tr>
<tr>
<td>Cumulative Results of Operations</td>
<td>30.0</td>
<td>29.2</td>
<td>0.8</td>
<td>3%</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>$76.6</td>
<td>$75.7</td>
<td>$0.9</td>
<td>1%</td>
</tr>
<tr>
<td>Total Liabilities and Net Position</td>
<td>$109.0</td>
<td>$105.6</td>
<td>$3.4</td>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Summary Consolidated Statement of Net Cost Data</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost and Loss on Assumption Changes</td>
<td>$38.5</td>
<td>$37.3</td>
<td>$1.2</td>
<td>3%</td>
</tr>
<tr>
<td>Less Total Revenue</td>
<td>8.8</td>
<td>8.6</td>
<td>0.2</td>
<td>2%</td>
</tr>
<tr>
<td>Total Net Cost</td>
<td>$29.7</td>
<td>$28.7</td>
<td>$1.0</td>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Summary Combined Statement of Budgetary Resources Data</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unobligated Balance from Prior Year Budget Authority, Net</td>
<td>$31.1</td>
<td>$28.8</td>
<td>$2.3</td>
<td>8%</td>
</tr>
<tr>
<td>Appropriations</td>
<td>35.8</td>
<td>32.1</td>
<td>3.7</td>
<td>12%</td>
</tr>
<tr>
<td>Spending Authority from Offsetting Collections</td>
<td>8.0</td>
<td>11.4</td>
<td>(3.4)</td>
<td>(30)%</td>
</tr>
<tr>
<td>Total Budgetary Resources</td>
<td>$74.9</td>
<td>$72.3</td>
<td>$2.6</td>
<td>4%</td>
</tr>
</tbody>
</table>

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,
- 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 $109.0 billion at September 30, 2019, an increase of $3.4 billion (3 percent) over the 2018 total. Fund Balance with Treasury increased $2.3 billion (4 percent) as a result of increased appropriations for International Peacekeeping Activities; Diplomatic and Consular Programs; International Narcotics Control; and Global Health and Child Survival. Property and Equipment increased by $1.3 billion (5 percent) from September 30, 2018. New buildings, structures and improvements accounted for most of this increase with the top nine New Embassy Compound projects and a training center accounting for $1.0 billion of the increase (see “Real Property Projects – 2019 Cost Activity”). In addition, land increased by $88 million due to the following land purchases: Adana, Turkey for $50 million; Windhoek, Namibia for $14 million; and Merida, Mexico for $13 million. Internal use software increased by $105 million due to new projects in 2019. These increases are offset by a decrease in personal property of $143 million. This decrease is predominately due to a decrease in aircraft for $86 million.

**Real Property Projects – 2019 Cost Activity (dollars in millions)**

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Affairs Security Training Center</td>
<td>$369</td>
</tr>
<tr>
<td>Mexico City, Mexico</td>
<td>130</td>
</tr>
<tr>
<td>Beirut, Lebanon</td>
<td>80</td>
</tr>
<tr>
<td>Maputo, Mozambique</td>
<td>80</td>
</tr>
<tr>
<td>Dhahran, Saudi Arabia</td>
<td>76</td>
</tr>
<tr>
<td>Ankara, Turkey</td>
<td>75</td>
</tr>
<tr>
<td>Asuncion, Paraguay</td>
<td>71</td>
</tr>
<tr>
<td>Guatemala City, Guatemala</td>
<td>60</td>
</tr>
<tr>
<td>Colombo, Sri Lanka</td>
<td>54</td>
</tr>
<tr>
<td>Erbil, Iraq</td>
<td>52</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$1,047</td>
</tr>
</tbody>
</table>

Other assets decreased $178 million (7 percent) as a result of a decrease in advances under the Global Health and Child Survival program for $51 million. Investments increased $137 million (1 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 investments made by the Foreign Service National Defined Contributions Fund for the Variable Contribution Plan. Fund Balance with Treasury, Investments, and Property and Equipment comprise 97 percent of total assets for 2019 and 2018.

**ASSETS BY TYPE 2019 (dollars in billions)**

![Pie chart showing assets distribution: 23% Property and Equipment, Net; 18% Investments, Net; 56% Fund Balance with Treasury; Other Assets 3%]

**TREND IN TOTAL ASSETS (2014 – 2019) (dollars in billions)**

- **2014:** $86.8
- **2015:** $90.6
- **2016:** $91.8
- **2017:** $100.6
- **2018:** $105.6
- **2019:** $109.0
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 $22.2 billion (26 percent) since 2014. This upward trend resulted primarily from an $13.7 billion increase in Fund Balance with Treasury, a $6.5 billion increase in Property and Equipment, and a $1.6 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 $32.4 billion at September 30, 2019, an increase of $2.5 billion (8 percent) between 2018 and 2019. After-Employment Benefit Liability comprises 75 percent of total liabilities and increased $1.6 billion (7 percent) from 2018. International Organizations Liability increased $1.1 billion (41 percent) and Accounts Payable decreased $313 million (12 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 $7.3 billion (29 percent). This change is principally due to the increase in the After-Employment Benefit Liability, a $4.6 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 $0.9 billion (1 percent) between 2018 and 2019. Cumulative Results of Operations increased $757 million and Unexpended Appropriations were up $130 million 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 2019 equaled $29.7 billion, an increase of
$1.0 billion (3 percent) from 2018. This increase of net costs was mainly due to increases in spending for international organizations as a result of timing differences in assessments received from the international organizations and increases in spending for humanitarian efforts and security. These increases were offset by a decrease in actuarial costs in the FSRDF due to actuarial assumption changes.

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 2014 to 2019 of $4.7 billion. Increases from 2014 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 2019 – a combined $17.2 billion (58 percent). The largest increase was in Diplomatic and Consular Programs. This program increased by $639 million as a result of increases in global security. In the International Organizations and Commissions program, net costs increased by $612 million as a result of timing differences in assessments received from the international organizations. There were more assessments received in 2019.

**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.
Earned revenues totaled $8.8 billion in 2019, 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 51 percent), reimbursable agreements ($2.4 billion or 27 percent), and ICASS earnings ($1.1 billion or 13 percent). These revenue sources totaled $8.0 billion (91 percent). Overall, revenue increased by two percent — $139 million from 2018 to 2019. This increase is primarily a result of an increase in reimbursable activity with other Federal agencies.

Statement of Changes in Net Position: Cumulative Overview

The Statement of Changes in Net Position identifies all financing sources available to, or used by, the Department to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals the Net Position at year-end. The Department’s net position at the end of 2019 was $76.6 billion, an $887 million (1 percent) increase from the prior fiscal year. This change resulted from the $130 million increase in Unexpended Appropriations and a $757 million increase in Cumulative Results of Operations.

Combined Statement of Budgetary Resources

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 2014 through 2019. A comparison of the two most recent years shows a $2.6 billion (4 percent) increase in total resources since 2018. This change resulted from a decrease in offsetting collections ($3.4 billion) and increases in unobligated balances from prior year budget authority ($2.3 billion) and appropriations ($3.7 billion).

Trend in Total Budgetary Resources (2014 – 2019)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$44.5</td>
</tr>
<tr>
<td>2015</td>
<td>$45.9</td>
</tr>
<tr>
<td>2016</td>
<td>$48.3</td>
</tr>
<tr>
<td>2017</td>
<td>$51.0</td>
</tr>
<tr>
<td>2018</td>
<td>$52.3</td>
</tr>
<tr>
<td>2019</td>
<td>$54.9</td>
</tr>
</tbody>
</table>

- Unobligated Balance from Prior Year Budget Authority, Net
- Offsetting Collections
- Appropriations
The Department’s Budgetary Position

For 2019, the majority of the Department’s funding was provided by the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2019 (Division F, Public Law 116-6) (the “FY 2019 Act”) enacted on February 15, 2019. 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 2019 appropriations for Diplomatic Engagement totaled $15.2 billion, which included $11.1 billion in Enduring funds from Title I of the Act, and $4.1 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 276 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 2019 funding, $14.4 billion in prior year funding remained available for obligation in 2019.

In addition to appropriated resources, the Department earned and retained $3.5 billion in new user fee revenue 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) account. CBSP funds support programs that provide protection to U.S. citizens overseas and contribute to national security and economic growth. These programs are a core element of the national effort to deny individuals who threaten the country entry into the United States while assisting and facilitating the entry of legitimate travelers, and promoting tourism.

Upon enactment of the FY 2019 Act, the name of the Department’s principal operating account was changed from Diplomatic and Consular Programs (D&CP) to Diplomatic Programs (DP). In 2019, DP totaled $8.9 billion, including Enduring and OCO funds. Within the total, $5.1 billion supported ongoing program operations and $3.8 billion went toward the Worldwide Security Protection (WSP) program to strengthen security for diplomatic personnel and facilities. Per Section 8004 of the FY 2019 Act, $301.2 billion in WSP OCO funds appropriated by the Security Assistance Appropriations Act, 2017 (Division B, Public Law 114-254) was rescinded.

Major elements of 2019 DP funding included $1.3 billion to support operations of the U.S. Mission in Iraq, of which $1.3 billion is OCO and $16 million is Enduring; $882 million for activities in Afghanistan, of which $847 million is OCO and $35 million is Enduring; $144 million for key programs and activities in Pakistan, of which $112 million is OCO and $31 million is Enduring; and $673 million for public diplomacy programs to counter misinformation and secure support for U.S. policies abroad, of which $83 million is OCO and $590 million is Enduring.

The Department’s Information Technology (IT) Central Fund supported $321 million in IT investments in 2019. This included $93 million in enacted appropriations and $228 million in revenue from Expedited Passport fees. Investment priorities included Cloud migration; consolidation of software licenses; deployment of global Wi-Fi to overseas locations; reduction of the number of Department data centers; refreshing computers and other devices for online support; consolidation of contact and event management systems into a single cloud-based solution to increase knowledge and data sharing; data analytics enhancements; and modernization of multi-year enterprise financial management, logistics, and human capital systems.

The Embassy Security, Construction, and Maintenance (ESCM) appropriation totaled $2.0 billion, all Enduring, which provides U.S. missions overseas with secure, safe, and functional facilities. ESCM’s centerpiece programs are Capital Security Cost Sharing ($847 million) and Maintenance Cost Sharing ($178 million), which enabled the Department to begin five New Embassy Compound/New Consulate Compound projects and start two 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.

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at $701 million. Elements of the Department’s public diplomacy strategy include ECE
programs that engage both domestic and foreign audiences to develop mutual understanding and build foundations for international cooperation. Major highlights of 2019 funding included: $358 million for Academic Programs, such as the J. William Fulbright Scholarship Program; $221 million for Professional and Cultural Exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program; and $31 million for the Young Leaders Initiatives.

The 2019 appropriation provided a total of $1.4 billion for the Contributions to International Organizations (CIO) account, including $96.2 million for OCO, and $1.3 billion in Enduring funds for assessed contributions to international organizations including the United Nations and its specialized agencies, regional and Inter-American organizations, and other international organizations. The 2019 appropriation provided $1.6 billion for the Contributions for International Peacekeeping Activities (CIPA) account, including $989 million in OCO, and $562 million in Enduring funds for assessed contributions to international peacekeeping activities authorized by the United Nations.

The remainder of the Diplomatic Engagement enduring operations budget is comprised of Related Programs ($214 million) and International Commissions ($141 million) appropriations. Related programs include appropriations for the National Endowment for Democracy ($180 million), The Asia Foundation ($17 million), and the East-West Center ($17 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 received $77.5 million in 2019 appropriations.

Looking ahead, the Department’s 2020 Diplomatic Engagement budget request totals $13 billion in new budget authority. The Department is not requesting OCO funding in 2020.

The 2020 President’s Budget provides the necessary resources to protect United States citizens, support our allies while asking other nations to do more, and advance a secure, prosperous world by assisting countries to become self-reliant economic and security partners. The 2020 budget request for the State Department and USAID focuses resources on providing better results for the American people. It supports more effective American diplomacy, prioritizes embassy security and the protection of diplomats and staff, and provides for strategic partners and diplomatic progress.

Budgetary Position for Foreign Assistance

The 2019 Department of State Foreign Assistance budget totaled $18.8 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 2019 budget is the OCO component. OCO funds enable us to prevent, address, and help countries recover from crisis, particularly in Africa, the Middle East and South Central Asia. The Department’s Foreign Assistance portion of the 2019 budget for OCO totaled $1.9 billion in the FMF, MRA, and PKO accounts.

The Democracy Fund appropriation totaled $227.2 million in 2019; the funds are split, however, between the Department and USAID. The Department was allocated $157.7 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 2019 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 2019 FMF appropriation totaled $6.2 billion, of which $229 million is designated as OCO and $6.0 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.

In 2019, 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 ($3.4 billion) continue 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 2019 IMET appropriation totaled $110.8 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 2019 totaled $1.5 billion. 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 2019, 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 2019 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 2019, the MRA appropriation totaled $3.4 billion, of which $1.4 billion was OCO and $2 billion was for core programs. These funds provided humanitarian assistance and resettlement opportunities for refugees and conflict victims around the globe. In 2019, 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 2019 totaled $864.6 million. 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 $488.7 million, of which $325.2 million was OCO and $163.5 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 2019, the PKO program supported ongoing requirements for the Global Peace Operations Initiative, as well as multinational peacekeeping, security sector reform, and regional stability operations, particularly in Somalia.

The Department of State’s 2020 budget request for Foreign Assistance is currently under congressional consideration. The request is for $26.9 billion to support core programs.

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.

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.
On July 29, 2019, Secretary Pompeo led a day-long program of events celebrating the 230th Anniversary of the Department of State. Highlights of the day included a video featuring interviews with former Secretaries George Shultz, Madeleine Albright, Condoleezza Rice, and Colin Powell as well as a live conversation between Henry Kissinger, recognized by Secretary Pompeo as the “dean of America’s Secretaries of State,” and his official biographer, Dr. Niall Ferguson. Deputy Secretary John Sullivan, Counselor T. Ulrich Brechbühl, Under Secretary for Political Affairs Ambassador David Hale, Under Secretary for Economic Affairs Keith Krach, and Under Secretary for Management Brian Bulatao all played prominent roles in the festivities.

The Anniversary celebration reinforced themes raised several months earlier during the introduction of the Department’s Ethos. Secretary Pompeo used the occasion to remark on the heritage and mission of the Department. “We at the State Department follow in the footsteps of our forefathers. We use diplomacy to defend that very set of unalienable rights – not just for Americans, but for people all across the world.” The Harry S Truman lobby featured panels created by each of the Department’s bureaus illustrating the historical and ongoing contributions of State’s various components.

To underscore the special mission of the Department, Secretary Pompeo took a look back at extraordinary efforts by several seemingly ordinary State Department figures.

► “In 1814, a man named Stephen Pleasonton was a clerk at the State Department. When the British invaded Washington, he was there. At that time, the State Department was the keeper of all of the nation’s documents, so Mr. Pleasonton took it upon himself to smuggle the Declaration, the Constitution, the Bill of Rights, and all of our nation’s treaties to safety outside of the city of Washington, D.C.

► Think too of men who have not been recorded so much in history, a man named George Waller. He was our charge d’affaires in Luxembourg at the outbreak of World War II. And when the Germans invaded Luxembourg, Mr. Waller refused to evacuate. Many Jews were still seeking visas to the United States, and he wanted to help them. The problem was, his post was not a visa-issuing consulate. You know, the bureaucracy was in his way. So Mr. Waller drove five hours to Antwerp in the dark of night to retrieve visa forms and a stamping machine. It sounds old school, but he made it back to Luxembourg and proceeded to issue life-saving visas to hundreds of Jews.

► We all know this as we sit here today: Our family members are the hidden heroes of diplomacy. Take family member Kitty Herrick. She was the wife of our Ambassador to France at the outbreak of World War I. She helped launch the American Ambulance Hospital in Paris. Parisians called her “The American Angel.”

“I wanted to tell those three stories today for a reason. These folks show what the State Department – and the mission of American diplomacy – is truly all about. These diplomatic heroes laid a foundation for each of us – not just by protecting freedom through their good works, but by being a true example of service.”
Management Assurances and Other Financial Compliances

MANAGEMENT ASSURANCES

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

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.

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 No. 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 was operating effectively as of September 30, 2019.

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  
January 17, 2020
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 management 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 2019 results are discussed in the section titled “Federal Financial Management Improvement Act.”

The Secretary of State’s 2019 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 2019 for the internal controls over reporting program in place to meet Appendix A to OMB Circular A-123 requirements. The SAT reports to the MCSC and is comprised of 15 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 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. Green Book requirements directly relate to testing entity-level controls, which is a primary step in operating an effective system of internal control. Entity-level controls reside in 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 FY 2019 unmodified Statement of Assurance. The 2019 Appendix A assessment did not identify any material weaknesses in the design or operation of the internal control over 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 2019 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 2019, 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 by supporting the Department’s Enterprise Governance Board. The Under Secretary for Management chairs the Board, 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.
In 2019, OMB and DHS used the core areas of the National Institute of Standards and Technology Cybersecurity Framework to assess cybersecurity capabilities and compliance and concluded that overall, the Department improved its security posture to actively “managing” cybersecurity risk.

The October 2019 FISMA audit of the Department recognized the agency’s progress in maturing the information security program in two of the five core areas of the Cybersecurity Framework. The OIG also recommended 1) to ensure an accurate, comprehensive inventory of systems and associated components; and 2) to fully define and implement an information security architecture. The actions that the Department undertook in 2019 are based on the premise that cybersecurity is an ongoing effort that requires agility to respond to ever evolving threats and the mission needs.

To that end, the Department accomplished the following:

- Updated the Agency Cyber Risk Management Strategy and implemented several initiatives to assess areas of need and prioritize resource allocations. These initiatives include the development of a mission risk assessment process; completion of a bureau-level cyber risk assessment pilot and an accompanying report; development of a bureau-level cyber performance scorecard and an executive risk decision support guide; and launch of a second bureau-level risk assessment pilot.

- Developed a high-value assets (HVA) strategy to expand the agency’s ability to identify and monitor risks and to better align with secure architecture in response to the DHS’s Binding Operational Directive 18-02 that governs the HVA management. Furthermore, the Department increased oversight and prioritization of critical and high vulnerability remediation of HVAs. The agency also developed a three-year assessment schedule to ensure the secure operation of its HVAs.

- Worked steadily to streamline inventory processes, validate existing data, and develop a common framework for categorizing and reporting assets. A number of ongoing efforts aim to further enhance the agency’s ability to ensure an accurate and up-to-date inventory including: (1) The DHS’s Continuous Diagnostics and Mitigation (CDM) assessment that will provide the Department a baseline of software, hardware, and systems by 2021. The CDM program will enhance government network security.
through the automated control testing and progress tracking; (2) defining and improving the security architecture that will serve as a framework to link business drivers with operational security and technical controls to protect assets and functionality; and (3) strengthening the governance process to ensure information technology assets are accounted for throughout the IT life-cycle.

- Continued to reduce the backlog of systems operating without a valid authorization to operate (ATO). In the fourth quarter of 2019, the Department reported 78 percent of its systems as authorized to operate, compared to 21 percent in the third quarter of 2017. This steady improvement is due to several factors, including the continued use of risk-based prioritization to triage the backlog. In 2019, the Department granted authorization to several FedRAMP-approved cloud systems that will serve as enterprise offerings for use across the agency such as ServiceNow, Office365, and Microsoft Azure. The expectation is that on-premise and custom applications will migrate to the new enterprise cloud solutions and reduce the number of systems that the agency personnel must manage. In the meantime, the Department continues to identify and assess common controls from on-premise services and cloud service providers to reduce the overall number of security controls that must be assessed and maintained. Efforts to mature the use of Xacta, the Governance Risk and Compliance automated tool, are ongoing. Underway is the pilot of Xacta Compliance Campaign Manager – a module that helps system owners answer non-technical controls. Xacta Continuum, a module that supports continuous monitoring of technical controls, is also in the testing phase. With the deployment of these two modules the Department will move a step closer towards an ongoing authorization approach compared to the previous three-year ATO cycle.

- Deployed the ISSO Dashboard for system logs to most U.S. missions overseas and some domestic sites. This web-based interface provides information system security officers (ISSOs) the capability to continuously monitor the network for anomalies, such as failed login attempts, application crashes, software and service installations, remote desktop activity, account usage, event logs cleared, and system or service failures in the pane of a customizable dashboard.

The Department of States’ steady, proactive efforts to enhance the information security program reflect an enduring recognition that securing and protecting cyber assets is an ongoing multi-year effort, with no finish line.

**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 made substantial progress in transitioning the Global Financial Management System data warehouse into a Global Business Intelligence solution. This effort includes upgrading its supporting infrastructure. This solution will be the single source for meeting internal and external financial reporting requirements for the Department.

The Department developed and implemented a comprehensive data quality plan during 2019. Strong internal controls were in place while the Department continued working to refine 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. Quarterly certifications of the Department’s transactions were submitted timely to OMB, with data quality audit results showing consistent improvement. Extensive other internal controls were established including 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. Weekly meetings between personnel dedicated to DATA Act development and the Administration bureau take place to routinely discuss issues and opportunities for improvement. 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.

**OTHER REGULATORY REQUIREMENTS**

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

### The Ethos Award

On November 13, 2019, Secretary Pompeo announced the inaugural recipient of the One Team Award, which recognizes a member of the Department team who embodies the principles laid out in the Department’s Professional Ethos. This year’s recipient is Santiago Burciaga, Assistant Director of the El Paso Passport Agency.

In presenting the award, the Secretary praised Mr. Burciaga for his dedication to mission and his co-workers:

“Santiago led his team through a tough year despite staffing shortages and a soaring workload. He led by example by regularly pitching in and filling in for managers when needed, inspiring others to do the same.

You may remember the active shooter crisis at a Walmart in El Paso earlier this summer. Santiago displayed outstanding leadership by immediately accounting for our El Paso employees. Thankfully, everyone on our team was safe, but for those who knew victims from the shooting, their sense of security was shaken. Santiago arranged for grief counseling and provided materials for dealing with trauma for staff to share with their families.

Santiago’s leadership is an embodiment of our Professional Ethos, which calls on us all to show unfailing professionalism in the face of adversity, uncompromising personal and professional integrity, and unstinting respect for colleagues.”
Team,

We’ve hit another milestone—this week, our Foreign Service Institute launched the very first One Team course pilot. The four-day course builds upon the ideas expressed in our Professional Ethos to unite new employees around the “One Team, One Mission, One Future” vision and the unique history of the Department.

The One Team course will supplement existing training to provide a common experience for new employees. For the first time, Foreign Service, Civil Service, Limited Non-Career Appointments, and political appointees will all learn side-by-side. Everyone will grow as one team together.

In developing the One Team course, we drew heavily from your thoughts on what new Department employees should know and understand about the Department, especially the importance of working together. As a result, the course will:

- Explore the guiding principles of the Department, including our Professional Ethos;
- Help employees connect their efforts and that of their colleagues to the Department’s mission;
- Analyze how the Department’s work connects to the National Security Strategy, and the Department’s other strategic planning mechanisms;
- Examine the meaning of the Oath of Office;
- Investigate how the Department’s work directly benefits the American public; and
- Inform our team about key accomplishments and personnel in the Department’s history that spans more than 230 years.

We’ve made the course light on lectures but full of “hands-on” engagement with the goal of helping participants see how they each contribute to our collective success as an organization.

A full 85 of our colleagues are enrolled in this first pilot course. We will be asking them for (and expecting) a lot of feedback, which we will use to refine the course over several more trial runs this fall and in early 2020. Our goal is to finalize the course and begin ramping it up next year to accommodate the roughly 1,600-1,800 new employees that the Department onboards every year.

To the Department’s managers and leaders, get ready to send your new employees to the course when it’s offered more broadly. This critical investment will ensure that each one of our future colleagues is best prepared to join our efforts as champions of American diplomacy.

With gratitude,

Mike Pompeo
Secretary of State
United States of America
This original issue of The Independent Gazetteer or the Chronicle of Freedom provides notice of establishing the Department of Foreign Affairs, 1789. Department of State
Message from the Comptroller

It is an honor to present the Fiscal Year (FY) 2019 Financial Statements on behalf of the Department of State. As noted in the Secretary’s message, the FY 2019 Agency Financial Report (AFR) is our key accountability document and principal publication and report to the President, Congress, and the American people to disclose our financial status over the assets and resources entrusted to us. It illustrates our firm commitment, resolve, and rigor in delivering the highest standard of financial accountability and transparency to the American public. The AFR provides a comprehensive view of the Department’s financial activities set against the backdrop of the global issues and engagements we face as an institution and as a country. Notably, it represents the diligence and dedication demonstrated daily by the Department’s professionals – One Team – around the world in some of the most difficult operating environments.

The Department’s financial operating context is complex. We operate 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 through 224 bank accounts around the world; account for more than $108 billion in assets in over 500 separate fiscal accounts; and manage real and personal property assets with historical costs of more than $38 billion. We provide the shared administrative operating platform for more than 45 other U.S. Government entities overseas; and pay more than 100,000 Foreign and Civil Service, Locally Employed Staff, and Foreign Service annuitants. These financial activities support and further our ability to advance America’s interests on a broad range of foreign policy challenges and engagements that demand our attention.

For the Department’s financial management platform and programs, we strive to prioritize, manage, and implement vital investments in modern, transformative financial systems and operations that improve our global financial operations, reporting, and compliance. These investments provide a standardized and economical enterprise-wide financial business framework for accurate and timely financial data. Further automation and the use of data as a resource will be central to the Department’s ongoing 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 our financial systems and data. 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. We are dedicated to delivering quality financial services, backed by our ISO-9001 certified operations and Capability Maturity Model Integration (CMMI) standard for financial systems development. These quality management programs allow us to continuously improve our services and drive new automation and efficiencies into mission furthering support services.
We fully understand and embrace our leadership role in promoting strong and effective internal controls. This commitment is fundamental to our business and success. The Department maintains a robust system of internal controls that are validated by senior leadership. For 2019, 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 (FMFIA). As highlighted in the AFR, the Department does not have any programs at risk for making significant improper payments. We continuously conduct payment risk assessments and recapture audits, as well as verifications against Treasury’s Do Not Pay databases. In their annual assessment, the OIG found the Department’s improper payments program to be in compliance with the Improper Payments Information Act (IPIA), as amended. Finally, I am pleased to report that last year, in recognition of the exceptional quality of our AFR, the Association of Government Accountants awarded the Department the prestigious Certificate of Excellence in Accountability Reporting.

The independent external annual audit process is another essential part of our commitment to strong corporate governance and effective internal controls. The audited Financial Statements in the AFR represent the culmination of a rigorous process with our partners, the Office of the Inspector General (OIG) and the Independent Auditor, Kearney & Company. Given the financial complexities and unpredictability of the global operating environment of the Department, there are always opportunities and challenges to address and issues that require further clarification as we meet Government-wide compliance and accounting standards. This year was no different. As communicated to the Office of Management and Budget (OMB) in August, a transition of independent financial auditors late in the fiscal year required the OIG and the Department to jointly request a 60-day extension to January 18, 2020, to fully complete the audit work on the Department’s financial statements. We appreciate the thoughtful consideration of all parties to ensure a comprehensive result was reached. I would like to thank all involved for their collaborative and professional efforts throughout the audit process.

For the year in which the Department celebrated its 230th anniversary, I am pleased to report the Department has received an unmodified (“clean”) audit opinion on its 2019 Financial Statements, with no material weaknesses in internal controls over financial reporting identified by the Independent Auditor.

While we are pleased with what was accomplished this year, we recognize there are several items noted in the AFR and the Independent Auditor’s Report that will require our continued attention and new focus. I also know the Department’s outstanding team of financial professionals around the world and in the Bureau of the Comptroller and Global Financial Services, of which I am extremely privileged to be a part, are up to the task. As champions of American Diplomacy, we are committed to be efficient and effective stewards of the Department’s limited resources to further its vital mission.

Sincerely,

Jeffrey C. Mounts
Acting Comptroller
January 17, 2020
UNCLASSIFIED 

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Steve A. Linick


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, 2019 and 2018, 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 auditing standards generally accepted in the United States of America and Office of Management and Budget audit guidance.

In its audit of the Department’s FY 2019 and FY 2018 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, 2019 and 2018, 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;

- no material weaknesses\(^1\) in internal control over financial reporting;

- six significant deficiencies\(^2\) in internal control, specifically in the areas of property and equipment, budgetary accounting, validity and accuracy of unliquidated obligations, intragovernmental revenue, financial reporting, and information technology; and

---

\(^1\) 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.
• 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 January 17, 2020, and the conclusions expressed in the report. The Office of Inspector General (OIG) does not express an opinion on the Department’s financial statements or conclusions on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements, including whether the Department’s financial management systems substantially complied with FFMIA.

The Bureau of the Comptroller and Global Financial Services response is reprinted in its entirety as an appendix to the auditor’s 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.
INDEPENDENT AUDITOR’S REPORT
AUD-FM-20-18

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, 2019 and 2018; the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended; and the related notes to 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. 19-03, “Audit Requirements for Federal Financial Statements.” Those standards and OMB Bulletin No. 19-03 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 consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.
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, 2019 and 2018, 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.
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued reports, dated January 17, 2020, on our consideration of the Department’s internal control over financial reporting and on our tests of the Department’s compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements for the year ended September 30, 2019. 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. 19-03 and should be considered in assessing the results of our audits.

Alexandria, Virginia
January 17, 2020
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, 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. 19-03, “Audit Requirements for Federal Financial Statements,” the consolidated financial statements and the related notes to the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2019, and we have issued our report thereon dated January 17, 2020.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982, 1 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. 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.

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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described below, as items that we consider to be significant deficiencies.

Significant Deficiencies

I. Property and Equipment

The Department reported more than $26 billion in net property and equipment on its FY 2019 consolidated balance sheet. Real and leased property consisted primarily of residential and functional facilities 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 2019, 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 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 overseas that were not recorded by the Department in a timely manner. In addition, we tested real property acquisitions overseas and identified deposits (i.e., payments made prior to closing on the purchase of real property) made by the Department in prior years that were not recorded as prepaid assets, as required. Although the Department implemented certain controls, such as the use of project codes, to identify disposals and prepayments related to overseas real property, 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.

- **Accounting for Domestic Real Property** – The acquisition, renovation, or construction of domestic real property used by the Department is funded and managed using a variety of methods. The General Services Administration (GSA) is usually the custodian of domestic real property that it acquires on behalf of other Federal agencies, and when that is the case, the property is included in GSA’s real property inventory. However, depending on certain factors, the property may be more appropriately accounted for as part of the funding agency’s real property inventory. We found instances where the Department had not correctly accounted for domestic real property transactions and other instances where the Department was unable to provide documentation to determine the proper accounting treatment for domestic real property transactions. For example, we found a construction project that was not transferred to a capital asset account upon substantial completion of the project. In addition, we found that construction costs for some projects were being accounted for as expenses even though the proper accounting treatment for those transactions may have been to record the costs to an asset account. The Department does not have a process in place to effectively track or monitor
significant domestic real property purchases, renovations, or construction projects. The Department adjusted its consolidated financial statements to correct the amount of known errors. However, because the Department did not provide sufficient supporting documentation for all projects, we were unable to determine whether other misstatements existed. Without a formal process to determine the proper accounting treatment of domestic real property acquisitions, the Department may not appropriately and consistently account for those transactions.

• **Accounting for Leases** – The Department manages approximately 17,800 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 notes related to the consolidated financial statements. We found numerous recorded lease terms that did not agree with supporting documentation and 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. The errors resulted in misstatements in the Department’s notes related to the consolidated financial statements.

• **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 identified a significant number of personal property transactions from prior years that were not recorded in the correct fiscal year. In addition, we found that the acquisition value for numerous tested items could not be supported or was incorrect. Furthermore, we found that the gain or loss recorded for some personal property disposals was not recorded properly. The Department’s internal 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 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 Vehicles Owned by Other Agencies** – The Department may acquire property on behalf of other agencies operating at an overseas post and manage the property inventory for those agencies. However, only assets owned by the Department should be reported in the Department’s consolidated financial statements. We found some vehicles included in the Department’s property records that were owned by other agencies. Because the Department acquired these vehicles on behalf of another agency, the property records reflected a Department funding code. The costs were therefore incorrectly merged into the Department’s accounting records as an asset. The Department adjusted its consolidated financial statements to correct the error. However, without an effective process to accurately identify assets owned by other agencies, there is a risk of errors in the Department’s future consolidated financial statements.
• Accounting for 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 property in their consolidated financial statements. We identified numerous instances in which the data recorded for SID were inaccurate or unsupported. 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 understood 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. The errors resulted in misstatements to the Department’s consolidated financial statements. Without an effective process to obtain complete and accurate information pertaining to software applications, the Department may continue to misstate its consolidated financial statements.

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 2019, 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 (i.e., 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 process effectively bypassed the controls in the financial system. The continued use of this practice could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

• Timeliness of Obligations – The Department should record an obligation in its financial management system when it enters into an agreement, such as a contract or a purchase order, to purchase goods and services. During our testing, we identified numerous

\[\text{3 Antideficiency Act, Pub. L. No. 97-258, 96 STAT. 923 (September 13, 1982).}\]
obligations that were not recorded within the requisite 15 days of execution of the obligating document and 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\textsuperscript{4} and the Prompt Payment Act\textsuperscript{5}.

- **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 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\textsuperscript{6} 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 2019, we found that the Department took steps to improve its ULO validation and reporting efforts. For example, the Department focused its reviews on programs and ULOs with a greater risk of invalidity and required allotment holders to certify and support that ULOs were valid. The Department also recorded an adjustment to its consolidated financial statements based on its review of targeted ULOs.

\textsuperscript{4} Ibid.
\textsuperscript{5} 31 U.S.C. § 39.
\textsuperscript{6} Pub. L. No. 97-258 (1982).
However, we continued to identify a significant number of invalid ULOs based on expired periods of performance, inactivity, lack of supporting documentation, or inability to support bona fide need. The Department’s 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 consolidated 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. Intragovernmental Revenue

In FY 2019, the Department’s internal control structure was not sufficient to ensure that revenue relating to transactions with other Federal agencies were recorded accurately and in a timely manner. We concluded that the combination of revenue-related control deficiencies was a significant deficiency. The individual deficiencies we identified are summarized as follows:

- **Revenue Recognition for Reimbursable Agreements** – The Department routinely enters into reimbursable agreements when it provides services to other Federal agencies. A reimbursable agreement is used to define the terms, conditions, and costs for the services to be provided. As required, the Department recognizes revenue in its financial system as it provides the agreed-upon services. We found some reimbursable agreement revenue recorded in FY 2019 that should have been recorded as revenue in FY 2018. Although the Department implemented a control to periodically monitor reimbursable agreements revenue for financial statement reporting purposes, it did not have a process to periodically coordinate with bureaus that had active reimbursable agreements to ensure that revenue was reported in a timely manner. Because of the exceptions identified, the revenue amount reported in the Department’s FY 2018 and FY 2019 consolidated financial statements was misstated. Without effective controls to recognize revenue in a timely manner, the Department is at risk of misstating revenue in future periods.

- **Recognition of Deferred Revenue** – Federal law\(^7\) authorizes U.S. Government employees to receive cost-of-living allowances to cover certain costs incurred when stationed in foreign areas. The allowances include an education allowance to assist Federal employees stationed overseas in meeting the extraordinary and necessary expenses incurred in providing adequate elementary and secondary education for dependent children at overseas posts. We found that the Department did not recognize advance funding received from other agencies related to the education allowance as deferred revenue, which is a liability, as required. Instead, the Department recorded the entire amount of advance funding as a revenue when the funds were received. Although Department officials were generally aware of the accounting requirements related to recording advance payments from other organizations as deferred revenue, the Department had not considered applying these criteria to advance education reimbursements received from other agencies. The Department adjusted its consolidated financial statements to correct the error. However,

\(^7\) 5 U.S.C. § 5924, “Cost-of-living allowances.”
without an effective process to accurately identify deferred revenue, there is a risk of errors in the Department’s future consolidated financial statements.

V. Financial Reporting

In FY 2019, the Department’s internal control structure was not sufficient to ensure that financial statement balances were consolidated and classified accurately. We concluded that the combination of financial reporting-related control deficiencies was a significant deficiency. The individual deficiencies we identified are summarized as follows:

- **Classification of Funds from Dedicated Collections** – One component of the consolidated financial statements, the Statement of Changes in Net Position, presents the total financing sources available to, or used by, a Federal agency to support its net cost of operations and the net change in its financial position. Agencies are required to disclose “Funds from Dedicated Collections” separately from “All Other Funds” in the Statement of Changes in Net Position. We identified a new fund that should have been reported as Funds from Dedicated Collections but was instead classified as All Other Funds. Department officials stated that they were generally aware of the new fund and indicated that they had performed a review of all new funding sources to determine the most appropriate accounting classification. However, this review did not correctly identify the new fund as Funds from Dedicated Collections due to an incomplete understanding of the requirements of the law\(^8\) that established the fund. Although the Department reclassified the fund in the consolidated financial statements, ineffective reviews of new funding sources may lead to future misclassifications.

- **Monitoring Allocation Transfers** – In some cases, appropriated funds are required to be transferred to another agency for programmatic execution (referred to as “child funds”). Despite transferring these funds to another agency, the Department is required to report on the use and status of child funds in its consolidated financial statements. During FY 2019, the Department made significant child fund transfers to three other agencies. To obtain audit coverage of the Department’s most significant child funds, we requested that the financial statements auditors of two of the three agencies perform certain audit steps. Those auditors identified several invalid ULOs. We also requested detailed financial information from the third agency, which received a less significant amount of child funds from the Department. The third agency provided only partial responses to our requests, and we were unable to fully validate the information provided. The Department did not have an effective routine process to ensure that amounts reported by agencies receiving child funds were accurate. For example, the Department did not communicate effectively with child fund agencies to ensure that the validity of ULOs was reviewed periodically. In addition, the Department did not have a routine process to ensure that transaction-level details were readily available from the other agencies and were auditable. The Department adjusted its consolidated financial statements to correct the errors identified with the

ULOs. However, without an effective process to accurately monitor child funds, there is a risk of errors in the Department’s future consolidated financial statements.

VI. 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), the Office of Inspector General (OIG) is responsible for the audit of the Department’s information security program. In the FY 2019 FISMA report, OIG reported security weaknesses that significantly impacted the Department’s information security program. Specifically, OIG reported weaknesses in all eight FY 2019 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 Department has not completed the development and implementation of an information security risk management strategy and filled allocated resource positions to support the implementation of a Department-wide information security risk management strategy. Furthermore, the Department has not fully 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 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.

10 OIG, Audit of the Department of State Information Security Program (AUD-IT-20-04, October 2019).
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 consolidated 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 2018 consolidated financial statements,11 we noted several issues that were related to internal control over financial reporting. The status of the FY 2018 internal control findings is summarized in Table 1.

<table>
<thead>
<tr>
<th>Control Deficiency</th>
<th>FY 2019 Status</th>
<th>FY 2018 Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and Equipment</td>
<td>Significant Deficiency</td>
<td>Significant Deficiency</td>
</tr>
<tr>
<td>Budgetary Accounting</td>
<td>Significant Deficiency</td>
<td>Significant Deficiency</td>
</tr>
<tr>
<td>Validity and Accuracy of Unliquidated Obligations</td>
<td>Significant Deficiency</td>
<td>Significant Deficiency</td>
</tr>
<tr>
<td>Intragovernmental Revenue</td>
<td>Significant Deficiency</td>
<td>Not Reported</td>
</tr>
<tr>
<td>Financial Reporting</td>
<td>Significant Deficiency</td>
<td>Not Reported</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Significant Deficiency</td>
<td>Significant Deficiency</td>
</tr>
</tbody>
</table>

### 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 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 Government Auditing Standards and OMB Bulletin No. 19-03 in considering the entity’s internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Alexandria, Virginia
January 17, 2020
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, 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. 19-03, “Audit Requirements for Federal Financial Statements,” the consolidated financial statements, and the related notes to the consolidated financial statements, of the U.S. Department of State (Department) as of and for the year ended September 30, 2019, and we have issued our report thereon dated January 17, 2020.

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 certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA), that we determined were applicable. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests, exclusive of those related to FFMIA, disclosed instances of noncompliance or potential noncompliance that are required to be reported under Government Auditing Standards and OMB Bulletin No. 19-03 and which are summarized as follows:

- **Antideficiency Act.** This act prohibits the Department from (1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; (2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; 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 exceed available allotment authority. Establishing obligations that exceed available

---

2 Antideficiency Act, Pub. L. No. 97-258, 96 STAT. 923 (September 13, 1982).
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.** 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 utility vendors, 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 or with the application of the USSGL at the transaction level, we identified 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.

### 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, unliquidated obligations, intragovernmental revenue, and financial reporting.
- 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 2019 Inspector General FISMA metric domains.
- The Department did not maintain effective administrative control of funds. Specifically, obligations were not created in a timely manner or were recorded in advance of an executed obligating document. In addition, there were systemic issues identified 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 2019.

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

The Department has not implemented and enforced systematic financial management controls to ensure substantial compliance with FFMIA. Although the Bureau of the Comptroller and Global Financial Services (CGFS) performed an analysis to assess the Department’s compliance with FFMIA, CGFS has not developed remediation plans to address instances of noncompliance. The Department’s ability to meet Federal financial management system requirements 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 all requirements of FFMIA; however, this year the Department’s substantial compliance improved in two of three requirements.

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 Government Auditing Standards and OMB Bulletin No. 19-03 in considering the entity’s compliance. Accordingly, this report is not suitable for any other purpose.

Alexandria, Virginia
January 17, 2020

---

7 Ibid.
UNCLASSIFIED
MEMORANDUM

TO: OIG – Steve A. Linick

FROM: CGFS – Jeffery C. Mounts, Acting

SUBJECT: Draft Report on the Department of State’s Fiscal Year 2019 Financial Statements


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

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

As expressed in the Independent Auditor’s Report, we are pleased that the Department has received an unmodified (“clean”) audit opinion on its FY 2018 and FY 2019 principal financial statements; with no material weaknesses reported by the Independent Auditor.

We remain committed to strong corporate governance and internal controls as demonstrated by our robust system of internal controls overseen by our Senior Assessment Team (SAT), Management Control Steering Committee (MCSC), and validated by senior leadership. We appreciate the OIG’s participation in both the SAT and MCSC forums. For FY 2019, no material management control issues or material weaknesses in internal controls over financial reporting were identified by senior leadership. As a result, the Secretary was able to provide an unqualified Statement of Assurance for the Department’s overall internal controls and internal controls over financial reporting in accordance with the Federal Managers’ Financial Integrity Act. We fully recognize that there is more to be done and that the items identified in the Draft Report will require our continued attention, action, and improvement. We look forward to working with you, Kearney & Company, and other stakeholders on addressing these issues in the coming year.
Introducing the Principal Financial Statements

The Principal Financial Statements (Statements) have been prepared to report the financial position and results of operations of the U.S. Department of State (Department). The Statements have been prepared from the books and records of the Department in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, Financial Reporting Requirements, revised. The Statements are in addition to financial reports prepared by the Department in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Department has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for 2018 are included.

Unless otherwise designated all use of a year indicates fiscal year, e.g., 2019 equals Fiscal Year 2019.

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. The presentation of the Statement of Changes in Net Position was updated in 2019. The intra-departmental transactions are eliminated from the combined total 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)*

<table>
<thead>
<tr>
<th>Notes</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Balance with Treasury</td>
<td>2</td>
<td>$61,158</td>
</tr>
<tr>
<td>Investments, Net</td>
<td>3</td>
<td>19,402</td>
</tr>
<tr>
<td>Interest Receivable</td>
<td>3</td>
<td>133</td>
</tr>
<tr>
<td>Accounts Receivable, Net</td>
<td>4</td>
<td>148</td>
</tr>
<tr>
<td>Other Assets</td>
<td>7</td>
<td>1,235</td>
</tr>
<tr>
<td><strong>Total Intragovernmental Assets</strong></td>
<td></td>
<td>82,076</td>
</tr>
<tr>
<td>Accounts and Loans Receivable, Net</td>
<td>4</td>
<td>84</td>
</tr>
<tr>
<td>Cash and Other Monetary Assets</td>
<td>5</td>
<td>226</td>
</tr>
<tr>
<td>Property and Equipment, Net</td>
<td>6</td>
<td>25,579</td>
</tr>
<tr>
<td>Other Assets</td>
<td>7</td>
<td>1,007</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td></td>
<td>$108,972</td>
</tr>
<tr>
<td>Stewardship Property and Equipment – Heritage Assets</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$160</td>
<td>$152</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>8</td>
<td>342</td>
</tr>
<tr>
<td><strong>Total Intragovernmental Liabilities</strong></td>
<td></td>
<td>502</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>2,140</td>
<td>2,461</td>
</tr>
<tr>
<td>After-Employment Benefit Liability</td>
<td>9</td>
<td>24,159</td>
</tr>
<tr>
<td>International Organizations Liability</td>
<td>10</td>
<td>3,803</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>8,11</td>
<td>1,807</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td></td>
<td>32,411</td>
</tr>
<tr>
<td>Contingencies and Commitments</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unexpended Appropriations – Funds from Dedicated Collections</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unexpended Appropriations – Other funds</td>
<td>46,623</td>
<td>46,493</td>
</tr>
<tr>
<td>Cumulative Results of Operations – Funds from Dedicated Collections</td>
<td>13</td>
<td>1,968</td>
</tr>
<tr>
<td>Cumulative Results of Operations – Other Funds</td>
<td>27,970</td>
<td>28,828</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td></td>
<td>76,561</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Position</strong></td>
<td></td>
<td>$108,972</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this financial statement.
## CONSOLIDATED STATEMENT OF NET COST (NOTE 14)

*(dollars in millions)*

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Peace and Security</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td>$2,203</td>
<td>$2,190</td>
</tr>
<tr>
<td>Earned Revenue</td>
<td>(61)</td>
<td>(57)</td>
</tr>
<tr>
<td>Net Program Costs</td>
<td>2,142</td>
<td>2,133</td>
</tr>
<tr>
<td><strong>Democracy, Human Rights, and Governance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td>572</td>
<td>560</td>
</tr>
<tr>
<td>Earned Revenue</td>
<td>(7)</td>
<td>(8)</td>
</tr>
<tr>
<td>Net Program Costs</td>
<td>565</td>
<td>552</td>
</tr>
<tr>
<td><strong>Health, Education, and Social Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td>8,709</td>
<td>8,871</td>
</tr>
<tr>
<td>Earned Revenue</td>
<td>(1)</td>
<td>—</td>
</tr>
<tr>
<td>Net Program Costs</td>
<td>8,708</td>
<td>8,871</td>
</tr>
<tr>
<td><strong>Humanitarian, Economic Development, and Environment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td>3,390</td>
<td>3,166</td>
</tr>
<tr>
<td>Earned Revenue</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net Program Costs</td>
<td>3,390</td>
<td>3,166</td>
</tr>
<tr>
<td><strong>International Organizations and Commissions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td>3,652</td>
<td>3,042</td>
</tr>
<tr>
<td>Earned Revenue</td>
<td>(9)</td>
<td>(11)</td>
</tr>
<tr>
<td>Net Program Costs</td>
<td>3,643</td>
<td>3,031</td>
</tr>
<tr>
<td><strong>Diplomatic and Consular Programs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td>15,222</td>
<td>14,463</td>
</tr>
<tr>
<td>Earned Revenue</td>
<td>(6,728)</td>
<td>(6,608)</td>
</tr>
<tr>
<td>Net Program Costs</td>
<td>8,494</td>
<td>7,855</td>
</tr>
<tr>
<td><strong>Administration of Foreign Affairs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td>3,991</td>
<td>3,510</td>
</tr>
<tr>
<td>Earned Revenue</td>
<td>(1,943)</td>
<td>(1,926)</td>
</tr>
<tr>
<td>Net Program Costs Before Assumption Changes</td>
<td>2,048</td>
<td>1,584</td>
</tr>
<tr>
<td>Actuarial Loss on Pension Assumption Changes (Notes 1 and 9)</td>
<td>719</td>
<td>1,547</td>
</tr>
<tr>
<td>Net Program Costs</td>
<td>2,767</td>
<td>3,131</td>
</tr>
<tr>
<td><strong>Total Cost and Loss on Assumption Changes</strong></td>
<td>38,458</td>
<td>37,349</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>(8,749)</td>
<td>(8,610)</td>
</tr>
<tr>
<td><strong>Total Net Cost</strong></td>
<td>$29,709</td>
<td>$28,739</td>
</tr>
</tbody>
</table>

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,**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Combined Funds From</strong></td>
<td><strong>Combined All</strong></td>
<td><strong>Intra-</strong></td>
</tr>
<tr>
<td>Dedicated Collections</td>
<td>Other Funds</td>
<td>Departmental</td>
</tr>
<tr>
<td>Beginning Balances</td>
<td>$ —</td>
<td>$ 46,493</td>
</tr>
</tbody>
</table>

**Budgetary Financing Sources:**

- Appropriations Received: $31,548 (31,002)
- Appropriations Transferred in/out: $98 (162)
- Rescissions and Canceling Funds: $(677) (196)
- Appropriations Used: $(30,839) (29,577)

**Total Budgetary Financing Sources:** $130 (1,391)

**Total Unexpended Appropriations:** $46,623 (46,493)

**Cumulative Results of Operations**

- Beginning Balances: $353 (28,828) (29,181) (28,721)
- Appropriations Used: $(30,839) (29,577)
- Donations: $18 (13)
- Transfers in/out without Reimbursement: $1,460 (1,409) (53) (51)

**Total Financing Sources:** $1,529 (29,010) (73) (30,466) (29,199)

**Net Cost of Operations:** $1,051 (30,833) 73 (29,709) (28,739)

**Net Change:** $2,580 (1,823) — 757 460

**Total Cumulative Results of Operations:** $2,933 $73,628 $— $76,561 $75,674

**Net Position:** $2,933 $73,628 $— $76,561 $75,674

The accompanying notes are an integral part of this financial statement.
### COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 15)

**(dollars in millions)**

<table>
<thead>
<tr>
<th>For the Year Ended September 30,</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgetary Resources:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unobligated balance from prior year budget authority, net</td>
<td>$31,089</td>
<td>$28,754</td>
</tr>
<tr>
<td>Appropriations (discretionary and mandatory)</td>
<td>35,858</td>
<td>32,117</td>
</tr>
<tr>
<td>Borrowing authority (discretionary and mandatory)</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Spending authority from offsetting collections (discretionary and mandatory)</td>
<td>7,980</td>
<td>11,428</td>
</tr>
<tr>
<td><strong>Total Budgetary Resources</strong></td>
<td><strong>$74,929</strong></td>
<td><strong>$72,300</strong></td>
</tr>
<tr>
<td><strong>Status of Budgetary Resources:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New obligations and upward adjustments (total)</td>
<td>$43,642</td>
<td>$43,000</td>
</tr>
<tr>
<td><strong>Unobligated balance, end of year:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apportioned, unexpired accounts</td>
<td>28,347</td>
<td>28,198</td>
</tr>
<tr>
<td>Exempt from apportionment, unexpired accounts</td>
<td>1,463</td>
<td>123</td>
</tr>
<tr>
<td>Unapportioned, unexpired accounts</td>
<td>468</td>
<td>114</td>
</tr>
<tr>
<td>Unexpired unobligated balance, end of year</td>
<td>30,278</td>
<td>28,435</td>
</tr>
<tr>
<td>Expired unobligated balance, end of year</td>
<td>1,009</td>
<td>865</td>
</tr>
<tr>
<td><strong>Unobligated balance, end of year (total)</strong></td>
<td>31,287</td>
<td>29,300</td>
</tr>
<tr>
<td><strong>Total Budgetary Resources</strong></td>
<td><strong>$74,929</strong></td>
<td><strong>$72,300</strong></td>
</tr>
<tr>
<td><strong>Outlays, Net:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outlays, net (total) (discretionary and mandatory)</td>
<td>33,285</td>
<td>28,406</td>
</tr>
<tr>
<td>Distributed offsetting receipts (-)</td>
<td>(3,831)</td>
<td>(507)</td>
</tr>
<tr>
<td><strong>Agency outlays, net (discretionary and mandatory)</strong></td>
<td><strong>$29,454</strong></td>
<td><strong>$27,899</strong></td>
</tr>
</tbody>
</table>

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**

**A. 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 18).

Included in the Department’s reporting entity as a consolidation 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. Additionally, the following organizations are consolidated in these financial statements: International Joint Commission, International Boundary Commission, International Center, and the Special Inspector General for Afghanistan Reconstruction. The Department determined there are no disclosure entities to report.

Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity*, requires disclosure of significant Related Party relationships. 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 councils. Note 10, *International Organizations Liability*, discusses the Department’s funding, payments, and open liabilities to these organizations.

**B. 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.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

C. 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.

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 14.

D. 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, and 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.

E. 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 2 and 5.

F. Accounts and Loans Receivable

Accounts and Loans Receivable consist of Intrigovernmental Accounts Receivable and non-Federal Accounts and Loans Receivable. Intrigovernmental 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 4 for more information on Accounts and Loans Receivable, Net.

G. Interest Receivable

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

H. 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 7.

I. 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 3.

J. 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 6 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:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Estimated Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Improvements</td>
<td>30 years</td>
</tr>
<tr>
<td>Buildings and Structures</td>
<td>10 to 50 years</td>
</tr>
<tr>
<td>Assets Under Capital Lease</td>
<td>Lease term or 30 years</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>Lesser of lease term or 10 years</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Estimated Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aircraft:</strong></td>
<td></td>
</tr>
<tr>
<td>INL air wing managed</td>
<td>10 years</td>
</tr>
<tr>
<td>Host-country managed</td>
<td>5 years</td>
</tr>
<tr>
<td><strong>Vehicles:</strong></td>
<td></td>
</tr>
<tr>
<td>Department managed</td>
<td>3 to 6 years</td>
</tr>
<tr>
<td>Contractor-held in Iraq and Afghanistan</td>
<td>2 1/2 years</td>
</tr>
<tr>
<td>Security Equipment</td>
<td>3 to 15 years</td>
</tr>
<tr>
<td>Communication Equipment</td>
<td>3 to 20 years</td>
</tr>
<tr>
<td>ADP Equipment</td>
<td>3 to 6 years</td>
</tr>
<tr>
<td>Reproduction Equipment</td>
<td>3 to 15 years</td>
</tr>
<tr>
<td>Internal Use Software</td>
<td>Estimated useful life or 5 years</td>
</tr>
</tbody>
</table>

See Note 6, 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 11, 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 6.

**K. 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.

**L. 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.
M. 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.

N. 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. 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.

O. 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.

P. 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 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. See Note 9, 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.

Q. 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 (LSSS) or deviate from other prevailing local practices. Title 22, Foreign Relations and Intercourse, Section 3968, Local Compensation Plans, provides the authority to the Department to establish such benefits as part of a total compensation plan for these employees.
**Defined Benefit Plans:** The Department has implemented various arrangements for defined benefit pension plans in other countries, for the benefit of some FSN employees. Some of these plans supplement the host country’s equivalent to U.S. social security, others do not. While none of these supplemental plans are mandated by the host country, some are substitutes for optional tiers of a host country’s social security system. The Department accounts for these plans under the provisions and guidance contained in International Accounting 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.

**R. 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 10.

**S. 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 Notes 8 and 12.

**T. 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. Additional information is disclosed in Notes 3 and 13.

**U. 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 is separately disclosed. See Note 13.

**V. 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.
W. 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 18.

X. 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 9.

Y. 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.

Z. Comparative Data

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

The new U.S. Consulate General Matamoros, Mexico is situated on a 7.6-acre compound. The project was dedicated in May 2019.
### 2 Fund Balance with Treasury

Fund Balance with Treasury at September 30, 2019 and 2018, is summarized below *(dollars in millions)*.

<table>
<thead>
<tr>
<th>Status of Fund Balance with Treasury</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unobligated Balances Available</td>
<td>$29,765</td>
<td>$28,280</td>
</tr>
<tr>
<td>Unobligated Balances Unavailable</td>
<td>1,466</td>
<td>967</td>
</tr>
<tr>
<td>Obligated Balances not yet Disbursed</td>
<td>29,867</td>
<td>29,581</td>
</tr>
<tr>
<td>Total Unobligated and Obligated</td>
<td>61,098</td>
<td>58,828</td>
</tr>
<tr>
<td>Deposit and Receipt Funds</td>
<td>60</td>
<td>107</td>
</tr>
<tr>
<td>Total</td>
<td>$61,158</td>
<td>$58,935</td>
</tr>
</tbody>
</table>

### 3 Investments

Investments at September 30, 2019 and 2018, are summarized below *(dollars in millions)*. All investments are classified as Intragovernmental Securities.

**At September 30, 2019:**

<table>
<thead>
<tr>
<th>Non-Marketable, Par Value:</th>
<th>Net Investment</th>
<th>Market Value</th>
<th>Maturity Dates</th>
<th>Interest Rates Range</th>
<th>Interest Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Issue Securities</td>
<td>$19,318</td>
<td>$19,318</td>
<td>2020 – 2028</td>
<td>1.375% – 5.125%</td>
<td>$133</td>
</tr>
<tr>
<td>Subtotal</td>
<td>19,318</td>
<td>19,318</td>
<td></td>
<td></td>
<td>133</td>
</tr>
<tr>
<td>Non-Marketable, Market Based:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Israeli Arab Scholarship Fund</td>
<td>5</td>
<td>5</td>
<td>2021 – 2024</td>
<td>2.000% – 2.625%</td>
<td>—</td>
</tr>
<tr>
<td>Eisenhower Exchange Fellowship Fund</td>
<td>8</td>
<td>4</td>
<td>2020</td>
<td>2.250% – 2.500%</td>
<td>—</td>
</tr>
<tr>
<td>Middle Eastern-Western Dialogue Fund</td>
<td>11</td>
<td>11</td>
<td>2020 – 2023</td>
<td>1.375% – 2.625%</td>
<td>—</td>
</tr>
<tr>
<td>Gift Funds, Treasury Bills</td>
<td>22</td>
<td>20</td>
<td>2019 – 2027</td>
<td>1.125% – 2.750%</td>
<td>—</td>
</tr>
<tr>
<td>International Center</td>
<td>15</td>
<td>15</td>
<td>2019</td>
<td>0.000%</td>
<td>—</td>
</tr>
<tr>
<td>Foreign Service National Defined Contribution Retirement Fund</td>
<td>23</td>
<td>23</td>
<td>2020 – 2043</td>
<td>1.250% – 2.875%</td>
<td>—</td>
</tr>
<tr>
<td>Subtotal</td>
<td>84</td>
<td>78</td>
<td></td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Total Investments</td>
<td>$19,402</td>
<td>$19,396</td>
<td></td>
<td></td>
<td>$133</td>
</tr>
</tbody>
</table>

**At September 30, 2018:**

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

*(continued on next page)*
NOTE 3: Investments (continued)

The Department’s activities that have the authority to invest cash resources are Funds from Dedicated Collections (see Note 13). 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.

Accounts and Loans Receivable, Net

The Department’s Accounts and Loans Receivable, Net at September 30, 2019 and 2018, are summarized below (dollars in millions). All are entity receivables.

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Entity Receivables</td>
<td>Allowance for Uncollectible</td>
</tr>
<tr>
<td>Intragovernmental Accounts Receivable</td>
<td>$148</td>
<td>—</td>
</tr>
<tr>
<td>Non-Intragovernmental Accounts and Loans Receivable</td>
<td>127</td>
<td>(43)</td>
</tr>
<tr>
<td>Total Receivables</td>
<td>$275</td>
<td>(43)</td>
</tr>
</tbody>
</table>

The Accounts and Loans Receivable, Net of allowance for uncollectible accounts as of September 30, 2019 and 2018, is $232 million and $306 million, respectively. The allowance for uncollectible accounts are recorded using aging methodologies based on analysis of historical collections and write-offs.

The Intragovernmental Accounts Receivable are amounts owed to the Department from other Federal agencies for reimbursable agreements for goods and services.

The Non-Intragovernmental Accounts and Loans Receivable are amounts due from non-Federal entities for civil monetary fines and penalties, value added taxes and repatriation loans and associated administrative fees (see Accounts and Loans Receivable in Note 1.F).

In 2019, the Department estimated $4 million in accounts receivable to be collectible for criminal restitution.
# Cash and Other Monetary Assets

The Cash and Other Monetary Assets at September 30, 2019 and 2018, are summarized below (dollars in millions). There are no restrictions on entity cash. Non-entity cash is restricted as discussed below.

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Entity Assets</td>
<td>Non-Entity Assets</td>
</tr>
<tr>
<td>After-Employment Benefit Assets</td>
<td>$221</td>
<td>$—</td>
</tr>
<tr>
<td>Emergencies in the Diplomatic and Consular Service</td>
<td>$5</td>
<td>$—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$226</td>
<td>$—</td>
</tr>
</tbody>
</table>

**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 LSSS or deviate from other prevailing local practices. 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 $221 million and $196 million as of September 30, 2019 and 2018, respectively.
### Property and Equipment, Net

Property and Equipment, Net balances at September 30, 2019 and 2018, are shown in the following table (dollars in millions).

<table>
<thead>
<tr>
<th>Major Classes</th>
<th>2019</th>
<th>2018</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Accumulated Depreciation</td>
<td>Net Value</td>
<td>Cost</td>
</tr>
<tr>
<td>Real Property:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas –</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and Land Improvements</td>
<td>$2,868</td>
<td>$(104)</td>
<td>$2,764</td>
<td>$2,782</td>
</tr>
<tr>
<td>Buildings and Structures</td>
<td>24,852</td>
<td>(9,871)</td>
<td>14,981</td>
<td>23,362</td>
</tr>
<tr>
<td>Construction-in-Progress</td>
<td>4,200</td>
<td>—</td>
<td>4,200</td>
<td>3,894</td>
</tr>
<tr>
<td>Assets Under Capital Lease</td>
<td>171</td>
<td>(67)</td>
<td>104</td>
<td>179</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>662</td>
<td>(400)</td>
<td>262</td>
<td>693</td>
</tr>
<tr>
<td>Domestic –</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structures, Facilities and Leaseholds</td>
<td>1,606</td>
<td>(607)</td>
<td>999</td>
<td>1,496</td>
</tr>
<tr>
<td>Construction-in-Progress</td>
<td>462</td>
<td>—</td>
<td>462</td>
<td>448</td>
</tr>
<tr>
<td>Assets Under Capital Lease</td>
<td>330</td>
<td>(33)</td>
<td>297</td>
<td>244</td>
</tr>
<tr>
<td>Land and Land Improvements</td>
<td>123</td>
<td>(10)</td>
<td>113</td>
<td>82</td>
</tr>
<tr>
<td>Total – Real Property</td>
<td>35,274</td>
<td>(11,092)</td>
<td>24,182</td>
<td>33,180</td>
</tr>
<tr>
<td>Personal Property:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft</td>
<td>593</td>
<td>(428)</td>
<td>165</td>
<td>690</td>
</tr>
<tr>
<td>Vehicles</td>
<td>1,029</td>
<td>(671)</td>
<td>358</td>
<td>990</td>
</tr>
<tr>
<td>Communication Equipment</td>
<td>29</td>
<td>(21)</td>
<td>8</td>
<td>29</td>
</tr>
<tr>
<td>ADP Equipment</td>
<td>348</td>
<td>(228)</td>
<td>120</td>
<td>351</td>
</tr>
<tr>
<td>Reproduction Equipment</td>
<td>8</td>
<td>(7)</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Security Equipment</td>
<td>278</td>
<td>(156)</td>
<td>122</td>
<td>277</td>
</tr>
<tr>
<td>Internal Use Software</td>
<td>391</td>
<td>(301)</td>
<td>90</td>
<td>305</td>
</tr>
<tr>
<td>Software-in-Development</td>
<td>322</td>
<td>—</td>
<td>322</td>
<td>253</td>
</tr>
<tr>
<td>Other Equipment</td>
<td>372</td>
<td>(161)</td>
<td>211</td>
<td>382</td>
</tr>
<tr>
<td>Total – Personal Property</td>
<td>3,370</td>
<td>(1,973)</td>
<td>1,397</td>
<td>3,285</td>
</tr>
<tr>
<td>Total Property and Equipment, Net</td>
<td>$38,644</td>
<td>$(13,065)</td>
<td>$25,579</td>
<td>$36,465</td>
</tr>
</tbody>
</table>

### 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.

(continued on next page)
NOTE 6: Property and Equipment, Net (continued)

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. The following table contains unaudited data as discussed in the Independent Auditor’s Report.

<table>
<thead>
<tr>
<th>HERITAGE ASSETS</th>
<th>Diplomatic Reception Rooms Collection</th>
<th>Art Bank Program</th>
<th>Art in Embassies Program</th>
<th>Cultural Heritage Collection</th>
<th>Library Rare &amp; Special Book Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Collectibles—Art and furnishings from the period 1750 to 1825</td>
<td>Collection of American works of art on paper</td>
<td>Collectibles—American works of art</td>
<td>Collections include fine and decorative arts and other cultural objects</td>
<td>Collectibles—Rare books and other publications of historic value</td>
</tr>
<tr>
<td>Acquisition and Withdrawal</td>
<td>Acquired through donation or purchase using donated funds. Excess items are sold.</td>
<td>Acquired through purchase. Excess items are transferred.</td>
<td>Acquired through purchase or donation. Excess items are sold.</td>
<td>The program provides assessment, preservation, and restoration as needed.</td>
<td>Acquired through donation.</td>
</tr>
<tr>
<td>Condition</td>
<td>Good to excellent</td>
<td>Poor to excellent</td>
<td>Good to excellent</td>
<td>Good to excellent</td>
<td>Poor to good</td>
</tr>
<tr>
<td>Number of Assets – 9/30/2017</td>
<td>1,828</td>
<td>2,628</td>
<td>1,187</td>
<td>18,422</td>
<td>1,250</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>12</td>
<td>22</td>
<td>15</td>
<td>243</td>
<td>34</td>
</tr>
<tr>
<td>Adjustments</td>
<td>1</td>
<td></td>
<td>6</td>
<td>251</td>
<td>1</td>
</tr>
<tr>
<td>Disposals</td>
<td>21</td>
<td>30</td>
<td>6</td>
<td>322</td>
<td>3</td>
</tr>
<tr>
<td>Number of Assets – 9/30/2018</td>
<td>1,820</td>
<td>2,620</td>
<td>1,208</td>
<td>18,594</td>
<td>1,282</td>
</tr>
<tr>
<td>Deferred Maintenance – 9/30/2018</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>6</td>
<td>27</td>
<td>40</td>
<td>95</td>
<td>61</td>
</tr>
<tr>
<td>Adjustments</td>
<td>1</td>
<td></td>
<td>15</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>6</td>
<td></td>
<td></td>
<td>702</td>
<td>1</td>
</tr>
<tr>
<td>Number of Assets – 9/30/2019</td>
<td>1,821</td>
<td>2,647</td>
<td>1,263</td>
<td>18,587</td>
<td>1,342</td>
</tr>
<tr>
<td>Deferred Maintenance – 9/30/2019</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

(continued on next page)
### HERITAGE ASSETS (continued)
For the Years Ended September 30, 2018 and 2019

<table>
<thead>
<tr>
<th>Description</th>
<th>Secretary of State’s Register of Culturally Significant Property</th>
<th>U.S. Diplomacy Center*</th>
<th>Blair House</th>
<th>International Boundary and Water Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Noncollection – Buildings of historic, cultural, or architectural significance</td>
<td>Collectibles – Historic artifacts, art and other cultural objects</td>
<td>Collections of fine and decorative arts, furnishings, artifacts, other cultural objects, rare books and archival materials in national historic landmark buildings</td>
<td>Monuments that mark the international boundary between the United States and Mexico, Falcon International Dam and Power Plant</td>
</tr>
<tr>
<td>Acquisition and Withdrawal</td>
<td>Acquired through purchase. Excess items are sold.</td>
<td>Acquired through donation or transfer. Excess items are transferred.</td>
<td>Acquired through purchase, donation or transfer. Excess items are transferred or disposed of via public sale.</td>
<td>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.</td>
</tr>
<tr>
<td>Condition</td>
<td>Poor to excellent</td>
<td>Good to excellent</td>
<td>Good to excellent</td>
<td>Poor to good</td>
</tr>
<tr>
<td>Number of Assets – 9/30/2017</td>
<td>33</td>
<td>4,363</td>
<td>2,623</td>
<td>140</td>
</tr>
<tr>
<td>Acquisitions</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustments</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Assets – 9/30/2018</td>
<td>33</td>
<td>4,884</td>
<td>2,612</td>
<td>140</td>
</tr>
<tr>
<td>Deferred Maintenance – 9/30/2018</td>
<td>$7,955,000</td>
<td>N/A</td>
<td>N/A</td>
<td>$1,474,000</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>4</td>
<td>1,020</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Adjustments</td>
<td>171</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>1</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Assets – 9/30/2019</td>
<td>37</td>
<td>6,074</td>
<td>2,604</td>
<td>140</td>
</tr>
<tr>
<td>Deferred Maintenance – 9/30/2019</td>
<td>$21,270,457</td>
<td>N/A</td>
<td>N/A</td>
<td>$1,154,000</td>
</tr>
</tbody>
</table>

* Assets acquired by the U.S. Diplomacy Center are either categorized as heritage assets, kept as tracked reference material, transferred to other museums/institutions, or disposed of. The U.S. Diplomacy Center currently has a backlog of cataloging approximately 600 assets.
7 Other Assets

The Department’s Other Assets are primarily comprised of advances and prepayments as described in Note 1.H. 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 Peacekeeping Operations and the Pakistan Counterinsurgency Capability 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, 2019 and 2018, are summarized below (dollars in millions).

<table>
<thead>
<tr>
<th>Other Assets</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Advances and Prepayments</td>
<td>$1,235</td>
<td>$1,327</td>
</tr>
<tr>
<td>Non-Intragovernmental:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary Advances</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Travel Advances</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Other Advances and Prepayments</td>
<td>971</td>
<td>1,053</td>
</tr>
<tr>
<td>Inventory</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Total Other Assets</td>
<td>$2,242</td>
<td>$2,420</td>
</tr>
</tbody>
</table>

8 Other Liabilities

The Department’s Other Liabilities at September 30, 2019 and 2018, are summarized below (dollars in millions).

<table>
<thead>
<tr>
<th>Intragovernmental</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Revenue</td>
<td>277</td>
<td>—</td>
<td>277</td>
<td>239</td>
<td>—</td>
<td>239</td>
</tr>
<tr>
<td>Custodial Liability</td>
<td>8</td>
<td>8</td>
<td>24</td>
<td>—</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>34</td>
<td>23</td>
<td>57</td>
<td>15</td>
<td>23</td>
<td>38</td>
</tr>
<tr>
<td>Total Intragovernmental</td>
<td>319</td>
<td>23</td>
<td>342</td>
<td>278</td>
<td>23</td>
<td>301</td>
</tr>
</tbody>
</table>

| Federal Employees Compensation Act Benefits |          |          |          |          |          |          |
| Capital Lease Liability | 91 | —        | 91      | 93      | —        | 93      |
| Accrued Salaries Payable | 120 | —       | 120     | 261      | —        | 261      |
| Contingent Liability | —     | 25       | 25      | —        | 8        | 8        |
| Pension Benefits Payable | 66 | —        | 66      | 64      | —        | 64      |
| Accrued Annual Leave | —     | 418      | 418     | —        | 395      | 395      |
| Environmental Liability | —     | 54       | 54      | —        | 96      | 96      |
| Other Liabilities | 371     | 60       | 791     | 670      | —        | 670      |
| Deferred Revenues | 68      | —        | 68      | 62      | —        | 62      |
| Subtotal | 1,198 | 609       | 1,807   | 1,163    | 559      | 1,722 |
| Total Other Liabilities | $1,517 | $632     | $2,149 | $1,441   | $582     | $2,023 |

Environmental Liability Associated with Asbestos Cleanup and Other

The Department has estimated both friable, $6 million, and nonfriable, $47 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, 2019, consistent with the current guidance in the Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government; SFFAS No. 6, Accounting for Property, Plant, and Equipment, Chapter 4: Cleanup Costs; and Technical Release (TR) 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government. The remaining $1 million in environmental liability is non-asbestos related cleanup costs for lead based paint.
**NOTE 8: 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, 2019 and 2018 are summarized in the Schedule of Liabilities Not Covered by Budgetary Resources (dollars in millions).

<table>
<thead>
<tr>
<th>Liabilities Not Covered by Budgetary Resources</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unfunded FECA Liability</td>
<td>$19</td>
<td>$20</td>
</tr>
<tr>
<td>Total Intragovernmental Liabilities</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>International Organizations Liability</td>
<td>2,318</td>
<td>1,534</td>
</tr>
<tr>
<td>After-Employment Benefit Liability:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Service Retirement Actuarial Liability</td>
<td>3,750</td>
<td>2,672</td>
</tr>
<tr>
<td>Foreign Service Nationals (FSN):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defined Contributions Fund</td>
<td>247</td>
<td>221</td>
</tr>
<tr>
<td>Defined Benefit Plans</td>
<td>48</td>
<td>90</td>
</tr>
<tr>
<td>Lump Sum Retirement and Voluntary Severance</td>
<td>463</td>
<td>397</td>
</tr>
<tr>
<td>Total After-Employment Benefit Liability</td>
<td>4,508</td>
<td>3,380</td>
</tr>
<tr>
<td>Accrued Annual Leave</td>
<td>418</td>
<td>395</td>
</tr>
<tr>
<td>Environmental Liability</td>
<td>54</td>
<td>96</td>
</tr>
<tr>
<td>Capital Lease Liability</td>
<td>64</td>
<td>73</td>
</tr>
<tr>
<td>Contingent Liability</td>
<td>25</td>
<td>8</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>384</td>
<td>455</td>
</tr>
<tr>
<td>Total Liabilities Not Covered by Budgetary Resources</td>
<td>7,790</td>
<td>5,961</td>
</tr>
<tr>
<td>Total Liabilities Covered by Budgetary Resources</td>
<td>24,537</td>
<td>23,831</td>
</tr>
<tr>
<td>Total Liabilities Not Requiring Budgetary Resources</td>
<td>84</td>
<td>131</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$32,411</td>
<td>$29,923</td>
</tr>
</tbody>
</table>
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)*.

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended September 30, 2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Service Officer</td>
<td>Foreign Service Retirement and Disability Fund</td>
<td>$23,401</td>
</tr>
<tr>
<td>Foreign Service Nationals</td>
<td>Defined Contributions Fund</td>
<td>247</td>
</tr>
<tr>
<td></td>
<td>Defined Benefit Plans</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>Lump Sum Retirement and Voluntary Severance</td>
<td>463</td>
</tr>
<tr>
<td>Total FSN</td>
<td></td>
<td>758</td>
</tr>
<tr>
<td>Total After-Employment Benefit Liability</td>
<td></td>
<td>$24,159</td>
</tr>
</tbody>
</table>

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 2019 and 2018.

<table>
<thead>
<tr>
<th>Normal Cost:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSRDS</td>
<td>37.36%</td>
<td>35.38%</td>
</tr>
<tr>
<td>FSPS</td>
<td>29.78%</td>
<td>28.00%</td>
</tr>
</tbody>
</table>

As discussed in Note 1.P, Foreign Service Retirement and Disability Fund, and Note 1.X, Changes in Accounting Estimate, there was a significant actuarial loss in 2018 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 on 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, recognized in 2018, resulting from these demographic assumption changes can be seen in the following table.

The assumption changes for interest rate, inflation, and other items, are not from the experience study. These changes arise in connection with each annual valuation and follow the guidelines of SFFAS No. 33. The changes from assumptions for 2019 and 2018 can be seen in the following table.

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, 2019 and 2018 (dollars in millions).

<table>
<thead>
<tr>
<th>For the Year Ended September 30,</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Actuarial Liability, Beginning of Year</td>
<td>$21,927</td>
<td>$19,994</td>
</tr>
<tr>
<td>Pension Expense:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normal Cost</td>
<td>519</td>
<td>489</td>
</tr>
<tr>
<td>Interest on Pension Liability</td>
<td>742</td>
<td>709</td>
</tr>
<tr>
<td>Actuarial (Gains) or Losses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>From Experience</td>
<td>520</td>
<td>177</td>
</tr>
<tr>
<td>From Assumption Changes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Rate</td>
<td>292</td>
<td>354</td>
</tr>
<tr>
<td>Experience Study</td>
<td>—</td>
<td>1,677</td>
</tr>
<tr>
<td>Other</td>
<td>387</td>
<td>(510)</td>
</tr>
<tr>
<td>Prior Year Service Costs</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>(1)</td>
</tr>
<tr>
<td>Total Pension Expense</td>
<td>2,460</td>
<td>2,895</td>
</tr>
<tr>
<td>Less Payments to Beneficiaries</td>
<td>986</td>
<td>962</td>
</tr>
<tr>
<td>Pension Actuarial Liability, End of Year</td>
<td>23,401</td>
<td>21,927</td>
</tr>
<tr>
<td>Less: Net Assets Available for Benefits</td>
<td>19,651</td>
<td>19,255</td>
</tr>
<tr>
<td>Actuarial Pension Liability – Unfunded</td>
<td>$3,750</td>
<td>$2,672</td>
</tr>
</tbody>
</table>

**Actuarial Assumptions:**

<table>
<thead>
<tr>
<th>Actuarial Assumptions:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of Return on Investments</td>
<td>3.33%</td>
<td>3.42%</td>
</tr>
<tr>
<td>Rate of Inflation</td>
<td>1.50%</td>
<td>1.35%</td>
</tr>
<tr>
<td>Salary Increase</td>
<td>1.75%</td>
<td>1.60%</td>
</tr>
</tbody>
</table>

Net Assets Available for Benefits at September 30, 2019 and 2018, consist of the following (dollars in millions).

<table>
<thead>
<tr>
<th>At September 30,</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Balance with Treasury</td>
<td>$ —</td>
<td>$ —</td>
</tr>
<tr>
<td>Accounts and Interest Receivable</td>
<td>416</td>
<td>152</td>
</tr>
<tr>
<td>Investments in U.S. Government Securities</td>
<td>19,318</td>
<td>19,184</td>
</tr>
<tr>
<td>Total Assets</td>
<td>19,734</td>
<td>19,336</td>
</tr>
<tr>
<td>Less: Liabilities Other Than Actuarial</td>
<td>83</td>
<td>81</td>
</tr>
<tr>
<td>Net Assets Available for Benefits</td>
<td>$19,651</td>
<td>$19,255</td>
</tr>
</tbody>
</table>

**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 55,000, known as Foreign Service Nationals (FSNs).
FSNs hired after January 1, 1984 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 Variable 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 or deviate from other prevailing local practices. 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, 2019, approximately 13,000 FSNs in 31 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 2019 and 2018 were $28.9 million and $28.2 million, respectively. Total liability reported for the FSN DCP is $223 million and $204 million as of September 30, 2019 and 2018, respectively.

The VCP reported employee and employer contributions of $8.1 million and $7.4 million as of September 30, 2019 and 2018, respectively. The total liability reported for the Variable Contribution Plan is $24 million and $17 million as of September 30, 2019 and 2018, respectively.

**Local Defined Contribution Plans**

In 50 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 2019 and 2018 were $25 million and $26.6 million, respectively.

**Defined Benefit Plans**

In 12 countries, involving over 3,900 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.
Favorable change in the currency exchange rate since 2018. The decrease in 2018 was due to the increase in the net defined benefit liability was primarily due to losses from Actuarial Assumptions.

The tables below show the changes in the projected benefit obligation and plan assets during 2019 and 2018 for the Germany and UK plans (dollars in millions).

<table>
<thead>
<tr>
<th>Change in Benefit Obligations:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit obligations beginning of year</td>
<td>$439</td>
<td>$374</td>
</tr>
<tr>
<td>Service Cost</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Interest Cost</td>
<td>29</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>(59)</td>
<td>55</td>
</tr>
<tr>
<td>Benefit obligations end of year</td>
<td>$415</td>
<td>$439</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Plan Assets:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets beginning of year</td>
<td>$364</td>
<td>$318</td>
</tr>
<tr>
<td>Return on plan assets</td>
<td>24</td>
<td>9</td>
</tr>
<tr>
<td>Contributions less Benefits Paid</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Other</td>
<td>(19)</td>
<td>28</td>
</tr>
<tr>
<td>Fair value of plan assets end of year</td>
<td>376</td>
<td>364</td>
</tr>
<tr>
<td>Net Defined Benefit Liability</td>
<td>$39</td>
<td>$75</td>
</tr>
</tbody>
</table>

The table below shows the allocation of the plan assets by category during 2019 and 2018 for the German and UK plans.

<table>
<thead>
<tr>
<th>Insurance Policies</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Securities</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Money Market and Cash</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Debt Securities</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The principal actuarial assumptions used for 2019 and 2018 for the Germany and UK plans are presented below:

<table>
<thead>
<tr>
<th>Actuarial Assumptions:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>2.75% – 4.60%</td>
<td>2.80% – 4.60%</td>
</tr>
<tr>
<td>Salary Increase Rate</td>
<td>2.25% – 4.10%</td>
<td>2.25% – 5.40%</td>
</tr>
<tr>
<td>Pension Increase Rate</td>
<td>1.75% – 3.10%</td>
<td>1.75% – 3.40%</td>
</tr>
</tbody>
</table>

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. Q, 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 $48 million and $90 million as of September 30, 2019 and 2018, respectively. There was a decrease of $42 million in 2019 and an increase of $29 million in 2018.

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 81 percent of the net defined benefit liability as of September 30, 2019. The Germany Plan’s most recent evaluation report, dated August 21, 2019, is as of July 1, 2019. The UK Plan’s most recent evaluation, dated July 12, 2019, is as of April 5, 2019.

For the Germany Plan the change in the net defined benefit liability was an increase of $0.2 million in 2019 and a decrease of $5 million in 2018, while for the UK plan the change was a decrease of $36 million in 2019 and an increase of $24 million in 2018.

For Germany, the increase in the net defined benefit liability in 2019 was primarily due to actuarial losses on assumption changes; primarily the discount rate. The increase in 2018 was primarily due to contributions and investment returns exceeding total actuarial losses, service, and interest costs.

For the UK Plan in 2019, the decrease in the net defined benefit liability was primarily due to a combination of investments outperforming expected rates of return and a favorable change in the currency exchange rate since 2018. The decrease in 2018 was due to the increase in the net defined benefit liability was primarily due to losses from Actuarial Assumptions.
Retirement and Voluntary Severance Lump Sum Payments

In 74 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, 2019, approximately 24,000 FSNs participate in such plans.

The cost method used for the valuation of the liabilities associated with these plans is the Projected Unit Credit actuarial cost method. The participant’s benefit is first determined using both their projected service and salary at the retirement date. The projected benefit is then multiplied by the ratio of current service to projected service at retirement in order to determine an allocated benefit. The Projected Benefit Obligation (PBO) for the entire plan is calculated as the sum of the individual PBO amounts for each active member. Further, this calculation requires certain actuarial assumptions be made, such as voluntary withdraws, assumed retirement age, death and disability, as well as economic assumptions. For economic assumptions, available market data was scarce for many of the countries where eligible posts are located. Due to the lack of creditable global market data, an approach consistent with that used for the September 30, 2019, 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, 2019 and 2018, are:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>2.78%</td>
<td>2.82%</td>
</tr>
<tr>
<td>Rate of inflation</td>
<td>1.73%</td>
<td>1.42%</td>
</tr>
<tr>
<td>Salary Increase</td>
<td>4.45%</td>
<td>4.76%</td>
</tr>
</tbody>
</table>

Based upon the projection, the total liability reported for the Retirement and Voluntary Severance Lump Sum Payment is $463 million and $397 million as of September 30, 2019 and 2018, respectively, as shown below (dollars in millions):

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement</td>
<td>$154</td>
<td>$126</td>
</tr>
<tr>
<td>Voluntary Severance</td>
<td>309</td>
<td>271</td>
</tr>
<tr>
<td>Total</td>
<td>$463</td>
<td>$397</td>
</tr>
</tbody>
</table>

The table below shows the changes in the projected benefit obligation during 2019 and 2018 (dollars in millions):

<table>
<thead>
<tr>
<th>Changes in Benefit Obligations:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit obligations beginning of year</td>
<td>$397</td>
<td>$348</td>
</tr>
<tr>
<td>Normal Cost</td>
<td>30</td>
<td>26</td>
</tr>
<tr>
<td>Benefit Payments</td>
<td>(28)</td>
<td>(62)</td>
</tr>
<tr>
<td>Interest Cost</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Actuarial (gain) loss on assumptions</td>
<td>40</td>
<td>26</td>
</tr>
<tr>
<td>Actuarial (gain) loss due to experience</td>
<td>10</td>
<td>49</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>(1)</td>
</tr>
<tr>
<td>Benefit obligations end of year</td>
<td>$463</td>
<td>$397</td>
</tr>
</tbody>
</table>

10 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, 2019 and 2018.

11 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 $95 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, 2019 and 2018 (dollars in millions). Lease liabilities are not covered by budgetary resources.

As of September 30, 2019 2018

<table>
<thead>
<tr>
<th>Leases</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets under Capital Leases:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>$ 330</td>
<td>$ 244</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(33)</td>
<td>(18)</td>
</tr>
<tr>
<td>Total Intragovernmental</td>
<td>297</td>
<td>226</td>
</tr>
<tr>
<td>Non-Intragovernmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>171</td>
<td>179</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(67)</td>
<td>(64)</td>
</tr>
<tr>
<td>Total Non-Intragovernmental</td>
<td>104</td>
<td>115</td>
</tr>
<tr>
<td>Net Assets under Capital Leases</td>
<td>$ 401</td>
<td>$ 341</td>
</tr>
</tbody>
</table>
Future Minimum Lease Payments:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>$12</td>
</tr>
<tr>
<td>2021</td>
<td>11</td>
</tr>
<tr>
<td>2022</td>
<td>11</td>
</tr>
<tr>
<td>2023</td>
<td>8</td>
</tr>
<tr>
<td>2024</td>
<td>5</td>
</tr>
<tr>
<td>2025 and thereafter</td>
<td>86</td>
</tr>
<tr>
<td>Total Minimum Lease Payments</td>
<td>133</td>
</tr>
<tr>
<td>Less: Amount Representing Interest</td>
<td>(69)</td>
</tr>
<tr>
<td>Liabilities under Capital Leases</td>
<td>$64</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>$13</td>
</tr>
<tr>
<td>2020</td>
<td>12</td>
</tr>
<tr>
<td>2021</td>
<td>12</td>
</tr>
<tr>
<td>2022</td>
<td>12</td>
</tr>
<tr>
<td>2023</td>
<td>8</td>
</tr>
<tr>
<td>2024 and thereafter</td>
<td>91</td>
</tr>
<tr>
<td>Total Minimum Lease Payments</td>
<td>148</td>
</tr>
<tr>
<td>Less: Amount Representing Interest</td>
<td>(75)</td>
</tr>
<tr>
<td>Liabilities under Capital Leases</td>
<td>$73</td>
</tr>
</tbody>
</table>

Operating Leases

The Department leases real property under operating leases. These leases are non-Federal and expire in various years. Minimum future rental payments under operating leases have remaining terms in excess of one year as of September 30, 2019 and 2018 for each of the next 5 years and in aggregate are as follows ($dollars in millions):

<table>
<thead>
<tr>
<th>Year Ended September 30, 2019</th>
<th>Operating Lease Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$431</td>
</tr>
<tr>
<td>2021</td>
<td>329</td>
</tr>
<tr>
<td>2022</td>
<td>227</td>
</tr>
<tr>
<td>2023</td>
<td>136</td>
</tr>
<tr>
<td>2024</td>
<td>76</td>
</tr>
<tr>
<td>2025 and thereafter</td>
<td>172</td>
</tr>
<tr>
<td>Total Minimum Future Lease Payments</td>
<td>$1,371</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Ended September 30, 2018</th>
<th>Operating Lease Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$419</td>
</tr>
<tr>
<td>2020</td>
<td>323</td>
</tr>
<tr>
<td>2021</td>
<td>222</td>
</tr>
<tr>
<td>2022</td>
<td>152</td>
</tr>
<tr>
<td>2023</td>
<td>79</td>
</tr>
<tr>
<td>2024 and thereafter</td>
<td>190</td>
</tr>
<tr>
<td>Total Minimum Future Lease Payments</td>
<td>$1,385</td>
</tr>
</tbody>
</table>

12 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 either a probable or reasonably possible chance of an adverse outcome. As a result of these reviews, the Department believes that claims considered probable could result in estimable losses of $25 to $795 million and reasonably possible claims could result in potential estimable losses of $0 to $60 million if the outcomes were adverse to the Department. The probable cases involve claims related to residential construction, Equal Employment Opportunity Commission claims, and International claims made against the United States. The reasonably possible cases involve contract disputes, claims related to embassy construction, 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.

Payments made by the Judgement Fund for cases covered under the Contract Disputes Act on behalf of the Department totaled $63 million in 2019. No payments were made by the Fund on behalf of the Department in 2018.

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 Advisor believe we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.

In addition, the Department is responsible for environmental cleanup costs associated with asbestos and lead based paint. A liability is recognized for those costs that are both probable and reasonably estimable (see Note 8, Other Liabilities, for additional information). The following tables show each type of contingency, the likelihood of future events occurring, and the potential estimable range of losses at September 30, 2019 and 2018 (dollars in millions).

### Committments

In addition to the future lease commitments discussed in Note 11, 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 15, 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](http://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 $1.1 billion. Under the programs, we have paid out $314 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 Advisor believe there is adequate funding for the amounts that may become due under the Rewards Program.

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th></th>
<th>2018</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Accrued Liabilities</td>
<td>Estimated Range of Loss</td>
<td>Accrued Liabilities</td>
<td>Estimated Range of Loss</td>
</tr>
<tr>
<td></td>
<td>Lower End</td>
<td>Upper End</td>
<td>Lower End</td>
<td>Upper End</td>
</tr>
<tr>
<td><strong>Legal Contingencies:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probable</td>
<td>$ 25</td>
<td>$ 795</td>
<td>$ 8</td>
<td>$ 8</td>
</tr>
<tr>
<td>Reasonably Possible</td>
<td>$ —</td>
<td>$ 60</td>
<td>$ —</td>
<td>$ 793</td>
</tr>
<tr>
<td><strong>Environmental Contingencies:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probable</td>
<td>$ 54</td>
<td>$ 54</td>
<td>$ 96</td>
<td>$ 96</td>
</tr>
<tr>
<td>Reasonably Possible</td>
<td>$ —</td>
<td>$ —</td>
<td>$ —</td>
<td>$ —</td>
</tr>
</tbody>
</table>

2019 Agency Financial Report

United States Department of State
The Department administers 10 Funds from Dedicated Collections as listed below. They are presented in accordance with SFFAS 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards* 27, *Identifying and Reporting Earmarked Funds.* There are no intra-departmental transactions between the various funds from dedicated collections.

### Consular and Border Security Programs

<table>
<thead>
<tr>
<th>Treasury Fund Symbol</th>
<th>Description</th>
<th>Statute</th>
</tr>
</thead>
<tbody>
<tr>
<td>19X5713</td>
<td>Consular and Border Security Programs</td>
<td>Public Law No. 115-31</td>
</tr>
</tbody>
</table>

### All Other Funds

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

The Consular and Border Security Programs fund (CBSP) uses consular fee and surcharge revenue collected from the public to fund CBSP programs and activities, consistent with applicable statutory authorities. These fees and surcharges include Machine Readable Visa fees, Western Hemisphere Travel Initiative surcharges, Passport Security surcharges, Immigrant Visa Security surcharges, Diversity Visa Lottery fees, and Affidavit of Support fees. The CBSP fund is the largest dedicated collections program managed by the Department and is presented in a separate column in the table on the following page.

In 2018 and prior years, these fees and surcharges were credited in the Diplomatic and Consular Programs fund as spending authority from offsetting collections. The Consolidated Appropriations Act of FY 2017 (Public Law No. 115-31) enacted a new stand-alone fund beginning in 2019 to display fee-funded consular programs independent of the larger Diplomatic Programs (formerly Diplomatic and Consular Programs) fund. In 2019, unobligated balances totaling $1,740 million related to the fees and surcharges were transferred from the former fund to the CBSP. Additionally, $333 million was transferred from CBSP to OBO’s Capital Security Cost Sharing program. This change enables the Department to provide greater transparency and accountability in financial reporting on these fees and surcharges, facilitate budget estimates for these fees and surcharges, and more easily make the information available to users of budget information and other stakeholders.
The table below displays the dedicated collection amounts on a combined basis as of September 30, 2019 and 2018 (dollars in millions).

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consular and Border</td>
<td>All Other Funds from</td>
</tr>
<tr>
<td></td>
<td>Security Programs</td>
<td>Dedicated Collections</td>
</tr>
<tr>
<td>Consular and</td>
<td>$ 2,703</td>
<td>$ 212</td>
</tr>
<tr>
<td>Border Security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dedicated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collections</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$ 2,762</td>
<td>$ 365</td>
</tr>
<tr>
<td>Funds from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dedicated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collections</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Balance Sheet as of September 30**

**Assets:**
- Fund Balance with Treasury: $2,703, $212, $2,915, $199
- Investments: —, 46, 46, 49
- Other Assets: 59, 107, 166, 107

**Total Assets:** $2,762, $365, $3,127, $355

**Net Position:**
- Other Liabilities: $192, $2, $194, $2
- Cumulative Results of Operations: 2,570, 363, 2,933, 353

**Total Liabilities and Net Position:** $2,762, $365, $3,127, $355

**Statement of Net Cost for the Year Ended September 30**

- Gross Program Costs: $2,379, $62, $2,441, $46
- Less: Earned Revenues: 3,492, —, 3,492, 1

**Net Program Costs:** (1,113), 62, (1,051), 45

**Net Cost of Operations:** $ (1,113), $62, $(1,051), $45

**Statement of Changes in Net Position for the Year Ended September 30**

- Net Position Beginning of Period: $ —, $353, $353, $322
- Budgetary Financing Sources: 1,408, 70, 1,478, 64
- Other Financing Sources: 49, 2, 51, 12
- Net Cost of Operations: 1,113, (62), 1,051, (45)
- Change in Net Position: 2,570, 10, 2,580, 31

**Net Position End of Period:** $2,570, $363, $2,933, $353

Funds from Dedicated Collections are presented above on a combined basis. The table below summarizes the combined Funds from Dedicated Collections and all Other Funds, less intra-departmental eliminations to arrive at the consolidated net position totals as presented on the Balance Sheet.

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Combined</td>
<td>Less: Intra-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Departmental Eliminations</td>
</tr>
<tr>
<td>Consolidating</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Position:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unexpended</td>
<td>$ —</td>
<td>—</td>
</tr>
<tr>
<td>Appropriations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Funds from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dedicated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collections</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unexpended</td>
<td>$46,623</td>
<td>—</td>
</tr>
<tr>
<td>Appropriations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Other Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative</td>
<td>$2,933</td>
<td>965</td>
</tr>
<tr>
<td>Results of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations —</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dedicated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collections</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative</td>
<td>$27,005</td>
<td>(965)</td>
</tr>
<tr>
<td>Results of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations —</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Funds</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Net Position:** $76,561, $—, $76,561, $75,674
**14 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, 2019  
*(dollars in millions)*

<table>
<thead>
<tr>
<th>MAJOR PROGRAM</th>
<th>Under Secretary for</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Arms Control, Int’l</td>
<td>Economic</td>
<td>Civilian</td>
<td>Political</td>
<td>Public</td>
<td>Management-</td>
<td>Intra-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Security</td>
<td>Growth,</td>
<td>Security and</td>
<td>Affairs</td>
<td>Diplomacy and</td>
<td>Consular</td>
<td>Depar-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Environment</td>
<td>Democracy and Human Rights</td>
<td></td>
<td>Public Affairs</td>
<td>Affairs</td>
<td>tmental Eliminations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peace and Security</td>
<td>Total Cost</td>
<td>$696</td>
<td>$ —</td>
<td>$981</td>
<td>$527</td>
<td>$ —</td>
<td>$ —</td>
<td>$ (1)</td>
<td>$2,203</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Earned Revenue</td>
<td>(40)</td>
<td>—</td>
<td>(16)</td>
<td>(6)</td>
<td>—</td>
<td>—</td>
<td>1</td>
<td>(61)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net Program Costs</td>
<td>656</td>
<td>—</td>
<td>965</td>
<td>521</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2,142</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Democracy, Human Rights, and Governance</td>
<td>Total Cost</td>
<td>—</td>
<td>—</td>
<td>550</td>
<td>22</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>572</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Earned Revenue</td>
<td>—</td>
<td>—</td>
<td>(7)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net Program Costs</td>
<td>—</td>
<td>—</td>
<td>543</td>
<td>22</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>565</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health, Education, and Social Services</td>
<td>Total Cost</td>
<td>—</td>
<td>—</td>
<td>675</td>
<td>8,034</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>8,709</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Earned Revenue</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net Program Costs</td>
<td>—</td>
<td>—</td>
<td>675</td>
<td>8,033</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>8,708</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Humanitarian, Economic Development, and Environment</td>
<td>Total Cost</td>
<td>—</td>
<td>—</td>
<td>3,269</td>
<td>121</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3,390</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Earned Revenue</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net Program Costs</td>
<td>—</td>
<td>—</td>
<td>3,269</td>
<td>121</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3,390</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Organizations and Commissions</td>
<td>Total Cost</td>
<td>1</td>
<td>51</td>
<td>—</td>
<td>3,600</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3,652</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Earned Revenue</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net Program Costs</td>
<td>1</td>
<td>51</td>
<td>—</td>
<td>3,591</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3,643</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diplomatic and Consular Programs</td>
<td>Total Cost</td>
<td>207</td>
<td>74</td>
<td>225</td>
<td>6,239</td>
<td>334</td>
<td>8,446</td>
<td>(303)</td>
<td>15,222</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Earned Revenue</td>
<td>(53)</td>
<td>—</td>
<td>(70)</td>
<td>(588)</td>
<td>—</td>
<td>(6,257)</td>
<td>240</td>
<td>(6,728)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net Program Costs</td>
<td>154</td>
<td>74</td>
<td>155</td>
<td>5,651</td>
<td>334</td>
<td>2,189</td>
<td>(63)</td>
<td>8,494</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration of Foreign Affairs</td>
<td>Total Cost</td>
<td>—</td>
<td>—</td>
<td>467</td>
<td>5,808</td>
<td>1,948</td>
<td>173</td>
<td>(4,405)</td>
<td>3,991</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Earned Revenue</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(632)</td>
<td>(1,739)</td>
<td>(3,967)</td>
<td>4,395</td>
<td>(1,943)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net Program Costs Before Assumption Changes</td>
<td>—</td>
<td>—</td>
<td>467</td>
<td>5,176</td>
<td>209</td>
<td>(3,794)</td>
<td>(10)</td>
<td>2,048</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial Loss on Pension</td>
<td>Total Cost</td>
<td>—</td>
<td>—</td>
<td>40</td>
<td>497</td>
<td>167</td>
<td>15</td>
<td>—</td>
<td>719</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Earned Revenue</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net Program Costs</td>
<td>—</td>
<td>—</td>
<td>507</td>
<td>5,673</td>
<td>376</td>
<td>(3,779)</td>
<td>(10)</td>
<td>2,767</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td>904</td>
<td>125</td>
<td>6,207</td>
<td>24,848</td>
<td>2,449</td>
<td>8,634</td>
<td>(4,709)</td>
<td>38,458</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>(93)</td>
<td>—</td>
<td>(93)</td>
<td>(1,236)</td>
<td>(1,739)</td>
<td>(10,224)</td>
<td>4,636</td>
<td>(8,749)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Net Cost</td>
<td>$811</td>
<td>$125</td>
<td>$6,114</td>
<td>$23,612</td>
<td>$710</td>
<td>$ (1,590)</td>
<td>$ (73)</td>
<td>$29,709</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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, 2019 and 2018, these consist of costs and earned revenue summarized below (dollars in millions):

<table>
<thead>
<tr>
<th>Administration of Foreign Affairs</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Costs:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration of Foreign Affairs – Other</td>
<td>$1,724</td>
<td>$1,663</td>
</tr>
<tr>
<td>FSRDF</td>
<td>1,781</td>
<td>1,042</td>
</tr>
<tr>
<td>ICASS</td>
<td>3,592</td>
<td>1,076</td>
</tr>
<tr>
<td>Working Capital Fund</td>
<td>1,299</td>
<td>210</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>8,396</td>
<td>3,991</td>
</tr>
<tr>
<td><strong>Less Earned Revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration of Foreign Affairs – Other</td>
<td>99</td>
<td>40</td>
</tr>
<tr>
<td>FSRDF</td>
<td>1,382</td>
<td>643</td>
</tr>
<tr>
<td>ICASS</td>
<td>3,575</td>
<td>1,067</td>
</tr>
<tr>
<td>Working Capital Fund</td>
<td>1,282</td>
<td>193</td>
</tr>
<tr>
<td><strong>Total Earned Revenue</strong></td>
<td>6,338</td>
<td>1,943</td>
</tr>
<tr>
<td><strong>Actuarial Loss on Pension Assumption Changes</strong></td>
<td>719</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total Net Cost for Administration of Foreign Affairs</strong></td>
<td>$2,777</td>
<td>$10</td>
</tr>
</tbody>
</table>

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, 2019 and 2018, these consist of costs and earned revenue summarized below (dollars in millions):

<table>
<thead>
<tr>
<th>Diplomatic and Consular Programs</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Costs:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diplomatic Programs and Other</td>
<td>$4,612</td>
<td>$4,357</td>
</tr>
<tr>
<td>Overseas Buildings Operations</td>
<td>2,094</td>
<td>2,080</td>
</tr>
<tr>
<td>Central Salaries and Benefits</td>
<td>2,717</td>
<td>—</td>
</tr>
<tr>
<td>Diplomatic Security</td>
<td>3,303</td>
<td>3,269</td>
</tr>
<tr>
<td>Consular Affairs</td>
<td>2,799</td>
<td>1,980</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>15,525</td>
<td>15,222</td>
</tr>
<tr>
<td><strong>Less Earned Revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diplomatic Programs and Other</td>
<td>898</td>
<td>704</td>
</tr>
<tr>
<td>Overseas Buildings Operations</td>
<td>1,470</td>
<td>1,458</td>
</tr>
<tr>
<td>Diplomatic Security</td>
<td>217</td>
<td>183</td>
</tr>
<tr>
<td>Consular Affairs</td>
<td>4,383</td>
<td>4,398</td>
</tr>
<tr>
<td><strong>Total Earned Revenue</strong></td>
<td>6,968</td>
<td>6,728</td>
</tr>
<tr>
<td><strong>Total Net Cost for Diplomatic and Consular Programs</strong></td>
<td>$8,557</td>
<td>$8,494</td>
</tr>
</tbody>
</table>
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 2019 and 2018 was as follows (dollars in millions):

<table>
<thead>
<tr>
<th>Under Secretary</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Affairs</td>
<td>$16,359</td>
<td>$17,414</td>
</tr>
<tr>
<td>Management (Consular Affairs)</td>
<td>5,774</td>
<td>5,224</td>
</tr>
<tr>
<td>Public Diplomacy and Public Affairs</td>
<td>1,649</td>
<td>1,757</td>
</tr>
<tr>
<td>Arms Control, International Security Affairs</td>
<td>221</td>
<td>246</td>
</tr>
<tr>
<td>Civilian Security, Democracy and Human Rights</td>
<td>1,180</td>
<td>1,302</td>
</tr>
<tr>
<td>Economic Growth, Energy and Environment</td>
<td>49</td>
<td>58</td>
</tr>
<tr>
<td>Total</td>
<td>$25,232</td>
<td>$26,001</td>
</tr>
</tbody>
</table>

**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*, and SFFAS No. 55, *Amending Inter-entity Cost Provisions*, require 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. Unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

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, 2019 and 2018 (dollars in millions):

<table>
<thead>
<tr>
<th>Inter-Entity Costs</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Post-Employment Benefits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil Service Retirement Program</td>
<td>$62</td>
<td>$32</td>
</tr>
<tr>
<td>Federal Employees Health Benefits Program</td>
<td>153</td>
<td>154</td>
</tr>
<tr>
<td>Federal Employees Group Life Insurance Program</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Litigation funded by Treasury Judgment Fund</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Subtotal – Imputed Financing Source</td>
<td>$216</td>
<td>$187</td>
</tr>
<tr>
<td>Future Workers’ Compensation Benefits</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Total Inter-Entity Costs</td>
<td>$233</td>
<td>$205</td>
</tr>
</tbody>
</table>

**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, 2019 and 2018, consist of the following (dollars in millions):

<table>
<thead>
<tr>
<th>Earned Revenues</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Prior to</td>
<td>Intra-Departmental</td>
</tr>
<tr>
<td></td>
<td>Eliminations</td>
<td>Eliminations</td>
</tr>
<tr>
<td>Consular Fees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passport, Visa and Other Consular Fees</td>
<td>$707</td>
<td>—</td>
</tr>
<tr>
<td>Machine Readable Visa</td>
<td>1,894</td>
<td>—</td>
</tr>
<tr>
<td>Expedited Passport</td>
<td>270</td>
<td>—</td>
</tr>
<tr>
<td>Passport, Visa and Other Surcharges</td>
<td>1,568</td>
<td>—</td>
</tr>
<tr>
<td>Fingerprint Processing, Diversity Lottery, and Affidavit of Support</td>
<td>19</td>
<td>—</td>
</tr>
<tr>
<td>Subtotal – Consular Fees</td>
<td>4,458</td>
<td>—</td>
</tr>
<tr>
<td>FSRDF</td>
<td>1,382</td>
<td>739</td>
</tr>
<tr>
<td>ICASS</td>
<td>3,575</td>
<td>2,508</td>
</tr>
<tr>
<td>Other Reimbursable Agreements</td>
<td>2,590</td>
<td>242</td>
</tr>
<tr>
<td>Working Capital Fund</td>
<td>1,282</td>
<td>1,089</td>
</tr>
<tr>
<td>Other</td>
<td>98</td>
<td>58</td>
</tr>
<tr>
<td>Total</td>
<td>$13,385</td>
<td>$4,636</td>
</tr>
</tbody>
</table>

**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 2019 and 2018 were $404 million and $392 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 2019 and 2018 were $425 million and $414 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2019 and 2018 were $552 million and $548 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.
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, 2019 and 2018. 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, 2019 and 2018, the Department received approximately $74.9 billion and $72.3 billion in budgetary resources, respectively, primarily consisting of the following:

<table>
<thead>
<tr>
<th>Source of Budgetary Resources (dollars in billions)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Authority:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct or related appropriations</td>
<td>$ 31.5</td>
<td>$ 31.0</td>
</tr>
<tr>
<td>Authority financed from Trust Funds</td>
<td>4.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Spending authority from providing goods and services</td>
<td>8.0</td>
<td>11.4</td>
</tr>
<tr>
<td>Unobligated balance from prior year budget authority, net</td>
<td>$ 31.1</td>
<td>$ 28.8</td>
</tr>
<tr>
<td>Total Budgetary Resources</td>
<td>$ 74.9</td>
<td>$ 72.3</td>
</tr>
</tbody>
</table>

Unobligated balance from prior year budget authority, net (dollars in billions) | 2019 | 2018 |
| Unobligated Balance – End of Prior Year             | $ 29.3 | $ 27.4 |
| Transfers In/(Out) Prior Year Authority             | 0.1  | 0.1  |
| Recoveries of Prior Year Paid Obligations           | 0.2  | 0.1  |
| Recoveries of Prior Year Unpaid Obligations         | 1.9  | 1.3  |
| Funds Returned to Treasury                           | (0.4) | (0.1) |
| Unobligated balance from prior year budget authority, net | $ 31.1 | $ 28.8 |

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, 2019 and 2018, was approximately $27.8 billion and $27.9 billion, respectively. This includes amounts of $2.7 billion for September 30, 2019 and $1.7 billion for September 30, 2018, pertaining to revolving funds, trust funds, and substantial commercial activities. Of the budgetary resources obligated for UDO for all activities as of September 30, 2019, $25.4 billion is for undelivered, unpaid orders and $2.4 billion is for undelivered, paid orders. The amounts for both Federal and Non-Federal undelivered orders at September 30, 2019 are as follows:

<table>
<thead>
<tr>
<th>Undelivered Orders at September 30, 2019 (dollars in millions)</th>
<th>Federal</th>
<th>Non-Federal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid</td>
<td>$ 1,453</td>
<td>$ 979</td>
<td>$ 2,432</td>
</tr>
<tr>
<td>Unpaid</td>
<td>1,509</td>
<td>23,860</td>
<td>25,369</td>
</tr>
<tr>
<td>Total</td>
<td>$ 2,962</td>
<td>$ 24,839</td>
<td>$ 27,801</td>
</tr>
</tbody>
</table>

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 $266 million and $255 million for 2019 and 2018, 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, 2018 is presented in the table below. Since these financial statements are published before the Budget, this reconciliation is based on the 2018 Combined Statement of Budgetary Resources because actual amounts for 2018 are in the most recently published Budget (i.e., 2020). The Budget with actual numbers for September 30, 2019 will be published in the 2021 Budget and available in early February 2020. 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.

<table>
<thead>
<tr>
<th>For the Fiscal Year Ended September 30, 2018 (dollars in millions)</th>
<th>Budgetary Resources</th>
<th>Obligations Incurred</th>
<th>Distributed Offsetting Receipts</th>
<th>Net Outlays</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined Statement of Budgetary Resources (SBR)</td>
<td>$72,300</td>
<td>$43,000</td>
<td>$507</td>
<td>$27,899</td>
</tr>
<tr>
<td>Distributed Offsetting Receipts</td>
<td>—</td>
<td>—</td>
<td>(507)</td>
<td>507</td>
</tr>
<tr>
<td>Funds not Reported in the Budget:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expired Funds</td>
<td>(895)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Undelivered Orders Adjustment</td>
<td>(190)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other and Rounding errors</td>
<td>(5)</td>
<td>(1)</td>
<td>—</td>
<td>(2)</td>
</tr>
<tr>
<td>Budget of the United States</td>
<td>$71,210</td>
<td>$42,999</td>
<td>—</td>
<td>$28,404</td>
</tr>
</tbody>
</table>

16 Custodial Activity

The Department administers certain custodial activities associated with the collection of non-exchange revenues. The revenues consist of interest, penalties and handling fees on accounts receivable; fines, civil penalties and forfeitures; and other miscellaneous receipts. The Department does not retain the amounts collected. Accordingly, these amounts are not reported as financial or budgetary resources for the Department. At the end of each fiscal year, the accounts close and the balances are deposited and recorded directly to the General Fund of the Treasury. The custodial revenue amounts are considered immaterial and incidental to the Department’s mission. In 2019 and 2018, the Department collected $25 million and $16 million, respectively, in custodial revenues that were transferred to Treasury.
## Reconciliation of Net Cost to Net Outlays

The reconciliation of the net cost of operations to the budgetary outlays is required by SFFAS No. 53, *Budget and Accrual Reconciliation*, amended SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* and SFFAS No. 24, *Selected Standards for the Consolidated Financial Report of the United States Government*, and rescinded SFFAS No. 22, *Change in Certain Requirements for Reconciling Obligations and Net Cost of Operations*. 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 net outlays and net cost clarifies the relationship between budgetary and financial accounting information. The reconciliation starts with the net cost of operations as reported on the Statement of Net Cost and adjusted by components of net cost that are not part of net outlays. The first section of the reconciliation below presents components of net cost that are not part of net outlays. Common components can include depreciation, imputed costs, or changes in assets and liabilities. The second section adjusts the budget outlays that are not part of net operating cost. Components of budget outlays that are not part of net operating cost include acquisition of capital assets, inventory, and others assets.

### For the Year Ended September 30, 2019

$(dollars in millions)$

<table>
<thead>
<tr>
<th>Components of Net Cost that are not Part of Net Outlays:</th>
<th>Intragovernmental</th>
<th>With the Public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, Plant, and Equipment Depreciation</td>
<td>—</td>
<td>(1,228)</td>
<td>(1,228)</td>
</tr>
<tr>
<td>Property, Plant, and Equipment Disposal &amp; Revaluation</td>
<td>—</td>
<td>(137)</td>
<td>(137)</td>
</tr>
<tr>
<td>Year-end Credit Reform Subsidy Re-estimates</td>
<td>—</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Unrealized Valuation loss/(gain) on Investments</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>1,123</td>
<td>774</td>
<td>1,897</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Increase/(decrease) in Assets:</th>
<th>Intragovernmental</th>
<th>With the Public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>(307)</td>
<td>(45)</td>
<td>(352)</td>
</tr>
<tr>
<td>Loans Receivable</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Investments</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other Assets</td>
<td>(43)</td>
<td>(83)</td>
<td>(126)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Increase/(decrease) in Liabilities:</th>
<th>Intragovernmental</th>
<th>With the Public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>182</td>
<td>(56)</td>
<td>126</td>
</tr>
<tr>
<td>Salaries and Benefits</td>
<td>(270)</td>
<td>(27)</td>
<td>(297)</td>
</tr>
<tr>
<td>Insurance and Guarantee Program Liabilities</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Environmental and Disposal Liabilities</td>
<td>—</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>1</td>
<td>(2,456)</td>
<td>(2,455)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Financing Sources:</th>
<th>Intragovernmental</th>
<th>With the Public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Employee Retirement Benefit Costs paid by OPM and imputed to the Agency</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Transfers out(in) Without Reimbursement</td>
<td>(1)</td>
<td>—</td>
<td>(1)</td>
</tr>
<tr>
<td>Other Imputed Financing</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Components of Net Cost that are not part of Net Outlays</th>
<th>685</th>
<th>(3,218)</th>
<th>(2,533)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Components of Net Outlays that are not Part of Net Cost:</th>
<th>Intragovernmental</th>
<th>With the Public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of Capital Assets</td>
<td>—</td>
<td>2,637</td>
<td>2,637</td>
</tr>
<tr>
<td>Acquisition of Inventory</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Acquisition of Other Assets</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>3,472</td>
<td>3,472</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Components of Net Outlays that are not Part of Net Cost</th>
<th>Intragovernmental</th>
<th>With the Public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>—</td>
<td>—</td>
<td>6,109</td>
<td>6,109</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Temporary Timing Differences</th>
<th>Intragovernmental</th>
<th>With the Public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Outlays</th>
<th>Intragovernmental</th>
<th>With the Public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
18 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

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiduciary Net Assets,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of Year</td>
<td>$103</td>
<td>$102</td>
</tr>
<tr>
<td>Contributions</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Investment Earnings</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Disbursements to and on behalf of beneficiaries</td>
<td>(104)</td>
<td>(29)</td>
</tr>
<tr>
<td>Increases/(Decreases) in Fiduciary Net Assets</td>
<td>(103)</td>
<td>4</td>
</tr>
<tr>
<td>Fiduciary Net Assets,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>End of Year</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Fiduciary Net Assets

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiduciary Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Balance with Treasury</td>
<td>$73</td>
<td>$103</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in Treasury Securities</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Investment in Non-Treasury Securities</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total Fiduciary Net Assets</td>
<td>$73</td>
<td>$103</td>
</tr>
</tbody>
</table>

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS | FINANCIAL SECTION
### Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the Department of State’s financial statements and the U.S. Government-wide reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items.

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td><strong>ASSETS</strong></td>
</tr>
<tr>
<td>Intragovernmental Assets</td>
<td></td>
</tr>
<tr>
<td>Fund Balance with Treasury</td>
<td>$61,158</td>
</tr>
<tr>
<td>Investments, Net</td>
<td>19,402</td>
</tr>
<tr>
<td>Interest Receivable</td>
<td>133</td>
</tr>
<tr>
<td>Accounts Receivable, Net</td>
<td>148</td>
</tr>
<tr>
<td>Other Assets</td>
<td>1,235</td>
</tr>
<tr>
<td>Total Intragovernmental Assets</td>
<td>82,076</td>
</tr>
<tr>
<td>Cash and Other Monetary Assets</td>
<td>226</td>
</tr>
<tr>
<td>Accounts and Loans Receivable, Net</td>
<td>84</td>
</tr>
<tr>
<td>Property and Equipment, Net</td>
<td>25,579</td>
</tr>
<tr>
<td>Other Assets</td>
<td>1,007</td>
</tr>
<tr>
<td>Total Non-Federal Assets</td>
<td>26,896</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>Total Assets</strong></td>
</tr>
<tr>
<td></td>
<td>$108,972</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>LIABILITIES</strong></th>
<th><strong>LIABILITIES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental Liabilities</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$160</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>342</td>
</tr>
<tr>
<td>Total Intragovernmental Liabilities</td>
<td>502</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>2,140</td>
</tr>
<tr>
<td>After-Employment Benefit Liability</td>
<td>24,159</td>
</tr>
<tr>
<td>International Organizations Liability</td>
<td>3,803</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>1,807</td>
</tr>
<tr>
<td>Total Non-Federal Liabilities</td>
<td>31,909</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>Total Liabilities</strong></td>
</tr>
<tr>
<td></td>
<td>$32,411</td>
</tr>
</tbody>
</table>
### 2019 Balance Sheet

<table>
<thead>
<tr>
<th>Financial Statement Line</th>
<th>Amounts</th>
<th>Reclassified Financial Statement Line</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unexpended Appropriations – Other Funds</td>
<td>46,623</td>
<td></td>
</tr>
<tr>
<td>Cumulative Results of Operations – Other Funds</td>
<td>27,970</td>
<td></td>
</tr>
<tr>
<td>Cumulative Results of Operations – Funds from Dedicated</td>
<td>1,968</td>
<td></td>
</tr>
<tr>
<td>Collections</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>76,561</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Net Position</strong></td>
<td>$ 108,972</td>
<td>$ 108,972 Total Liabilities &amp; Net Position</td>
</tr>
</tbody>
</table>

### 2019 Government-wide Reclassified Balance Sheet

<table>
<thead>
<tr>
<th>Financial Statement Line</th>
<th>Amounts</th>
<th>Reclassified Financial Statement Line</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Position – Funds Other than those from Dedicated Collections</td>
<td>74,593</td>
<td></td>
</tr>
<tr>
<td>Net Position – Funds from Dedicated Collections</td>
<td>1,968</td>
<td></td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>76,561</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Net Position</strong></td>
<td>$ 108,972</td>
<td>$ 108,972 Total Liabilities &amp; Net Position</td>
</tr>
</tbody>
</table>

### 2019 Statement of Net Cost

<table>
<thead>
<tr>
<th>Financial Statement Line</th>
<th>Amounts</th>
<th>Reclassified Financial Statement Line</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost and Loss on Assumption Changes</strong></td>
<td>$ 38,458</td>
<td></td>
</tr>
<tr>
<td>Non-Federal Costs</td>
<td>$ 34,480</td>
<td></td>
</tr>
<tr>
<td>Gain/Loss on Changes in Actuarial Assumptions (Non-Federal)</td>
<td>719</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-Federal Costs</strong></td>
<td>35,199</td>
<td></td>
</tr>
<tr>
<td>Intragovernmental Costs</td>
<td>412</td>
<td></td>
</tr>
<tr>
<td>Benefit Program Costs</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>Buy/Sell Costs</td>
<td>2,402</td>
<td></td>
</tr>
<tr>
<td>Other Expenses (without Reciprocals)</td>
<td>229</td>
<td></td>
</tr>
<tr>
<td><strong>Total Intragovernmental Costs</strong></td>
<td>3,259</td>
<td></td>
</tr>
<tr>
<td><strong>Total Costs and Loss on Assumption Changes</strong></td>
<td>38,458</td>
<td></td>
</tr>
<tr>
<td><strong>Earned Revenue</strong></td>
<td>8,749</td>
<td></td>
</tr>
<tr>
<td>Non-Federal Earned Revenue</td>
<td>4,632</td>
<td></td>
</tr>
<tr>
<td>Intragovernmental Earned Revenue</td>
<td>3,502</td>
<td></td>
</tr>
<tr>
<td>Buy/Sell Revenue</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>Benefit Program Revenue</td>
<td>554</td>
<td></td>
</tr>
<tr>
<td>Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)</td>
<td>554</td>
<td></td>
</tr>
<tr>
<td><strong>Total Intragovernmental Earned Revenue</strong></td>
<td>4,117</td>
<td></td>
</tr>
<tr>
<td><strong>Total Earned Revenue</strong></td>
<td>8,749</td>
<td></td>
</tr>
<tr>
<td><strong>Net Cost</strong></td>
<td>$ 29,709</td>
<td>$ 29,709 Net Cost</td>
</tr>
</tbody>
</table>
### 2019 Statement of Changes in Net Position

<table>
<thead>
<tr>
<th>Financial Statement Line</th>
<th>Amounts</th>
<th>Reclassified Financial Statement Line</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cumulative Results of Operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Balance</td>
<td>$ 29,181</td>
<td></td>
</tr>
<tr>
<td><strong>Unexpended Appropriations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Balances</td>
<td>46,493</td>
<td></td>
</tr>
<tr>
<td>Net Position, Beginning of Period</td>
<td>75,674</td>
<td>Net Position, Beginning of Period – Adjusted</td>
</tr>
<tr>
<td><strong>Budgetary Financing Sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriations Received</td>
<td>31,548</td>
<td>Appropriations Received as Adjusted</td>
</tr>
<tr>
<td>Recissions and Canceling Funds</td>
<td>(677)</td>
<td></td>
</tr>
<tr>
<td>Appropriations Transferred in(out)</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td>Appropriations Used</td>
<td>(30,839)</td>
<td></td>
</tr>
<tr>
<td><strong>Budgetary Financing Sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriations Used</td>
<td>30,839</td>
<td>Appropriations Expended</td>
</tr>
<tr>
<td>Donations</td>
<td>18</td>
<td>Other Taxes and Receipts – Non-Federal Other</td>
</tr>
<tr>
<td>Transfers in(out) without Reimbursement</td>
<td>53</td>
<td>Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In</td>
</tr>
<tr>
<td><strong>Other Financing Sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>8</td>
<td>Other Taxes and Receipts – Non-Federal Other</td>
</tr>
<tr>
<td>Imputed Financing from Costs Absorbed by Others</td>
<td>216</td>
<td>Imputed Financing Sources</td>
</tr>
<tr>
<td>Non-entity Collections</td>
<td>(668)</td>
<td>Non-Entity Custodial Collections Transferred to the General Fund</td>
</tr>
<tr>
<td><strong>Net Cost of Operations</strong></td>
<td>(29,709)</td>
<td>(29,709) Net Cost of Operations</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td>$ 76,561</td>
<td>$ 76,561 Net Position – Ending Balance</td>
</tr>
</tbody>
</table>
## Required Supplementary Information

### COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2019  *(dollars in millions)*

<table>
<thead>
<tr>
<th>Administration of Foreign Affairs</th>
<th>International Organizations</th>
<th>International Commissions</th>
<th>Foreign Assistance</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgetary Resources:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unobligated balance from prior year budget authority, net</td>
<td>$15,687</td>
<td>$994</td>
<td>$113</td>
<td>$1,477</td>
<td>$12,818</td>
</tr>
<tr>
<td>Appropriations (discretionary and mandatory)</td>
<td>16,880</td>
<td>2,911</td>
<td>146</td>
<td>1,685</td>
<td>14,236</td>
</tr>
<tr>
<td>Borrowing authority (discretionary and mandatory)</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Spending authority from offsetting collections (discretionary and mandatory)</td>
<td>7,889</td>
<td>—</td>
<td>10</td>
<td>55</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total Budgetary Resources</strong></td>
<td>$40,458</td>
<td>$3,905</td>
<td>$269</td>
<td>$3,217</td>
<td>$27,080</td>
</tr>
</tbody>
</table>

| **Status of Budgetary Resources:** |                             |                           |                   |       |       |
| New obligations and upward adjustments (total) | $25,317 | $2,744 | $148 | $1,789 | $13,644 | $43,642 |
| Unobligated balance, end of year: |                             |                           |                   |       |       |
| Apportioned, unexpired accounts | 14,130 | 1,151 | 97 | 1,259 | 11,710 | 28,347 |
| Exempt from apportionment, unexpired accounts | 43 | — | — | 35 | 1,385 | 1,463 |
| Unapportioned, unexpired accounts | 390 | 6 | 12 | 4 | 56 | 468 |
| Unexpired unobligated balance, end of year | 14,563 | 1,157 | 109 | 1,298 | 13,151 | 30,278 |
| Expired unobligated balance, end of year | 578 | 4 | 12 | 130 | 285 | 1,009 |
| **Total Budgetary Resources**     | $40,458 | $3,905 | $269 | $3,217 | $27,080 | $74,929 |

### Outlays, Net:

| Outlays, net (total) (discretionary and mandatory) | $15,516 | $2,328 | $143 | $1,509 | $13,789 | $33,285 |
| Distributed offsetting receipts (-) | (3,831) | — | — | — | — | (3,831) |
| **Agency outlays, net (discretionary and mandatory)** | $11,685 | $2,328 | $143 | $1,509 | $13,789 | $29,454 |

---

Secretary Pompeo joins President Trump in meetings with Vietnamese President Nguyễn Phú Trọng in Hanoi, Vietnam, February 27, 2019. Department of State
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, 2019

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Assets</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diplomatic Reception Rooms Collection</td>
<td>1,821</td>
<td>Good to Excellent</td>
</tr>
<tr>
<td>Art Bank Program</td>
<td>2,647</td>
<td>Poor to Excellent</td>
</tr>
<tr>
<td>Art in Embassies Program</td>
<td>1,263</td>
<td>Good to Excellent</td>
</tr>
<tr>
<td>Cultural Heritage Collection</td>
<td>18,587</td>
<td>Good to Excellent</td>
</tr>
<tr>
<td>Library Rare &amp; Special Book Collection</td>
<td>1,342</td>
<td>Poor to Good</td>
</tr>
<tr>
<td>Secretary of State’s Register of Culturally Significant Property</td>
<td>37</td>
<td>Poor to Excellent</td>
</tr>
<tr>
<td>U.S. Diplomacy Center</td>
<td>6,074</td>
<td>Good to Excellent</td>
</tr>
<tr>
<td>Blair House</td>
<td>2,604</td>
<td>Good to Excellent</td>
</tr>
<tr>
<td>International Boundary and Water Commission</td>
<td>140</td>
<td>Poor to Good</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General PP&amp;E</td>
<td>$74</td>
<td>$83</td>
</tr>
<tr>
<td>Heritage Assets</td>
<td>22</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>$96</td>
<td>$92</td>
</tr>
</tbody>
</table>

The Diplomacy Is Our Mission exhibit tells the story of how diplomacy has shaped our nation. Department of State
This flag graced the office of Colonel Ron Roughead, Chief of the U.S. Liaison Office in Kenya, at U.S. Embassy Nairobi. On August 7, 1998, in coordinated attacks by al-Qa’ida terrorists, U.S. Embassies Nairobi and Dar es Salaam, Tanzania, were devastated by car bombs. Embassy Nairobi and the surrounding neighborhood suffered extensive damage and loss of life.

After the attack, the Embassy Nairobi Marine Security Guards made an initial sweep of the embassy building searching for survivors and recovering victims. The Marines found this flag in Colonel Roughead’s office along with a roll of masking tape. Knowing that the flag on the pole outside the entrance to the Embassy had been blown off by the blast, they taped this flag to the exterior window frame. During the initial days after the attack, it was a symbol that the U.S. Embassy and the personnel were still standing proudly even though they had been hit very hard.

Colonel Roughead kept the flag exactly as it was when it was taken down, including the masking tape. He displayed the flag outside his home on every anniversary of the bombing, as well as every Veteran’s Day, Memorial Day, and 4th of July. In donating this flag to the Diplomacy Center, he expressed his hope that it gives inspiration to our nation’s diplomats and military serving on the front lines.
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.

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. We note that our work this year was affected by the lapse in appropriations that occurred from December 21, 2018, to January 25, 2019. Although this lapse affected all of OIG, it had particular consequences for our inspection work, as we were forced to cancel our winter inspection cycle. Nonetheless, we issued more than 105 reports in FY 2019, and based on a thorough review of that work and past work, we identify the following major management and performance challenges the Department faced in FY 2019:

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

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.

We note that these challenges often interact, overlapping and reinforcing one another. For example, protecting people and facilities is often a 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 related to poor coordination and unclear lines of authority contribute to a range of concerns, including information security deficiencies.

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 properly prioritizes the safety and security of its personnel and facilities. Nonetheless, the global presence of the Department and the widespread threat of physical violence against U.S. diplomats and U.S. diplomatic facilities ensures that the protection of people and facilities remains a top management challenge.

Although naturally greater in conflict areas such as Iraq and Afghanistan, all U.S. diplomatic facilities face 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 these types of 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.

Construction projects at Embassy Kabul, Afghanistan, remain a focus. For example, in one FY 2019 audit, we found that, because OBO still has difficulty expediting physical security projects in Kabul, the mission has relied on the regional security office to manage large-scale construction projects. However, given that office’s relative lack of construction experience, some projects have faced deficiencies as a result. We discuss other facets of these findings below, as they also relate to the Department’s challenges to oversee contractor performance and to manage operations in contingency environments.

Beyond ensuring the initial construction of safe and secure facilities, the Department is responsible for comprehensive preventative and routine maintenance of its existing facilities. Our FY 2019 inspection work continued to identify problems related to facilities maintenance at several overseas posts. In Paramaribo, Suriname, the embassy’s leaky roof led to mold problems that created health hazards for employees, many of whom reported respiratory issues to OIG. Despite having been identified in March 2017, OBO had not yet addressed the problem at the time of our inspection. Furthermore, we encountered a poorly maintained chancery with numerous physical defects in Banjul, The Gambia, and we reported a potential workplace safety hazard at Embassy Port-au-Prince, Haiti, where the embassy’s two elevators continued in use despite the identification of 48 unaddressed deficiencies.

Ensuring the Health and Safety of Personnel Abroad

Although our inspection work consistently finds that embassy leadership is engaged on health and safety issues, we also continue to identify instances where a lack of management oversight and failure to follow Department standards creates risks for Department personnel and their families. As in previous years, we note the following three areas for improvement: the operation of official vehicles, residential safety and security, and emergency preparedness.

Operation of Official Vehicles Overseas

Several FY 2019 inspection reports identified a lack of compliance with motor vehicle safety standards in the operation of official vehicles overseas. As in previous years, OIG found lapses in medical clearances for drivers, outdated or absent safety training for operators of official vehicles, and drivers working excessive hours, a practice that increases the risk of motor vehicle accidents caused by driver fatigue. In particular, Embassy Port-au-Prince, Haiti—a post that exhibited all the deficiencies noted above—had the highest number of motor vehicle mishaps among overseas missions. From FY 2012 to FY 2017, the embassy reported 311 mishaps, of which the Department deemed nearly 60 percent preventable.6

Residential Safety and Security

The Department also continued to exhibit deficiencies in the administration of its housing and related anti-crime program in FY 2019. 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.

In Kigali, Rwanda, we found that 40 of the embassy’s 68 residencies had not been certified for occupancy.7 This was notable given the post had seen multiple hazardous electrical incidents, one of which led to injuries requiring medical treatment for a child who came in contact with an inadvertently electrified metal pipe. Additionally, we found the embassy in Haiti, site of the devastating 2010 earthquake, did not conduct seismic safety assessments of 25 leased residential units as required by Department standards.8

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 we frequently find substantial compliance with emergency planning standards, we continue to highlight deficiencies that we identify because of their significant implications for life and safety.

For example, some consular sections—which play a lead role in crisis preparedness—did not meet Department standards. In New Delhi, India, we found that many consular employees did not know what their roles might be in a crisis and that they were unfamiliar with the contents of a disaster assistance kit, which is vital to their ability to function off-site in an emergency.9 In Koror, Republic of Palau, the embassy did not have a disaster assistance kit, and other basic equipment, such as a satellite phone, had not been tested within the preceding year.10

2 OVERSIGHT OF CONTRACTS, GRANTS, AND FOREIGN ASSISTANCE

The oversight of contracts, grants, and foreign assistance continues to be a significant challenge for the Department. Domestically and abroad, Department entities 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. Because of the substantial resources involved (more than $15 billion for contracted services and $15 billion for grants and fixed charges obligated in FY 201811), inadequate oversight and mismanagement pose considerable financial risk.

Monitoring and Documenting Contractor Performance

The Department continues to face challenges in properly overseeing contractor performance. Oversight personnel must monitor and document performance, confirm that work has been conducted in accordance with the terms of a contract, hold contractors accountable for nonperformance, and ensure that costs are effectively contained. Our FY 2019 work found several examples of deficiencies in the performance of these duties. Moreover, we often find that these issues overlap with another Department challenge: workforce management. Inexperienced and untrained oversight personnel, staff rotations that promote inefficiency, and complex programs and contracts that simply require more oversight are often at the root of contract oversight deficiencies.

For example, we found that officials from the Bureau of Near Eastern Affairs did not consistently nominate Contracting Officer’s Representatives (CORs) and other oversight personnel with the required certification level and technical expertise to oversee contracts in Iraq. Moreover, oversight personnel did not always possess sufficient technical expertise relative to the contract’s subject matter. Once appointed, the bureau also failed to effectively evaluate the performance of the CORs. On a related point, the same audit found that COR files on contracts in Iraq, with a total value of more than $3 billion, were often incomplete. Although the Department has recognized issues with its COR workforce, the challenge to nominate CORs with the requisite level of technical expertise persists.

Ensuring Proper Invoice Review and Approval Processes

Proper invoice review and approval processes help the Department ensure that it receives the benefit of its contracts and that it can take appropriate steps if contractors are not performing in accordance with the terms of a contract. When the Department has focused on this issue, it has been successful in improving the accuracy and efficiency of these important processes. For example, one report noted that the Department’s Bureau of Diplomatic Security (DS), Training Directorate, Office of Training and Performance Standards (TPS) had an effective system of internal controls in overseeing expenditures. Such oversight included contract monitoring; records management; and an automated system for review, approval, and timely payment of contractor invoices. Collectively, the internal controls TPS employed helped ensure funds expended to third-party contractors were done so in accordance with Federal regulations and guidance and therefore reduced the risk of unallowable or unsupported transactions.

Nonetheless, room for improvement remains. In a review of four previous audit reports that assessed invoice review processes and procedures, we sought to determine common challenges faced by bureaus that rely heavily on contracted support to conduct their missions in Afghanistan and Iraq. Our review noted that none of the four bureaus had an internal quality control function to check the accuracy of CORs’ invoice reviews to ensure the Department paid for services it received. As a result, we recommended that the Bureau of Comptroller and Global Financial Services (CGFS) advise all relevant Department bureaus of the potential benefits of its invoice review quality control program. Taking advantage of this best practice could help the bureaus recover improper payments, address weaknesses, and improve the overall invoice review process.

Overseeing Construction Contracts

The Department continues to experience problems with the oversight of construction contracts, which are often long-term, complex, and of high value. There are obvious financial consequences 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, which sometimes has implications for the safety and security of personnel.

In a notable example of this concern, for a construction project at Camp Eggers in Afghanistan, the Department used a clause in a contract for protective services to facilitate construction, even though this type of contract vehicle had not previously been used for the type of extensive construction work planned at this location. As a result of the contract vehicle, Bureau of Diplomatic Security officials were assigned to oversee the work, and they acknowledged that DS had very little, if any, expertise related to construction or construction-related contracts. There were numerous subsequent problems, including a failure to take meaningful corrective action against the contractor even though it missed milestones and failed to comply with contract requirements. We found that the Department ultimately terminated the project for convenience after very little work had been accomplished at a cost of $103.2 million.

Our FY 2019 work also examined the commissioning phase in construction contracts—the systematic process of assuring that all building systems perform interactively, in accordance with the design documentation and intent, and with the owner's operational needs. Typically, all major systems should be commissioned before the Department declares new buildings substantially complete and, thus, allows for their occupancy by personnel. However, in a report that addressed the commissioning of two residential buildings at Embassy Kabul, we found that—in order to accommodate the Ambassador's request to expedite occupancy as a result of security concerns—the Bureau of Overseas Buildings Operations (OBO) declared the buildings substantially complete even though 8 of 22 systems were not commissioned. We reported that the way in which OBO managed construction at Embassy Kabul—as a single project with one completion date for multiple buildings constructed over the course of many years—contributed to a situation where the Department essentially had to choose between moving staff into hardened structures and completing commissioning.

We also identified weaknesses in how OBO maintains commissioning documentation, which serves as the historical record of key decisions made throughout the project planning and delivery process. In one review, we found some documents were completed in a hard-copy format and placed in binders. This practice is concerning because the commissioning process can take years to complete, and hard-copy tests cannot be easily and simultaneously accessed by stakeholders onsite and in Washington. Additionally, we found OBO uploads commissioning documentation only at the end of a construction project, which inhibits its visibility and increases the risk that documents could be inadvertently lost or not uploaded. We concluded that the Department should identify industry best practices for automating commissioning documentation, which would benefit OBO construction projects worldwide.

Our inspections work has also identified issues related to oversight of construction contracts. For example, at Embassy Nairobi, Kenya, staff from the Bureau of International Narcotics and Law Enforcement Affairs (INL) accepted a renovated building in February 2017 without an adequate inspection of the construction. More than 15 months after acceptance, the building still could not be used as intended, and the bureau planned to execute a second phase of renovations, which would include repairing the deficiencies from the first phase of work. We found the bureau also failed to include a warranty in the contract terms and conditions for the renovation and repair of the building, thereby limiting its recourse against the contractor.

---

Overseeing Grants and Foreign Assistance Programs

In FY 2019, OIG observed some improvements in the Department’s oversight of grants and foreign assistance program. For example, a recent audit in Iraq found substantial compliance with Federal requirements, Department guidance, and award terms and conditions in monitoring cooperative agreements supporting internally displaced persons in Iraq.\(^{21}\) In another report, OIG found that the Department halted security assistance to units of the Somali National Army because the Government of Somalia failed to ensure proper monitoring and control of those units. The Department told the Somali Government that assistance could not resume until transparency, accountability, and oversight of U.S. assistance improved. The mission’s use of third-party contracts to monitor foreign assistance programs also improved oversight in Somalia’s operating environment where the movement of Department personnel is limited because of security concerns.\(^{22}\)

Even with these improvements, we continued to find deficiencies related to monitoring, site visits, program evaluation, and sustainability in our FY 2019 work. For example, in the inspection of the U.S. Mission to Somalia, we reported that several public diplomacy grants we reviewed contained no evidence of monitoring or any other correspondence after most of the award amounts had been dispersed to the grantees.\(^{23}\) That same inspection found that, despite the oversight improvements noted above, neither Mission Somalia nor the Department had fully assessed the risk that foreign assistance funding could benefit terrorists or their supporters.\(^{24}\) Similarly, among the issues cited in our inspection of Embassy Bogota, we determined that four of six INL grants totaling $50.2 million did not have initial monitoring plans or evidence of monitoring, and five of the grants did not contain all of the required reports needed to document recipient performance and financial expenditures.\(^{25}\)

Additionally, we found the Bureau of Democracy, Human Rights, and Labor (DRL) failed to conduct and document site visits systematically in accordance with monitoring plans. Grants Officer’s Representatives (GORs) did not conduct all of the site visits set out in the monitoring plans for most of the grants that OIG reviewed, and most award files lacked any documentation of site visits, making it difficult to determine if a site visit actually took place and what was found.\(^{26}\)

Furthermore, our work finds that INL continues to face challenges overseeing its large portfolio of grants. For example, in Haiti, the bureau did not conduct formal evaluation efforts to analyze the impact of its five key projects and to verify and measure performance in achieving goals.\(^{27}\) INL’s reports focused on the achievement of quantitative metrics, such as the number of new national police recruits and the completion of construction projects. While useful in tracking short-term outputs, the lack of formal project and program evaluations impeded INL’s ability to improve program design and implementation. We also highlighted concerns related to the sustainability of foreign assistance program investments. For example, also in Haiti, we found the completion of a $100 million hospital was at risk because the government had yet to contribute its $11 million share of the costs.

Related to foreign assistance programs, we continue to urge the Department to focus on planning and designing programs that meet policy goals and achieve intended objectives. In one of our FY 2019 audits, we could not affirm whether grants and cooperative agreements awarded to counter violent extremism were achieving desired results because the Bureau of Counterterrorism and Countering Violent Extremism (CT) had not ensured that the strategic plans and activities of Department bureaus aligned with the overall Department goals.\(^{28}\) The lack of alignment hinders the Department’s ability to measure the results of these awards, identify best practices that could be replicated, or

---


\(^{23}\) Ibid.

\(^{24}\) Ibid.

\(^{25}\) OIG, Inspection of Embassy Bogota, Colombia (ISP-I-19-14, April 2019).

\(^{26}\) OIG, Inspection of the Bureau of Democracy, Human Rights, and Labor’s Foreign Assistance Program Management (ISP-I-19-12, October 2018).

\(^{27}\) ISP-I-19-18, June 2019.

abandon ineffective efforts that do not advance goals and objectives. 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.

Additionally, a special evaluation of the Antiterrorism Assistance Explosive Detection Canine Program highlighted issues with an overall lack of policies and standards governing this program. The Department routinely provides dogs to foreign partners without signed written agreements that outline standards for minimum care, retirement, and use of the canines, and the Department conducts health and welfare follow-ups infrequently and inconsistently. Specifically, OIG received reports of health and welfare concerns experienced by specific dogs in Jordan since an April 2016 site visit and report. One of the canines provided by DS/ATA died while working in Jordan in July 2017, and two others were returned to the U.S. in critically ill condition. One of those dogs was euthanized in March 2018, and the other had to be nourished back to health in April 2018 because it was severely underweight.  

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 continues to identify significant issues that put its information at risk.

Although the Department has taken steps to improve its information security program, as in prior years, OIG’s annual assessment of the Department’s information security program identified numerous control weaknesses that affected program effectiveness and increased the Department’s vulnerability to cyberattacks and threats.  

The lack of fully-implemented risk management strategy and dispersed authority contribute to many of OIG’s concerns regarding IT security and management at the Department.

As OIG has reported in previous years, 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, OIG has identified concerns with the CIO’s ability to track and control IT investments, which affects the Department’s ability to obtain a clear picture of total IT spending. The Department took some steps to strengthen the delegation of authority to the CIO, and we continue to assess whether the Department’s IT security program has noticeably improved as a result.

Lapses in the performance of duties by Information Systems Security Officers (ISSOs) persisted in FY 2019. We first identified pervasive concerns in this area in 2017, but our overseas inspections work continued to find numerous posts where unclassified and classified ISSOs did not perform all information systems security duties as required.  

As a result, OIG found information security issues that could have been prevented with regular performance of these mandated duties. Moreover, without a systematic approach to monitoring networks and recording findings, Department networks could be breached, and information security compromised.


30 OIG, Audit of the Department of State Information Security Program (AUD-IT-19-08, October 2018).

31 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.


Accordingly, OIG issued recommendations for individual posts to implement standard operating procedures to ensure performance of ISSO duties.

OIG also continued to find deficiencies related to developing, testing, and training employees on IT contingency planning at overseas posts. 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. Embassies failed to show that they tested IT contingency plans annually, and initial and refresher IT contingency training for IT employees was lacking.

Another issue often noted in our inspection work pertains to local IT configuration control boards. Department policy requires any embassy that maintains its own IT systems to establish a local control board to ensure that the hardware, software, and network components installed on the local area network do not adversely affect the existing IT infrastructure. Nonetheless, we found multiple overseas posts that had not established a board to govern all systems equipment operated on the embassy's network. Furthermore, in an audit on the Department's local control boards, we reported that even where boards are operating, they are not consistently complying with all policies. For example, we found a lack of testing performed on change requests and weaknesses in maintaining documentation regarding board decisions on change requests.

We also identified concerns with mechanisms used by the Department to assess its IT systems for deficiencies. For example, the Department created a team to assess IT networks and to provide recommendations and remediation strategies to enhance the Department’s IT posture. Although this effort had a positive effect on the IT posture at posts where the assessment had occurred, we identified improvements that could be made to the process. For example, bureaus and posts were not required to respond to recommendations made during the assessment, and the team did not ensure that all vulnerabilities identified had been remediated. In addition, some recommendations made by the assessment team were duplicative and of limited qualitative value. We also found that there was no mechanism in place to communicate identified vulnerabilities to the system owner if a vulnerability was considered significant or required additional resources to remediate.

Finally, we note that some of our FY 2019 work highlighted the difficulties the Department faces acquiring and developing new IT systems. In the Office of Foreign Missions, we found that the lack of a fully implemented systems development lifecycle methodology hindered the development of the office's IT system and significantly delayed its completion. As a result, staff had to manage its work on a system that had not had a valid authorization to operate since 2013. In the Bureau of Democracy, Human Rights, and Labor, we found the bureau did not prepare a project plan that included necessary budget and planning elements for a system intended to replace the current system on which Leahy vetting is conducted. The bureau also lacked a technically qualified project manager to oversee development of the new system. These deficiencies raised the risks of cost overruns and delays, which could ultimately compromise the Department’s ability to conduct Leahy vetting.


36 OIG, Audit of the Department of State's Local Configuration Control Boards (AUD-IT-19-36, July 2019).

37 Ibid.

38 Audit of Selected Post Efforts To Track and Remediate Vulnerabilities Identified During Blue Team Risk Assessments (AUD-IT-19-41, September 2019).


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. 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.

Internal Control Deficiencies

Department operations in FY 2019 suffered from a variety of internal control deficiencies, and an independent audit identified certain matters that were considered “significant.” OIG notes that weaknesses in property and equipment were initially reported in the audit of the Department’s FY 2005 consolidated financial statements and reiterated in subsequent audits. In FY 2018, the Department’s internal control structure continued to exhibit several deficiencies that hampered the Department’s ability to account for real and personal property in a complete, accurate, and timely manner. The auditor concluded that the combination of property-related control deficiencies was a significant deficiency.

Internal control deficiencies were also identified during various OIG projects. For example, embassies in Gabon and Kenya failed to identify internal control deficiencies as a result of weak statement of assurance processes.

Embassy Libreville did not prepare its 2018 Annual Chief of Mission Management Control Statement of Assurance in accordance with Department guidance, nor did it have an ongoing system of management controls. At Embassy Nairobi, the embassy followed the format required by the Statement of Assurance process but did not use the checklists to identify vulnerabilities.

A lack of an annual acquisition plan for procurement was also a concern for several embassies. For example, in The Gambia, because the embassy did not have a plan for current and future contracting requirements, it had little knowledge of existing contracting requirements that were due to expire, ultimately resulting in several unauthorized commitments discovered by OIG. At Embassy Dakar, Senegal, we found that the existence of an annual acquisition plan for procuring supplies and services could have prevented the embassy from spending hundreds of thousands of dollars on excess and ultimately unused equipment.

Several embassy inspections identified weaknesses in general property management controls involving warehouse access, inventory, spot checks, and related issues. At Nairobi, the embassy maintained more than $26 million in non-expendable inventory; of that amount, we found $14 million should be disposed of or replaced. For example, OIG found assets in the warehouse and residences that were due to be replaced in 1984 but were still in the inventory. At Consulate General Kolkata in India, staff did not track facilities management expendable supplies in the Department’s electronic inventory system. Instead, staff maintained a separate paper log to document inventory and issuance of expendable supplies, increasing the risk of theft. Also, Consulate General Mumbai’s on-compound warehouse lacked adequate access control.

---

43 ISP-I-19-08, October 2018.
46 ISP-I-19-08, October 2018.
The proper documentation of property transfers to residences has also been an ongoing challenge. Data in the electronic inventory system at Embassy Port-au-Prince showed the embassy did not document more than 20 percent of nonexpendable property transfers to residences over nearly 2 years, increasing the risk of theft. Embassy New Delhi failed to consistently document such transfers for both FY 2016 and FY 2017.49

As in years past, several reports noted issues with embassy management of fuel, an asset that is particularly vulnerable to theft given its significant value. At Embassy Dakar, spot checks of residential fuel deliveries were not conducted, and local staff oversaw deliveries, contrary to Department standards.50 Similarly, at Embassy Port-au-Prince, INL did not adequately supervise its fuel, allowing Haitian Government personnel to accept deliveries, which risks waste, fraud, and mismanagement of the asset.51

Relatedly, we noted frequent internal control deficiencies affecting the Department’s fleet of official vehicles. For example, Embassy Bogota did not track motor pool expendable supplies, such as motor oil and oil filters, in the Department’s electronic inventory system.52 Also, neither Embassy Bogota nor Embassy Libreville monitored the operating costs of their official vehicles, and Embassy Libreville and Embassy Vienna did not control access to motor vehicle keys.53 In addition, Embassy Vienna did not establish adequate internal controls over the credit cards used to purchase fuel for its motor vehicle fleet.54 At Embassy Dakar, incidental American drivers garaged or parked official vehicles at their residences without prior specific authorization from the Chief of Mission.

Without such approval, policy requires official vehicles to be parked overnight on an embassy compound for security, accountability, and safekeeping purposes.55

Further, although we found that Department purchase cardholders generally used their Government cards for purchases allowed by laws and regulations, we noted other internal control issues related to the Department’s purchase card program. For example, we found that purchase cardholders did not always record and document purchases or reconcile monthly statements in accordance with Department policy. We also found that 10 percent of bureaus and posts had not completed a required annual review of their purchase card programs.56

Collecting, Analyzing, and Applying Financial Information

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

For example, we identified several concerns regarding the cost management of the Department’s Embassy Air program, which was established to provide aviation support for the U.S. missions in Afghanistan and Iraq.57 Beginning in 2012 in Afghanistan and 2011 in Iraq, the Department had incrementally increased ticket fees with the goal of covering a larger percentage of operational costs. In our assessment of these decisions, we found that when ticket fees increased, ridership declined and Embassy

52 ISP-I-19-14, April 2019.
54 AUD-SI-19-42.
56 OIG, Audit of the Department of State Purchase Card Program (AUD-CGI-19-24, March 2019).
Air services became significantly underused. Ultimately, our audit concluded that when the Department set ticket fees, it did not use a documented methodology for doing so. Moreover, there was a lack of routine review and adjustment to align the frequency of Embassy Air flights and the number of aircraft in-country with demand. As a result, the Department continued to pay the significant costs associated with underused aviation operations over the course of several years.

Embassy Bogota also serves as an example of such shortcomings. During our inspection, we learned of a persistent shortfall in nonimmigrant visa application fees since at least 2014. The shortfall was determined to be approximately $1.6 million, and, according to the Bureau of Consular Affairs, Embassy Bogota is the only mission in the world with a shortfall. Despite an expert review of the issue, the bureau could not determine its cause, and we recommended a review of fee collections and reconciliations to identify the cause and correct the issue.  

### 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. We found the Department needs a process to prioritize and expedite procurement related to urgent physical security construction projects at high-threat posts. Our reports on construction projects at Embassy Kabul, Afghanistan, offer several illustrative examples. At the outset of construction projects in this location, the Department has experienced acquisition delays for physical security upgrades because of the absence of an adequate contract mechanism for procuring construction services. Specifically, we recommended Embassy Kabul establish a procurement mechanism such as an indefinite delivery, indefinite quantity contract. This is a type of contract that could improve security vetting and streamline the acquisition process by awarding task orders among preselected contractors.  

Contingency environments also affect Department operations in the area of invoice review. We found that the type of contract used was one factor that prolonged invoice review in bureaus that relied on contracted support to conduct their missions in Iraq and Afghanistan. Specifically, to account for price volatility in unstable environments, the Department is more likely to use cost-reimbursable contracts in contingency environments as opposed to firm-fixed-price contracts. We found these contracts result in complex and lengthy invoices, which had a significant effect on the workload of reviewers and increased the risk of error or delay in the process.  

More generally, in our inspection of Mission Somalia, we found that the country’s restrictive operating environment, dual locations in Nairobi and Mogadishu, and difficulties in staffing the mission impeded diplomatic activities, foreign assistance management, and internal controls. We made recommendations targeting these specific issues, and we also noted that, despite security constraints, the mission conducted useful reporting and media outreach.

---

58 ISP-I-19-14, April 2019.
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, poor leadership, 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

Many Department entities experience difficulty maintaining staffing levels, a problem that was compounded this year due to the Department-wide hiring freeze, which is discussed in more detail below.

Embassy Nassau, The Bahamas, was among those posts that faced significant operations challenges due to lengthy staffing gaps in three key leadership positions: ambassador, deputy chief of mission (DCM), and management officer. The embassy had been without a permanent, confirmed ambassador since November 2011.62 At the Office of Foreign Missions (OFM), the acting Director held three leadership positions, and employees described him as overburdened and overwhelmed.63 Meanwhile, OIG noted that shifts in workload were not accompanied by a commensurate realignment of personnel and redefinition of office functions. As a result, at the same time that some OFM employees did not have enough work, others had more work than they could complete.64

In another example, we found that staff morale at Embassy Nairobi suffered because of a heavy workload and long hours associated with the months-long Kenyan election process and post-election violence. With the end of election-related violence in mid-April 2018, the embassy returned to a more normal work-life balance, but officers were still recovering from the effects of the heavy workload and long hours.65

Providing Appropriate Training/Ensuring Staff Are Appropriately Qualified

Underqualified staff is an issue that frequently intersects with the Department’s difficulties managing and overseeing contracts. For example, in Iraq, a lack of qualified personnel to serve as CORs suggested a shortfall in human capital planning. The Department has previously recognized issues with its COR workforce, but we found that initiatives recommended by a working group that was created to address the issue were not considered after the group concluded its work.66 Inadequate training is also a problem. For example, in India, political officers responsible for human rights, trafficking in persons, political-military affairs, counterterrorism, and nonproliferation did not have functional training in these areas.67 The lack of a documented process for setting and funding training priorities also prevented Public Affairs Section leadership from maximizing available resources to meet training needs.68

---

64 Ibid.
65 ISP-I-19-08, October 2018.
68 Ibid.
Managing the Effects of the Department-wide Hiring Freeze

As previously noted, the hiring freeze had a particular effect on workforce management this year. On January 23, 2017, the President ordered a Government-wide freeze on the hiring of Federal civilian employees.69 The Office of Management and Budget (OMB) lifted the hiring freeze on April 12, 2017, when its director released a plan to reduce the size of the Federal Government workforce through attrition, fulfilling a Presidential requirement to develop such a plan before lifting the freeze.70 However, the Department continued the hiring freeze for another 13 months, until the Secretary lifted it on May 15, 2018.71 A review by OIG showed that the freeze had a broad and significant effect on overall Department operations.72

The hiring freeze particularly affected on-board staffing levels for the Department’s eligible family members and Civil Service employees, which declined by 20.7 percent for the former and by 7.1 percent for the latter from January 2017 to May 2018 when the freeze was lifted.73 Bureaus and offices consistently described the process of requesting exemptions to the hiring freeze as time-consuming, inefficient, and frustrating.74 Bureaus also reported that they were unable to approve training and other professional development during the hiring freeze because of heavy workloads and Department-wide restrictions on detail assignments, which affected their ability to develop their workforces.75

We also noted that its implementation was not guided by any strategic goals linked to a discrete, but related, exercise to prepare a plan to improve the economy and efficiency of Department operations, known as the organizational reform effort. This disconnect led to an inability to apply staffing reductions in a way that reflected the Department’s strategic goals.

Lastly, our review found that all the bureaus and offices (38) and 97 percent of the embassies and consulates (145) that responded to our survey reported that the hiring freeze had either a somewhat negative or very negative effect on employee morale and welfare. Employees told OIG that the hiring freeze contributed to excessive workloads, and the lack of transparency about the objectives intended to be achieved by the hiring freeze caused some to be concerned about losing their jobs.

Holding Leadership Accountable to Department Principles

Strong leadership that adheres to appropriate standards is vital to ensuring a successful workforce. The Department’s Leadership and Management Principles guide the management of its workforce.76 These principles state that the Department relies on all employees to represent the U.S. Government in the course of carrying out its mission. However, managers and supervisors within the Department have a special responsibility to ensure the mission is carried out by leading by example to foster the highest attainable degree of employee morale and productivity.

A report on leadership within the Bureau of International Organization Affairs revealed numerous complaints, including allegations of disrespectful and hostile treatment of employees, unmerited accusations of disloyalty, and retaliation based on...

72 OIG, Review of the Effects of the Department of State Hiring Freeze (ISP-I-19-23, August 2019).
73 Ibid.
74 Ibid.
75 Ibid.
76 3 FAM 1214 (September 21, 2018).
conflicts of interest. Many leadership concerns associated with the National Passport Center in New Hampshire were also reported to OIG, prompting a targeted review. Employees reported widespread inappropriate behavior that included allegations of retaliation, such as denying awards, promotions, and special assignments and pursuing meritless disciplinary actions; multiple incidents of sexual and gender-based harassment; and multiple accounts of subtle or blunt intimidation.

Additionally, our inspection of Embassy Libreville revealed a leadership team falling short of the Department’s own principles. We found that verbal outbursts on the part of a senior leader created anxiety and impeded communications. We also found one leader who may have violated anti-nepotism guidelines and supervisors who failed to address poor performance by some staff members in several embassy sections.

### 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 lack of internal coordination was one of our findings in the audit of the Department’s Directorate of Defense Trade Controls, which is charged with controlling the export of defense articles and services. Specifically, we found that licensing officers, who adjudicate applications from prospective exporters, did not always work with other relevant bureaus and offices to gain valuable input before approving applications. In our inspection of DRL foreign assistance program management, we heard from employees of regional bureaus and embassies that DRL did not always share sufficient information about sensitive democracy and governance programs taking place in their region or country, which hampered their ability to direct and supervise the implementation of foreign assistance programs.

Furthermore, we found instances where dispersed and unclear authority contributed to weaknesses in certain programs and operations. For example, we reported that we could not affirm whether grants and cooperative agreements awarded to counter violent extremism were achieving desired results because the Bureau of Counterterrorism (CT) had not ensured that the strategic plans and activities of Department bureaus aligned with the overall Department goals. We found that CT officials could not enforce compliance with Department goals because they did not have the authority to do so. Similarly, we found that the search for a resolution to improper passport seizures at Embassy Sana’a, Yemen, was prolonged in part because there was no single decisionmaker with clear authority to resolve differing viewpoints on legal questions.

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

---

80 Ibid.
82 ISP-I-19-12, October 2018.
84 OIG, Review of Allegations of Improper Passport Seizures at Embassy Sana’a, Yemen (ESP-19-01, October 2018).
noted in past reports a lack of coordination between OBO and DS, both of which have responsibilities for physical security at diplomatic facilities. The creation of a database of physical security deficiencies reflects improved coordination between the bureaus, but the Department must develop and implement a process to prioritize physical security deficiencies at overseas posts to improve allocation of funding. Regarding 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.

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.

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 growing body of work on the construction projects at Embassy Kabul illustrates the interplay of all these issues. Pressure to quickly complete construction projects coupled with poor coordination among stakeholders, a slow acquisitions process, and personnel without the necessary expertise can lead to contract management mistakes with financial and security implications for the Department.

The Department will benefit most if deficiencies are effectively addressed in programs and operations that are affected by multiple challenges. 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.

HELP FIGHT FRAUD. WASTE. ABUSE.

1-800-409-9926
stateOIG.gov/HOTLINE

If you fear reprisal, contact the OIG Whistleblower Coordinator to learn more about your rights.

WPEAOmbuds@stateoig.gov

85 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).
Management’s Response to Inspector General

In 2019, 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.

To address challenges such as the ones described above, in the summer of 2019 the Under Secretary for Management (M) worked across M family bureaus to define his “High Five” priorities: Talent; Security & Infrastructure; Excellence & Innovation; Data & Analytics; and Technology. Stemming from these thematic priorities, the Under Secretary worked with each Management bureau to establish action plans, key tasks, and metrics to monitor progress towards improvement in each High Five area.

The High Five, together with Management’s “Field First” focus that centers on responsiveness to post needs, provides a framework to plan strategically and work to promptly and efficiently take 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 of utmost importance for the Department, exemplified by the High Five priority of Security & Infrastructure. Although protecting our people and assets is a constant challenge, this focus emphasizes the need for:

- Providing safe and secure conditions for employees domestically and abroad; and
- Mitigating risks of operating in high threat environments.

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 highlighted problems related to facilities maintenance during their routine inspections of overseas posts. As part of the High Five priority of Security & Infrastructure, the Bureau of Overseas Buildings Operations (OBO) is undertaking a Facilities Maintenance and Upkeep initiative to enhance its operations and maintenance program with a focus on increasing the longevity of our facilities. This initiative aims to leverage industry standards to manage the life cycle of overseas facilities, identify performance indicators to measure improved design effects on operations and maintenance, improve the collection of facility conditions, and expand and enhance the facility management support to the field.
The Department has maximized the use of fully-qualified personal services and third-party contractors to fill critical facility manager vacancies at posts, and ramped up recruiting efforts over the past twelve months. Eight facility manager students currently are in tradecraft training at the Foreign Service Institute and expected to complete it in January 2020. The Department also has established several OBO Regional Support Centers (ORSC), with the latest one in the Bureau of African Affairs (AF). The AF ORSC will reach initial operational capability in 2020 and provide direct facility management support to AF posts.

Regarding specific OIG recommendations made on public water and mold issues from U.S. Embassy Paramaribo's chancery roof, a Departmental team reviewed the roofing deficiencies and estimates that they will be corrected by the end of calendar year 2019. In addition, post mitigated the mold issues and worked with the embassy health unit and OBO's Office of Safety Health and Environmental Management to confirm that there are no reports of occupants with health issues linked to mold in the buildings.

Regarding OIG’s Inspection of Embassy Banjul, The Gambia, OIG reported numerous physical defects in the chancery. OBO and the Embassy continue to negotiate with the landlord to undertake the repairs, but the parties have yet to determine a start date. For the Inspection of Embassy Port-au-Prince, Haiti, OIG reported potential workplace safety hazards, including issues with the elevator. The Embassy completed most of the required repairs, and is coordinating with OBO to issue a Certificate of Use for the two elevator issues.

Ensuring the Health and Safety of Personnel Abroad

The Department’s emphasis on fostering and sustaining a healthy, resilient, and engaged global workforce for optimal performance is incorporated into the Under Secretary for Management’s High Five action plan. The Department is working to expand resilience support and training activities through ongoing outreach and other efforts.

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.

Overseeing Construction Contracts

OIG’s audit of the commissioning of two residential buildings at the Embassy in Kabul found that, in order to accommodate the ambassador’s request to expedite occupancy, OBO declared the buildings substantially complete even though 8 of 22 systems were not commissioned. OBO maintains that as long as fire and life-safety systems are complete and a building can be used for its intended purpose, minor punch list items should not prevent the Department from moving people into safer, more secure facilities as quickly as possible, particularly in a critical-threat environment. OBO is in the process of updating its policies and procedures to allow for the necessary flexibilities required for overseas construction, especially in fluid environments such as Kabul.

During the same audit, OIG identified weaknesses in how OBO maintains commissioning documentation, which serves as the historical record of key decisions made throughout the project planning and delivery process. OBO maintains that the risks identified by OIG are minimal, although OBO concurs that an improved documentation process may mitigate these risks.
As part of the Under Secretary’s High Five priority of Excellence & Innovation, OBO aims to utilize technology to enhance capabilities across all phases of a facility’s lifecycle. OBO is piloting software currently utilized in the private sector to reduce the use of hard-copy commissioning documents. OBO has invited external experts to review capabilities, compatibility with other platforms, and technical security requirements. OBO also is updating the commissioning task order statement of work template to include language about routinely uploading hard-copy commissioning performance tests and related documentation.

Regarding the OIG’s review of the Camp Eggers construction project, the Department concurs with the OIG’s recommendation that it should develop a policy identifying the specific circumstances under which the construction clause in the Worldwide Protective Services should be used. The Department acknowledges that, when it embarks upon new construction projects to support embassy operations, close intra-Bureau coordination is required to ensure all considerations for housing and supporting infrastructure for a security program are met.

**Overseeing Grants and Foreign Assistance Programs**

In its report, the OIG referenced its special evaluation of the *Antiterrorism Assistance Explosive Detection Canine Program*, and the insufficient policies and standards governing this program. The Department has taken significant strides to address the deficiencies outlined in the report. Diplomatic Security’s Office of Antiterrorism Assistance has resolved the majority of the recommendations in the OIG’s report, addressing issues through written policy adjustments and new guidelines. For example, the Department is establishing planned health and welfare visits, and a new requirement for host nations to sign care guidelines before the canines are delivered. In addition, Diplomatic Security, in conjunction with the Bureau of Counterterrorism, is developing a sustainability plan for the dogs serving in Jordan.

**3 INFORMATION SECURITY AND MANAGEMENT**

Information Security and Management combines two of Management’s High Five priorities, Security & Infrastructure and Technology. Protecting the Department’s information and keeping up with technological advances go hand-in-hand.

The Security & Infrastructure priority focuses on enhancing and better connecting cybersecurity efforts, including enterprise cyber risk management, as well as leveraging IT and intelligence to improve safety and security of operations.

The Technology priority seeks to modernize the Department with a mission-first, field-first focus, including:

- Working with bureaus to capture their strategic and operating intent in sufficient detail to drive IT decision making;
- Aligning IT programs, staffing, and funding to deliver on prioritized roadmap;
- Establishing common architecture to address common concerns; and
- Ensuring systems are reliable, especially command and control circuits.

The Department has taken steps to address its information security program, as noted in the 2019 OIG Federal Information Security Management Act report. For example, the Department has taken steps to revise its Cybersecurity Risk Management Strategy in 2019, addressing recommendations issued in the *Audit of the Department of State Information Security Program*. 
The Department also has progressed in addressing the role of the Chief Information Officer (CIO). The CIO has been delegated oversight authority over all IT investments, including cybersecurity. The CIO currently is evaluating the effectiveness of the Chief Information Security Officer and Diplomatic Security (DS) partnership to manage cybersecurity risk and threat.

However, DS also has responsibilities for certain aspects of information security, as delegated in memoranda and the Omnibus Diplomatic Security and Antiterrorism Act. These aspects include communications and computer-related security functions. Interdependent security disciplines enable DS to leverage technical, law enforcement, and counterintelligence capabilities in combatting threats to protect classified and sensitive information affecting foreign policy and national security. The Department has recognized this by splitting responsibilities for information and cybersecurity between the Bureau of Information Resource Management (IRM) and DS. The operational division of responsibilities between DS and IRM are parallel to the collaborative efforts between:

- DS and OBO to secure diplomatic facilities globally;
- Bureau of Intelligence and Research and the Bureau of Administration to secure intelligence information and Sensitive Compartmented Information Facilities and to ensure that classified information is safeguarded and securely shared; and
- DS and HR to ensure a vetted and trusted workforce.

Although the OIG states, “there is no clear picture of total IT spending by the Department,” the Department continues to report its total IT spending to the Office of Management and Budget annually. The CIO and the Director of Budget and Planning certify this information. The Department continues to review and improve IT investment oversight through the new IT Executive Council governing structure. This structure incorporates the requirements and participation of all regional bureau IT leadership. As a result, the IT acquisition procurement review has been brought under the office of the CIO.

The Department acknowledges that it continued to experience lapses in performance duties of ISSOs in 2019. This continues to be a struggle, as the current level of information resources staff overseas cannot sustain both regular duties and tasks of an ISSO. However, the Department has launched a new cyber incentive pay initiative. This program is re-evaluating positions and responsibilities and creating positions that have cybersecurity as a primary function of their job. This program is scheduled for implementation in 2020.

The OIG report also addresses overseas posts that did not establish a local control board to ensure that the hardware, software, and network components installed on the local area network do not adversely affect the existing IT infrastructure. The Department already has identified a solution to this with the modernization of the Department’s central Information Technology Configuration Control Board system. This system will be deployed in 2020 on a cloud platform, will incorporate local change controls efforts, and will be accessible to post, providing the Department with a comprehensive view of the configuration of all IT assets and systems in production.

The OIG addressed suggested improvements to the team the Department created to assess IT networks and to provide recommendations and remediation strategies to enhance the Department’s IT posture, such as requiring that bureaus and posts respond to recommendations made during assessments that the IT team ensures all vulnerabilities identified are remediated. This is being addressed by the IT Executive Council (ITEC), which incorporates the requirements and participation of all regional bureau IT leadership. The ITEC also will alleviate concerns such as the Bureau of Democracy, Human Rights, and Labor’s failure to prepare a project plan to replace its Leahy vetting system.
The Department operates in a complex and challenging global environment and, as a result, 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 138 currencies, accounts for $100 billion in assets, maintains 236 bank accounts around the world, executes over 6,100 annual foreign currency purchases and sales valued at over $6 billion, and manages real and personal property capital assets with historical costs of more than $34 billion.

As part of the High Five theme of Excellence and Innovation, the Bureau of the Comptroller and Global Financial Services is working to automate and streamline financial operations through process enhancements and technology innovations, including the increased use of Robotic Process Automation, or “bots.”

As part of the High Five theme of Security and Infrastructure, the Bureau of Administration is working to optimize the management of the Department’s domestic real property assets. Additionally, as part of Security and Infrastructure, the Bureau of Overseas Buildings Operations is working to improve the process to prioritize projects of varying scope and scale across the global portfolio to optimize safety, security, and functionality through the Embassy After Next initiative.

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 seven consecutive unmodified opinions (FYs 2012-2018) from the external Independent Auditor on our annual Department-wide financial statements. In addition, the Department ended 2018 with no reported material weaknesses in internal controls over financial reporting.

The Management Challenges report notes the Department’s difficulty in tracking and reporting data. The Office of Management Policy, Rightsizing, and Innovation has taken significant strides to overcome these difficulties by setting up the Department’s Center for Analytics and establishment of the Chief Data Officer (CDO). Since its inception in November 2018, the Center for Analytics has had a significant impact by infusing analytics into agency-wide management and policy decision making, with over 30 projects complete and 60 queued. The Center for Analytics, led by the CDO, is enhancing its data management and governance activities by creating an enterprise data governance board and a data catalogue, and is working to improve data quality and accessibility issues through its master reference data and other efforts.

The Under Secretary for Management also addresses this in the High Five, stressing the importance of data-informed decisions, particularly:

■ Treating data as a strategic asset; increasing timeliness, usability, quality, and reliability of data while ensuring data security and integrity;

■ Improving decision making with evidence and analysis; and

■ Building and enhancing data analysis and literacy capabilities.

**Internal Control Deficiencies**

The OIG found purchase card users complied with laws and regulations but were deficient in documenting required reviews. Fiscal year 2018 was the first year that all bureaus and posts were required to complete their annual reviews in the Purchase Card Management and Reporting System. The Department has a clear and consistent policy that requires annual reviews and will continue to communicate reminders to enforce the policy through Department Notices, ALDACs, and email notifications.
Collecting, Analyzing, and Applying Financial Information

In the OIG’s report, the inspection of Embassy Bogota showed a shortfall in nonimmigrant visa application fees of approximately $1.6 million. Limitations of available analytical tools (Excel, Access, Tableau, etc.) create management challenges in the Department’s ability to perform in-depth and complex analysis of financial information. In the case of Colombia specifically, after six months of extensive and exhaustive review and analysis, the Bureau of Consular Affairs (CA) referred the matter to the OIG’s Office of Investigations for a forensic level review; the matter remains under investigation as of October 2019.

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.

Management’s High Five priority of Excellence & Innovation emphasizes agility, such as:

- Improving intra- and interagency coordination and accountability to enhance service delivery and enable foreign policy objectives;
- Implementing “Automation Ready” Process improvement methods;
- Fostering innovative thinking and allowing calculated risk taking when considering new ways of doing things; and
- Providing safe and secure conditions for employees abroad and mitigating the risks of operating in high-threat environments.

Workforce Management

The Secretary’s Professional Ethos gives a common foundation for the Department’s broad mission, one that cannot be accomplished without its workforce. Similarly, despite employing different categories of staff – Foreign Service, Civil Service, locally employed staff, and political appointees – the Secretary has emphasized the need for One Team, One Mission Ethos to achieve success.

The High Five Talent priority elucidates how the Department is striving to be the employer of choice and care for its people. To combat workforce management challenges, some of which the OIG describes in its report, the Under Secretary for Management is focusing on:

- Accelerating onboarding and hiring to fill critical Civil Service vacancies;
- Leadership development and succession planning;
- Improving employee engagement and workforce flexibilities;
- Enhancing the resiliency and well-being of employees; and
- Promoting an inclusive and diverse workforce.
The Department will elaborate on these efforts in response to several of the OIG’s Management Challenges findings below.

Maintaining Adequate Staffing Levels to Meet Operational Needs

The OIG notes that many Department entities experience difficulty maintaining staffing levels, a problem compounded due to a 17-month Department-wide hiring freeze. The Department agrees that it is critically important to reach and maintain adequate staffing levels and has made significant progress in 2019. Under Secretary Pompeo’s leadership, currently the Department is just one percent shy of its goal to have over 13,000 Foreign Service (FS) employees by January 2020, with nearly 12,800 FS staff on board as of October 2019. In 2019, the Department hired 515 new FS employees (247 Specialists and 268 Generalists) and another 112 Limited Non-Career Appointments. There also are eight FS classes (four Generalist and four Specialist) planned for 2020. Although, unlike the FS, Civil Service (CS) hiring occurs on a case-by-case basis, the Department is pursuing hiring levels roughly 700 above current levels (currently at 10,300) – an increase of nearly seven percent.

The Department takes the impact of vacancies on staff morale very seriously, and remains committed to pursuing innovative strategies to attract and retain a highly-qualified workforce and expedite recruitment. At the same time, the Department is actively fostering a culture that is family-friendly and conducive to self-care by helping employees juggle the demands of work and family, including aging parents, childcare, and medical emergencies. Some recruitment and retention strategies include:

Recruitment:

- Prioritizing hiring for vacant Human Resources (HR) Specialist positions (performing CS recruitment) at the Department’s largest HR Service Provider;
- Signing a Memorandum of Understanding with the Defense Finance and Accounting Service (DFAS) to provide support for the recruitment and hiring of State CS employees. DFAS has agreed to process as many as 50 to 60 recruitment requests per month for at least the next year effective November 1, 2019;
- Encouraging hiring managers to identify those positions that may be converted to a Domestic Employees Teleworking Overseas program (DETO) position;
- Encouraging managers to allow “tandem couple” employees to fill domestic jobs with DETO positions where their spouses are assigned;
- Offering the Consular Fellows and Information Management Specialists online tests globally at approximately 130 additional testing centers around the world to increase accessibility for applicants interested in these two tracks;
- Reducing the Foreign Service Officer assessment timeline to attract candidates, enhance assessment capacity, and to make the Department more competitive with the private sector; and
- Launching a pilot for expedited/increased veteran hiring for civil service IT positions.

Retention:

- Developing flexibilities on leave without pay and creating a working group to explore flexibilities in existing policies to support families, particularly new parents;
- Publishing an online “Director General of Human Resources Digest” that raises awareness about new and existing policies and services, and maintaining a dedicated resources page for the Department community on the HR intranet site about the family care resources currently available;
Establishing an innovation unit and an enhanced strategic communications unit, so employees now can propose directly those policies, approaches, and opportunities they need to be productive, engaged, and empowered; and

- Reinstating a Global HR Workshop in Washington for Human Resources Officers.

In the meantime, the Department continues to employ strategies and programs, such as the Consular Fellows Program, staff details, the CS Hard-to-Fill program, retirees working on a reemployed annuitant basis, and the Expanded Professional Associates Program, to minimize the impact of staffing gaps and reduce vacancies.

**Holding Leadership Accountable to Department Principles**

The primary goals of the Department’s discipline process include accountability, fairness, and affirmation of core values for all employees, including those in leadership positions. The Department acknowledges that combating a toxic workplace starts at the top; holding leadership accountable is key to maintaining a productive and mission-focused workplace. The Secretary’s One Team, One Mission Ethos for the Department promotes a culture of accountability at all levels. The Conduct, Suitability, and Discipline (CSD) division of the Office of Employee Relations manages the Department’s discipline program with the goal that employees throughout the ranks understand and adhere to the highest standards of conduct and professionalism.

To advance these goals, CSD continues to manage an average of 350 cases for possible action per year from investigative offices and bureaus. CSD works closely with the Bureau of Diplomatic Security, Office of Civil Rights, Office of the Inspector General, Office of the Legal Adviser’s Office of Employment Law, bureau executive offices, other HR offices, and the Drug Free Workplace administrator, in the management of the discipline program. CSD also works to educate and support managers and employees in preventing or addressing misconduct at all levels before it affects the efficiency of the Service, and to ensure that employees are free from harassment in the workplace.

The OIG’s *Targeted Review of Leadership at the National Passport Center* reported disrespect, hostility, and retaliation based on conflicts of interest and overall mismanagement. As a result of this report, CA and the Office of Civil Rights (OCR) investigated these allegations and forwarded their findings and recommendations to the Bureau of Human Resources for determination of appropriate disciplinary actions. CA also consulted several outside entities to provide staff with necessary information and support, including the Office of Medical Services, OCR, the Ombudsman, and the Employee Assistance Program. In addition, CA contracted the assistance of HHS’ Division of Federal Occupational Health Service to provide onsite managerial consultations. CA continues to work with leadership at the National Passport Center to ensure managerial accountability to Department Leadership principles.

**Promoting Accountability Through Internal Coordination and Clear Lines of Authority**

The Department acknowledges that clear lines of authority are necessary for ensuring 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 requires a great deal of coordination between internal and external partners.

In August 2019, the Department established the Enterprise Governance Board, a forum for senior leaders to provide executive-level direction, solicit input for decisions, and exercise oversight of major cross-cutting topics at the Department. All Under Secretaries serve as permanent board members and the group meets on a regular basis. The Enterprise Governance Board focuses on improved agility, enhanced alignment, strengthened accountability, risk, and data-informed decision making.
The OIG cited a lack of coordination between OBO and DS that affects the Department’s ability to track and prioritize physical security needs at overseas posts and implement an effective information security program. Following the release of the OIG report, Compliance Follow-up Audit of the Process to Request and Prioritize Physical-Security Related Activities at Overseas Posts, OBO and DS took the following steps to ensure better coordination:

- Created a Security Requirements Working Group to review all new requests for urgent security upgrades or projects and to discuss the urgency and relative priority of these projects, as well as to ensure that security-related projects move forward as expeditiously as possible when obstacles are encountered.

- Developed a worldwide physical security deficiencies database, tracking all deficiencies in OBO’s Building Management Integrated System. Currently, there are over 7,000 deficiencies, and OBO and DS are working on prioritization methodology.

- Validated the current prioritization factors to include a peer review by the Army Corps of Engineers of the existing criteria. OBO is developing standard operating procedures to use the deficiency data to produce prioritized project lists for future execution.

- Developed a process for tracking and aligning these physical security deficiencies to OBO projects and monitoring the deficiencies to resolution. Despite the efforts to identify and prioritize physical security deficiencies, there will still be an ongoing backlog due to changing physical security standards and a lack of funding.

- The Assistant Secretary for Diplomatic Security and the Director of OBO meet bi-weekly to address issues of critical importance to the safety and security of overseas posts with an emphasis on creating collaborative and innovative solutions to emerging challenges.

CA also is working towards promoting accountability through a consolidated legal review of passport, Consular Report of Birth Abroad adjudication policy, and citizenship law into its Passport Services division. Prior to December 2017, decision making was split between Overseas Citizen Services and Passport Services. In addition, all CA lawyers will move to the Office of the Legal Adviser. The transition will occur in calendar year 2020.

In addition, as a result of the OIG’s Review of Allegations of Improper Passport Seizures at Embassy Sana’a, Yemen, CA is forming clear policy guidance and training to ensure passport seizures are appropriate and resolved in a timely manner. This includes a single point of contact to communicate with and receive direction on key legal issues when needed.
In the fall of 2017, the United States launched a whole-of-government strategy in support of a free and open Indo-Pacific in which sovereign and independent nations and diverse cultures can all prosper side-by-side and thrive in freedom and peace. This new concept – the Indo-Pacific Strategy – focuses on three areas: economics, governance, and security. The economic pillar concentrates on infrastructure, energy, and the digital economy. We are also working with our interagency partners to promote open markets; high standards and transparency; and free, fair, and reciprocal trade.

Our economic initiatives help the countries in the region use private sector investment as the path to sustainable development. In August 2019, Secretary Pompeo announced nearly $30 million for energy development through the Japan-U.S. Mekong Power Partnership, building on our Asia EDGE (Enhancing Development and Growth through Energy) regional energy initiative announced by the Secretary last year. The next month, we enhanced our Infrastructure Transaction and Assistance Network by launching a Transaction Advisory Fund to help countries negotiate complex infrastructure deals. Next month we will host the first U.S.-Association of Southeast Asian Nations (ASEAN) Cyber Policy Dialogue in Singapore as we continue to implement programs under the Digital Connectivity and Cybersecurity Partnership.

With respect to governance, we seek to build capacity for good governance and adherence to international law, rules, and standards. This will strengthen civil society and democratic institutions in the region, counter corruption, and help countries attract the high-quality financing necessary to fuel their economic development while securing their sovereignty. We are already implementing well over 200 governance programs under our whole-of-government Indo-Pacific Transparency Initiative (IPTI), and we are identifying new areas of cooperation with likeminded partners. These efforts strengthen democratic systems and civil society; empower citizens; fortify institutions; and eliminate laws that tie-up private investment while also combating corruption and hidden costs in foreign transactions. Vice President Pence announced the IPTI in November 2018 to elevate U.S. and partner support for sound, just, and responsive governance in the Indo-Pacific region. The IPTI is a key part of implementing the U.S. Indo-Pacific Strategy. It will strengthen democratic systems, include civil society partners, combat corruption, and fortify institutions to help nations attract high-quality private investment and secure their sovereignty.

On the security front, our aim is to build a flexible, resilient network of like-minded security partners to promote regional stability; ensure freedom of navigation, and other lawful uses of the sea; and address shared challenges in the region. Secretary Pompeo committed nearly $300 million in security assistance to improve maritime domain awareness in order to protect critical sea lanes. In addition to implementing this assistance, we launched a new program in August to counter transnational crime along the Mekong, and just last week we conducted the first-ever U.S.-ASEAN maritime security exercise. We have also seen continued significant progress in our relationship with India, including through the Quadrilateral Dialogue with Japan and Australia.
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

<table>
<thead>
<tr>
<th>Audit Opinion:</th>
<th>Unmodified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restatement:</td>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MATERIAL WEAKNESSES</th>
<th>BEGINNING BALANCE</th>
<th>NEW</th>
<th>RESOLVED</th>
<th>CONSOLIDATED</th>
<th>ENDING BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Material Weaknesses</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### SUMMARY OF MANAGEMENT ASSURANCES

<table>
<thead>
<tr>
<th>EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)</th>
<th>BEGINNING BALANCE</th>
<th>NEW</th>
<th>RESOLVED</th>
<th>CONSOLIDATED</th>
<th>REASSESSED</th>
<th>ENDING BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Assurance: Unmodified</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Material Weaknesses</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)</th>
<th>BEGINNING BALANCE</th>
<th>NEW</th>
<th>RESOLVED</th>
<th>CONSOLIDATED</th>
<th>REASSESSED</th>
<th>ENDING BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Assurance: Unmodified</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Material Weaknesses</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)</th>
<th>BEGINNING BALANCE</th>
<th>NEW</th>
<th>RESOLVED</th>
<th>CONSOLIDATED</th>
<th>REASSESSED</th>
<th>ENDING BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Assurance: Federal systems conform to financial management system requirements</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Non-conformances</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### COMPLIANCE WITH SECTION 803(a) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

1. Federal Financial Management System Requirements
   - Compliance noted
   - Lack of compliance noted

2. Applicable Federal Accounting Standards
   - Compliance noted

3. USSGL at Transaction Level
   - Compliance noted

**DEFINITION OF TERMS**

- **Beginning Balance:** The beginning balance must agree with the ending balance from the prior year.
- **New:** The total number of material weaknesses/non-conformances identified during the current year.
- **Resolved:** The total number of material weaknesses/non-conformances that 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 that a finding does not meet the criteria for materiality or is redefined as more correctly classified under another heading).
- **Ending Balance:** The year-end balance that will be the beginning balance next year.
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.

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, 2016, and again in 2019.

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 2019, the Department determined that none of its programs were risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. The 38 programs assessed were: American Compensation; Foreign Locally Employed Staff Compensation; Foreign Service Annuities; Voluntary Contributions; Assessed...
Contributions; Post-Assignment Travel; Temporary Duty Travel; Domestic Purchase Card Payments; National Endowment for Democracy; Economic Support Fund; Diplomatic and Support Programs; Overseas Programs; Diplomatic Policy and Support; Consular Information Technology and Security; Information Technology Central Fund; Worldwide Security Protection; Security-Afghanistan, Pakistan; Western Hemisphere Travel Surcharge; Diplomatic and Consular Terrorism Related Programs; Passport Generation and Related Programs; Diplomatic and Consular Other Operations Programs; Capital and Real Property Acquisitions Programs; Leaseholds and Functional Programs; International Security Programs; Population Refugees and Migration Programs; International Cooperative Administrative Support Services; Working Capital Fund Programs; Fulbright Program; Citizen Exchange Program; Educational Programs; Promote the Rule of Law; Physical Security Programs; Aviation, Anticrime, Interdiction and Related Programs; Embassy Operations Programs; Peacekeeping Operations; International Security and Nonproliferation Related Programs; Construction; and Project Construction – Major Rehabilitation.

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 2019, OMA contract recapture audit efforts identified $255,711 contract overpayments. Of that amount, $190,928 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 “Payment Recaptures Reporting” table, in 2019 OMA identified $51,481 in travel program recapture audit overpayments, and collected $80,183 which was returned to the originating appropriation. The collected amount includes $59,869 of prior year overpayments identified.
During 2019, OMA built on prior recapture audit activities by targeting additional payment aspects to ensure all document types are eligible for review. In addition, OMA reviewed grant payments within the universe of the domestic and overseas payment program. OMA systematic analysis and targeted payment reviews will continue to expand efforts in the vendor, travel, grants, and 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 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. 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 and refer the debt to the Accounts Receivable Branch in CGFS/F/ARB if collections are not recovered within 30 days of the notice to the debtor. 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 2019 include: Diplomatic and Consular Programs; Working Capital Fund Programs; Nonproliferation, Antiterrorism, Demining; Embassy Security, Construction, and Maintenance; and other State programs. Collectively, as shown in the “Payment Recaptures Reporting” table, during 2019, CGFS/F/C identified and confirmed transactions totaling $782,435 of actual duplicate/improper payments, of which we recovered $632,527 in addition to collecting $228,557 of the prior year unrecovered balance. Also, in 2019 the Department identified and confirmed employee claims overpayments totaling $30,621, of which we recovered $20,747. Additionally we recovered $1,422 from prior year identified travel overpayments. Total recovered travel amounts in 2019 of $22,169 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 2019, the Department’s CGFS American Pay Processing Division identified and confirmed payroll overpayments totaling $6.25 million, of which $4 million has been recovered. Additionally $1.48 million of prior year payroll debts were recovered, bringing the total recovered in 2019 to $5.54 million. To date, CGFS/GC has collected 81 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 2019, the CGFS/GC Annuitant Pay Processing (ANP) identified and confirmed overpayment transactions totaling $574,268 and recovered $129,842 of current and prior year debts. 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 2019 Semiannual Reports to Congress that were presented in the “Payment Recaptures Reporting” table. Despite substantial efforts made to obtain actual collections data for OIG’s identified disallowed costs, we were unable to ascertain the exact status for all of the amounts owed. 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. 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 “Payment Recaptures Reporting” table as well. Detailed information and supporting documentation was readily available and obtained to support single audit activities. Given the majority of disallowed costs for OIG and Defense Contract Audit Agency are resolved by various means, we disclosed collections as equal to amounts identified as disallowed, which we believe are materially correct.

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 2019, the Treasury reviewed and disbursed 1,428,638 payments totaling $13.4 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 498,963 unmatchable payments, totaling $2.3 billion, and adjudicated 3 potential erroneous payment matches as part of the post payment review process.

The Department continues to utilize the Do Not Pay portal’s DMF on a pre-payment continuous monitoring basis for all annuitant payments. 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 2019, 199,814 annuitant payments totaling $976 million were reviewed against the DMF and 80 payments totaling $336,765 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 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 2019, potential payment matches were reviewed and resulted in one stopped payment totaling $354.

| Disposition of Funds Recaptured through Payment Recapture Audit Programs (dollars in thousands) | Aging of Outstanding Overpayments Identified in the Payment Recapture Audit Programs (dollars in thousands) |
|---|---|---|---|---|---|
| Original Purpose | All Years Remaining Unrecovered | Amount Outstanding (0 – 6 months) | Amount Outstanding (6 months to 1 year) | Amount Outstanding (over 1 year) | Amount determined to not be collectable |
| $ 80.2 | $ 177.3 | $ 0.3 | $ 23.8 | $ 153.3 | $ — |
| 44.4 | 78.8 | 64.0 | — | 14.8 | — |
| 146.5 | 70.4 | 4.7 | — | 65.7 | — |
| 48.8 | — | — | — | 48.8 | — |
| $ 271.1 | $ 375.3 | $ 69.0 | $ 23.8 | $ 282.6 | $ — |
In addition, in 2019 Department grants processed through HHS’ Payment Management System 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 2019, the Department was notified of one recipient that appeared ineligible due to results of the Do Not Pay process. In addition, in 2019, one recipient payment was stopped as a result of the Treasury Offset Program (TOP). The TOP is a centralized offset program, administered by the Bureau of the Fiscal Service's Debt Management Services, to collect delinquent debts owed to the Federal agencies and states (including past-due child support), in accordance with 26 U.S.C. 6402(d) (collection of debts owed to Federal agencies), 31 U.S.C. 3720A (reduction of tax refund by amount of the debts), and other applicable laws.

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 2019, 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 ($11,554) in 2019, 1 percent ($13,941) in 2018, 4 percent ($47,536) in 2017, and 4 percent ($32,242) in 2016. 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 next year to correct the deficiencies noted during the 2019 review.

DEBT MANAGEMENT

Outstanding debt from non-Federal sources (net of allowance) increased from $58.0 million at September 30, 2018 to $59.7 million at September 30, 2019. Civil Monetary Penalties, IBWC, and Administrative Loans increased by $2.3 million while Direct Loans and Passport non-sufficient funds decreased by $0.6 million at September 30, 2019, 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 $2.7 million to Treasury for cross-servicing in 2019. Of the current and past debts referred to Treasury, $1.6 million was collected in 2019.

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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Accounts</td>
<td>2,823</td>
<td>1,377</td>
<td>1,114</td>
</tr>
<tr>
<td>Amounts Referred</td>
<td>$2.7</td>
<td>$4.3</td>
<td>$3.3</td>
</tr>
<tr>
<td>Amounts Collected</td>
<td>$1.6</td>
<td>$1.6</td>
<td>$1.5</td>
</tr>
</tbody>
</table>
**ELECTRONIC PAYMENTS**

For 2019, the Department disbursed approximately 3.9 million payments and 99 percent of them were processed through Electronic Funds Transfer (EFT). For overseas operations, the EFT percentage increased from a 2018 percentage of 98.9 percent to a 2019 percentage of 99.01 percent, which is a major accomplishment given the complexities of banking operations in some foreign countries. Domestic operations EFT percentage improved from 99.2 percent in 2018 to 99.3 percent in 2019.

**FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENT ACT**

The Federal Civil Penalties Inflation Adjustment Act of 1990 established annual reporting requirements for civil monetary penalties assessed and collected by Federal agencies. The Department assesses civil fines and penalties on individuals for such infractions as violating the terms of munitions licenses, exporting unauthorized defense articles and services, and valuation of manufacturing license agreements. In 2019, the Department assessed $13.4 million in penalties against two companies, and collected $6.1 million of outstanding penalties from three companies. The balance outstanding as of September 30, 2019 was $14.6 million. The following table lists the current penalty level for infractions governed by the Department.

<table>
<thead>
<tr>
<th>Statutory Authority</th>
<th>Penalty</th>
<th>Year Enacted</th>
<th>Latest Year of Adjustment</th>
<th>Current Penalty Level ($ Amount or Range)</th>
<th>Location for Penalty Update Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 U.S.C. 1352 – Limitation on use of appropriated funds</td>
<td>Penalties for both improper expenditures and failure to disclose. First time offenders</td>
<td>1989</td>
<td>2019</td>
<td>$19,809</td>
<td>Federal Register 84</td>
</tr>
</tbody>
</table>
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 2019, the Department timely paid 98 percent of the 611,063 payments subject to PPA regulations. The “Timeliness of DOS Payments” bar chart reflects the timeliness of the Department’s payments from 2017 through 2019. During 2019, the Department paid $975,895 in interest penalties out of $10.8 billion in payments that were subject to PPA, compared to $407,685 in 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 by creating policies and legislation that will give agencies the tools that they need to target and prevent fraud.

This framework, and other leading practice materials, provided a foundation for the Department’s fraud reduction program. In 2019, an Internal Controls Fraud Working Group continued to improve implementation efforts to develop a robust fraud program. The Department engaged industry experts to provide guidance in designing a new fraud risk exposure analysis methodology that comparatively scores bureaus throughout the Department, to effectively assist the Department in making informed fraud risk management decisions. Additionally, the Department completed a pilot of a new fraud risk assessment methodology on the Bureau of International Narcotics and Law Enforcement Affairs and is actively engaged in further refining and implementing this expanded fraud risk assessment methodology on a Department-wide basis. Beyond this new centralized and consistent approach to fraud risk assessment, bureaus and posts continued to engage in their existing fraud risk identification programs, as well as various data analytic techniques to identify and prevent fraud.

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. The following are examples and highlights from a few of our accomplishments in 2019.
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. CA operates an advanced fraud analytics program to identify, combat, and prevent potential fraud through the fraud prevention units (FPUs) located at 220 embassies and consulates abroad, as well as 29 domestic passport agencies and centers. FPUs use the results of this analysis in combination with their knowledge of local conditions to train consular adjudicators to identify potentially fraudulent applicants. Visa and passport adjudicators are trained to identify counterfeit and fraudulently issued documents, as well as impostors, during their adjudicatory training and in advanced fraud prevention training at technologically equipped facilities. Additionally, CA’s Office of the Comptroller trains Fees Accountable Consular Officers and consular managers on how to spot the signs of potential financial fraud.

Other factors that serve to deter fraud include the requirement of applicants for consular services to pay a fee prior to receipt of service and undergo biometric verification of identity, whether facial recognition (visas and passports) and/or fingerprinting (visas). To proactively prevent fraud, CA provides external training to consular personnel on fraud trends, techniques and counter measures during adjudicatory 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 group. 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 developed fraud prevention activities in response to the FRDAA Act. Below are examples and highlights from a few of our accomplishments in 2019.

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. In addition, CA works to identify and combat internal fraud and provides assistance to DS in visa and passport fraud investigations, with special focus on those that involve employee malfeasance.

Property: During 2019, the Integrated Logistics Management System (ILMS) Analytics team discovered one individual at an overseas post who circumvented existing controls and manually entered 91 percent of the assets at the post as well as made $100,000 in manual cost adjustments to existing assets. By comparing fuel costs expended across post locations, one post was identified as spending three times as much as other posts in the same region.
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.

Beneficiary Payments: The use of Treasury’s Secure Payment System continues to assist with successful identification and prevention of fraudulent payments to beneficiaries. In 2019, 199,814 annuitant payments totaling $976 million were reviewed against the DMF and 80 payments totaling $336,765 were stopped due to this initiative.

Travel Card Program: The Department’s Travel Card Program office 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 2018, 121,892 transactions totaling more than $23 million were inspected by the Misuse tool. 898 transactions were confirmed as misuse totaling $112,150. Annual 2019 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. Any cardholders who are found to have misused their cards a second time are referred to Human Resources for discipline, as well as to the Office of Inspector General.

Progress on Establishing Strategies, Procedures, and Other Steps to Curb 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. During 2019, Bureaus collaborated with each other to advance an organizational culture to combat fraud across components, programs, and levels. The Department will continue to dedicate resources to this important initiative in 2020.
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 2019, the Department continued the rollout of the OMB mandated 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 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 2019, implementation was completed in three Department bureaus and implementation activities were underway in thirteen additional bureaus. Over 2,300 vendor invoice approvals were accomplished in IPP. Full deployment will continue into 2020.

DOS continued efforts to improve methods to track Buyer-side Interagency Agreements (IAAs) in GFMS, including providing the ability to create 7600A and 7600B 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 2019, training was provided for all Department bureaus and the new business process was implemented for seven bureaus. Over 200 IAA transactions were processed in GFMS using the new process. The Department completed the development and system configuration of a new accounting model for the buyer-side IAA Advance Pay process. In 2020, implementation of the Advance Pay process will continue. This IAA implementation in GFMS introduces critical business process changes that will facilitate adoption of the Government-wide G-Invoicing platform by 2021.

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-nine posts are currently live on PrOPP. Analysis of an interface between the Real Property Application and RFMS was conducted in 2019 and development will begin in 2020.

**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 2019, the Department began working on COAST release 3.5.0.0 in order to upgrade COAST off of Microsoft SQL Server 2008. Since Microsoft will no longer be supporting Server 2008, COAST 3.5.0.0 will update COAST to a SQL Server version that is Microsoft supported. Implementation of COAST 3.5.0.0 is scheduled to begin in October 2019 with completion by December 31, 2019. In 2019, 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 in January 2020. COAST Reporting and COAST Payroll Reporting capabilities will be discussed in more detail under the Business Intelligence Program.

**Planning and Budget Systems Program**

In 2019, the Budget System Modernization (BSM) project to standardize, consolidate, and simplify the budgeting systems of the Department achieved three significant milestones. First, all funding provided to obligating offices was initiated in the new Integrated Budget Intelligence System (IBIS) and interfaced to the Global Financial Management System (GFMS). Second, the planning function for the International Cooperative Administrative Support Services (ICASS) working capital fund was deployed and used to create the annual funding levels for 2020 for the overseas posts and domestic offices. Third, the ICASS funding allotment function was deployed, which will take the 2020 plans, add other information, and create allotment amounts to be approved by users. This completes the transition of those functions of the legacy Central Resource Management System (CRMS) to the new Integrated Budget Intelligence System (IBIS).

CRMS, a legacy custom system developed over many years, continues to provide foreign currency fluctuation impact projections for use in managing the overseas budgets for the current year. This last remaining function will be migrated to the Global Business Intelligence (BI) system in early 2020. During 2019, plans for the data in CRMS were created. End user data will be moved to Global BI for future accessibility. Moving both the foreign currency function and the legacy data to Global BI will allow the retirement of CRMS during quarter two of 2020.

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 OF-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 118 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 enhance the functionality of the Local Travel feature to more closely align with the temporary duty travel functionality for foreign currency and approver expense reduction options. The Department continues to work with Carlson Wagonlit Travel on enhancements to support integration improvements with our financial systems. The Department continues to work with Carlson Wagonlit Travel on enhancements to support the implementation of the Local Payments module domestically and has initiated work to implement mobile capabilities for approvals and reservations.

**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.

---

**THE COMPENSATION SYSTEM VISION AND CONCEPT**

**Where We Were**

**2008**

Disparate Operations, all Custom-Built, Multiple Versions, Fragmented Maintenance

**TODAY**

Annuitant and LE Staff Pay Operations on PeopleSoft HCM COTS Product

**FUTURE**

Mainframe Payroll Applications Retired and Common Platform Sustainable Baseline COTS

**Global Systems**

DOS Posts, Bureaus & Serviced Agencies

FSNPay Charleston V1 & V2

Win T&A

RRS

CAPPs, FARADS, and Web TATEL Maintained and Operated by IRM

GFACS Supports Annuitants and LE Staff Worldwide

GFACS Annuitants and LE Staff

Web TATEL

COTS Periodic Updates and New Features

GFACS

American Annuitants LE Staff Time and Labor

HR

HR

HR
and local laws and practices applicable to all the countries in which civilian agencies operate.

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 program consists of the GFMS Data Warehouse (DW), COAST Reporting, COAST Payroll Reporting, and the Global BI Reporting. 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 2019, the GFMS DW was enhanced to implement new and updated reporting prior to the migration of all reporting content into the Global BI reporting tool in 2020. The GFMS DW will then be retired late in 2020.

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 has been formally conducted for about 60 posts in all regions. Several domestic bureaus have also been trained. New functionality added to Global BI in 2019 included a Pipeline report to show spending by country and program, and new Foreign Currency Exchange Rate reporting for the Bureau of Budget and Planning. Improvements were also made to some of the overseas financial reports to address performance and data quality issues. Improvements were also made to Global BI’s external reporting module to improve the Department’s foreign assistance reporting process, as well as reporting for the DATA Act to meet new Treasury requirements. In 2020, the Global BI application will be updated to include versions of the Payroll reports from COAST. Global BI’s Business Objects infrastructure will also be upgraded in 2020 to support the implementation of a new Lumira reporting tool. The GFMS Data Warehouse report migration will also be completed in 2020. The rollout of Global BI to overseas posts will accelerate in 2020.
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 Story Behind the State Department” comic, from True Comics #75, published February 1949. True Comics was an educational comic book for children that portrayed government and historical figures rather than superheroes. Department of State
**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 silkscreens. 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 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.A). 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.

**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.
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 Department 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. Department service providers in domestic facilities provide 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 Department 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 2018. 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 2020. 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 immediate threats to our nation’s security, responding to natural disasters and public health emergencies, or engaging long-term in 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 2019 amounts are not available until after publication of the Agency Financial Report.

<table>
<thead>
<tr>
<th>REDUCE THE FOOTPRINT BASELINE COMPARISON (amounts in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2018</strong></td>
</tr>
<tr>
<td>Square Footage</td>
</tr>
<tr>
<td>Operation and Maintenance Costs</td>
</tr>
</tbody>
</table>
U.S. Secretaries of State Past and Present

Thomas Jefferson (1790-1793)
Edmund Jennings Randolph (1794-1795)
Timothy Pickering (1795-1800)
John Marshall (1800-1801)
James Madison (1801-1809)
Robert Smith (1809-1811)
James Monroe (1811-1817)

John Quincy Adams (1825-1829)
Martin Van Buren (1829-1831)
Edward Livingston (1831-1833)
Louis McLane (1833-1834)
John Forsyth (1834-1841)
Daniel Webster (1841-1843)

Abel Parker Upshur (1843-1844)
John Caldwell Calhoun (1844-1845)
James Buchanan (1845-1849)
John Middleton Clayton (1849-1850)
Daniel Webster (1850-1852)
Edward Everett (1852-1853)
William Learned Marcy (1853-1857)

Lewis Cass (1857-1860)
Jeremiah Sullivan Black (1860-1861)
William Henry Seward (1861-1869)
Elihu Benjamin Washburne (1869-1877)
Hamilton Fish (1869-1877)
William Maxwell Evarts (1877-1881)
James Gillespie Blaine (1881-1881)

Frederick Theodore Frelighuysen (1881-1885)
Thomas Francis Bayard (1885-1889)
James Gillespie Blaine (1889-1892)
John Watson Foster (1892-1893)
Walter Quintin Gresham (1893-1895)
Richard Olney (1895-1897)
John Sherman (1897-1898)
Secretary Pompeo meets with Indian Prime Minister Narendra Modi at the Prime Minister’s Residence in New Delhi, India, June 25, 2019. Department of State
## Appendix A: Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADP</td>
<td>Automated Data Processing</td>
</tr>
<tr>
<td>AF</td>
<td>Bureau of African Affairs (DOS)</td>
</tr>
<tr>
<td>AFCS</td>
<td>Annual Facility Condition Survey</td>
</tr>
<tr>
<td>AFR</td>
<td>Agency Financial Report</td>
</tr>
<tr>
<td>AFS</td>
<td>American Film Showcase</td>
</tr>
<tr>
<td>AGA</td>
<td>Association of Government Accountants</td>
</tr>
<tr>
<td>AIDS</td>
<td>Acquired Immunodeficiency Syndrome</td>
</tr>
<tr>
<td>ANP</td>
<td>Annuitant Pay Processing</td>
</tr>
<tr>
<td>APG</td>
<td>Agency Priority Goal</td>
</tr>
<tr>
<td>APP</td>
<td>Annual Performance Plan</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>APR</td>
<td>Annual Performance Report</td>
</tr>
<tr>
<td>ATO</td>
<td>Authorization to Operate</td>
</tr>
<tr>
<td>BI</td>
<td>Business Intelligence</td>
</tr>
<tr>
<td>BP</td>
<td>Bureau of Budget and Planning (DOS)</td>
</tr>
<tr>
<td>BSM</td>
<td>Budget System Modernization</td>
</tr>
<tr>
<td>CA</td>
<td>Bureau of Consular Affairs (DOS)</td>
</tr>
<tr>
<td>CAP</td>
<td>Cross-Agency Priority</td>
</tr>
<tr>
<td>CBSP</td>
<td>Consular and Border Security Programs (DOS)</td>
</tr>
<tr>
<td>CDM</td>
<td>Continuous Diagnostics and Mitigation</td>
</tr>
<tr>
<td>CDO</td>
<td>Chief Data Officer</td>
</tr>
<tr>
<td>CEAR</td>
<td>Certificate of Excellence in Accountability Reporting</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>CGFS</td>
<td>Bureau of the Comptroller and Global Financial Services (DOS)</td>
</tr>
<tr>
<td>CGFS/F/C</td>
<td>Office of Claims (DOS)</td>
</tr>
<tr>
<td>CGFS/GC</td>
<td>Office of Global Compensation (DOS)</td>
</tr>
<tr>
<td>CIF</td>
<td>Capital Investment Fund</td>
</tr>
<tr>
<td>CIO</td>
<td>Chief Information Officer</td>
</tr>
<tr>
<td>CIO</td>
<td>Contributions to International Organizations</td>
</tr>
<tr>
<td>CIPA</td>
<td>Contributions for International Peacekeeping Activities</td>
</tr>
<tr>
<td>CMMI</td>
<td>Capability Maturity Model Integration</td>
</tr>
<tr>
<td>COAST</td>
<td>Consolidated Overseas Accountability Support Toolbox</td>
</tr>
<tr>
<td>COR</td>
<td>Contracting Officer Representative</td>
</tr>
<tr>
<td>COTS</td>
<td>Commercial Off-the-Shelf</td>
</tr>
<tr>
<td>CRMS</td>
<td>Central Resource Management System</td>
</tr>
<tr>
<td>CS</td>
<td>Civil Service</td>
</tr>
<tr>
<td>CSD</td>
<td>Conduct, Suitability, and Discipline</td>
</tr>
<tr>
<td>CSRS</td>
<td>Civil Service Retirement System</td>
</tr>
<tr>
<td>CT</td>
<td>Bureau of Counterterrorism and Countering Violent Extremism (DOS)</td>
</tr>
<tr>
<td>DATA Act</td>
<td>Digital Accountability and Transparency Act</td>
</tr>
<tr>
<td>D&amp;CP</td>
<td>Diplomatic and Consular Programs (DOS)</td>
</tr>
<tr>
<td>DCF</td>
<td>Defined Contributions Fund</td>
</tr>
<tr>
<td>DCIO</td>
<td>Deputy Chief Information Officer</td>
</tr>
<tr>
<td>DCM</td>
<td>Deputy Chief of Mission</td>
</tr>
<tr>
<td>DCP</td>
<td>Defined Contribution Plan</td>
</tr>
<tr>
<td>Department</td>
<td>U.S. Department of State</td>
</tr>
<tr>
<td>DETO</td>
<td>Domestic Employees Teleworking Overseas</td>
</tr>
<tr>
<td>DF</td>
<td>Democracy Fund (DOS)</td>
</tr>
<tr>
<td>DFAS</td>
<td>Defense Finance and Accounting Service</td>
</tr>
<tr>
<td>DHS</td>
<td>Department of Homeland Security</td>
</tr>
<tr>
<td>DM&amp;R</td>
<td>Deferred Maintenance and Repairs</td>
</tr>
<tr>
<td>DMF</td>
<td>Death Master File (SSA)</td>
</tr>
<tr>
<td>DNP</td>
<td>Do Not Pay</td>
</tr>
<tr>
<td>DOL</td>
<td>U.S. Department of Labor</td>
</tr>
<tr>
<td>DP</td>
<td>Diplomatic Programs (DOS)</td>
</tr>
<tr>
<td>DOS</td>
<td>U.S. Department of State</td>
</tr>
<tr>
<td>DRL</td>
<td>Bureau of Democracy, Human Rights, and Labor (DOS)</td>
</tr>
<tr>
<td>DS</td>
<td>Bureau of Diplomatic Security (DOS)</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>DW</td>
<td>Data Warehouse</td>
</tr>
<tr>
<td>EAP</td>
<td>Bureau of East Asian and Pacific Affairs (DOS)</td>
</tr>
<tr>
<td>ECA</td>
<td>Bureau of Educational and Cultural Affairs (DOS)</td>
</tr>
<tr>
<td>ECE</td>
<td>Educational and Cultural Exchange Programs</td>
</tr>
<tr>
<td>EPLS</td>
<td>Excluded Parties List System (GSA)</td>
</tr>
<tr>
<td>EFT</td>
<td>Electronic Funds Transfer</td>
</tr>
<tr>
<td>ERM</td>
<td>Enterprise Risk Management</td>
</tr>
<tr>
<td>ERMA</td>
<td>U.S. Emergency Refugee and Migration Assistance</td>
</tr>
<tr>
<td>ESCM</td>
<td>Embassy Security, Construction, and Maintenance</td>
</tr>
<tr>
<td>ESP</td>
<td>Evaluations and Special Projects (DOS)</td>
</tr>
<tr>
<td>ETS</td>
<td>E-Government Travel Services</td>
</tr>
<tr>
<td>EUR</td>
<td>Bureau of European and Eurasian Affairs (DOS)</td>
</tr>
<tr>
<td>FAM</td>
<td>Foreign Affairs Manual</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organization (UN)</td>
</tr>
<tr>
<td>FASAB</td>
<td>Federal Accounting Standards Advisory Board</td>
</tr>
<tr>
<td>FECA</td>
<td>Federal Employees Compensation Act</td>
</tr>
<tr>
<td>FEGLIP</td>
<td>Federal Employees Group Life Insurance Program</td>
</tr>
<tr>
<td>FEHBP</td>
<td>Federal Employees Health Benefits Program</td>
</tr>
<tr>
<td>FERS</td>
<td>Federal Employees Retirement System</td>
</tr>
<tr>
<td>FFMIA</td>
<td>Federal Financial Management Improvement Act of 1996</td>
</tr>
<tr>
<td>FISMA</td>
<td>Federal Information Security Modernization Act of 2014</td>
</tr>
<tr>
<td>FMF</td>
<td>Foreign Military Financing</td>
</tr>
<tr>
<td>FMFIA</td>
<td>Federal Managers’ Financial Integrity Act of 1982</td>
</tr>
<tr>
<td>FMLP</td>
<td>Future Minimum Lease Payments</td>
</tr>
<tr>
<td>FPU</td>
<td>Fraud Prevention Unit</td>
</tr>
<tr>
<td>FRDAA</td>
<td>Fraud Reduction and Data Analytics Act</td>
</tr>
<tr>
<td>FS</td>
<td>Foreign Service</td>
</tr>
<tr>
<td>FSN</td>
<td>Foreign Service National</td>
</tr>
<tr>
<td>FSN DCF</td>
<td>Foreign Service National Defined Contributions Fund</td>
</tr>
<tr>
<td>FSO</td>
<td>Foreign Service Officer</td>
</tr>
<tr>
<td>FS RDF</td>
<td>Foreign Service Retirement and Disability Fund</td>
</tr>
<tr>
<td>FS RDS</td>
<td>Foreign Service Retirement and Disability System</td>
</tr>
<tr>
<td>FS PS</td>
<td>Foreign Service Pension System</td>
</tr>
<tr>
<td>FW CB</td>
<td>Federal Workers’ Compensation Benefits</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>GAO</td>
<td>Government Accountability Office</td>
</tr>
<tr>
<td>GFACS</td>
<td>Global Foreign Affairs Compensation System</td>
</tr>
<tr>
<td>GFMS</td>
<td>Global Financial Management System</td>
</tr>
<tr>
<td>GHP</td>
<td>Global Health Programs (DOS)</td>
</tr>
<tr>
<td>GOR</td>
<td>Grants Officer Representative</td>
</tr>
<tr>
<td>GPRA</td>
<td>Government Performance and Results Act</td>
</tr>
<tr>
<td>GSA</td>
<td>U.S. General Services Administration</td>
</tr>
<tr>
<td>GTAS</td>
<td>Government-wide Treasury Account Symbol Adjusted Trial Balance System</td>
</tr>
<tr>
<td>HHS</td>
<td>U.S. Department of Health and Human Services</td>
</tr>
<tr>
<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
</tr>
<tr>
<td>HR</td>
<td>Human Resources</td>
</tr>
<tr>
<td>HVA</td>
<td>High-Value Asset</td>
</tr>
<tr>
<td>IAA</td>
<td>Interagency Agreement</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standards</td>
</tr>
<tr>
<td>IBIS</td>
<td>Integrated Budget Intelligence System</td>
</tr>
<tr>
<td>IBWC</td>
<td>International Boundary and Water Commission</td>
</tr>
<tr>
<td>ICAO</td>
<td>International Civil Aviation Organization (UN)</td>
</tr>
<tr>
<td>ICASS</td>
<td>International Cooperative Administrative Support Services (DOS)</td>
</tr>
<tr>
<td>ICS</td>
<td>Integrated Country Strategy</td>
</tr>
<tr>
<td>IG</td>
<td>Inspector General</td>
</tr>
<tr>
<td>ILMS</td>
<td>Integrated Logistics Management System</td>
</tr>
<tr>
<td>IMET</td>
<td>International Military Education and Training</td>
</tr>
<tr>
<td>INCLE</td>
<td>International Narcotics Control and Law Enforcement</td>
</tr>
<tr>
<td>INL</td>
<td>Bureau of International Narcotics and Law Enforcement (DOS)</td>
</tr>
<tr>
<td>IO</td>
<td>Bureau of International Organization Affairs (DOS)</td>
</tr>
<tr>
<td>IO&amp;P</td>
<td>International Operations and Programs</td>
</tr>
<tr>
<td>IPIA</td>
<td>Improper Payments Information Act of 2002</td>
</tr>
<tr>
<td>IPP</td>
<td>Invoice Processing Platform</td>
</tr>
<tr>
<td>IPTI</td>
<td>Indo-Pacific Transparency Initiative</td>
</tr>
<tr>
<td>IRM</td>
<td>Bureau of Information Resource Management (DOS)</td>
</tr>
<tr>
<td>ISIS</td>
<td>Islamic State in Iraq and Syria</td>
</tr>
<tr>
<td>ISP</td>
<td>Inspection (DOS)</td>
</tr>
<tr>
<td>ISSO</td>
<td>Information Systems Security Officer</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>ITEC</td>
<td>IT Executive Council</td>
</tr>
<tr>
<td>JSP</td>
<td>Joint Strategic Plan</td>
</tr>
<tr>
<td>LACP</td>
<td>League of American Communications Professionals</td>
</tr>
<tr>
<td>LE Staff</td>
<td>Locally Employed Staff</td>
</tr>
<tr>
<td>LSSS</td>
<td>Local Social Security System</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>M/PRI</td>
<td>Office of Management Policy, Rightsizing, and Innovation (DOS)</td>
</tr>
<tr>
<td>MCSC</td>
<td>Management Control Steering Committee (DOS)</td>
</tr>
<tr>
<td>MD&amp;A</td>
<td>Management’s Discussion and Analysis</td>
</tr>
<tr>
<td>MEMI</td>
<td>Middle East Media Initiative</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>Mfr</td>
<td>Managing for Results</td>
</tr>
<tr>
<td>MRA</td>
<td>Migration and Refugee Assistance</td>
</tr>
<tr>
<td>NADR</td>
<td>Nonproliferation, Antiterrorism, Demining, and Related Programs</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
</tr>
<tr>
<td>NEA</td>
<td>Bureau of Near Eastern Affairs (DOS)</td>
</tr>
<tr>
<td>NSS</td>
<td>National Security Strategy</td>
</tr>
<tr>
<td>OAS</td>
<td>Organization of American States</td>
</tr>
<tr>
<td>OBO</td>
<td>Bureau of Overseas Buildings Operations (DOS)</td>
</tr>
<tr>
<td>OCO</td>
<td>Overseas Contingency Operations (DOS)</td>
</tr>
<tr>
<td>OCR</td>
<td>Office of Civil Rights (DOS)</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OFAC</td>
<td>Office of Foreign Assets Control</td>
</tr>
<tr>
<td>OFM</td>
<td>Office of Foreign Missions (DOS)</td>
</tr>
<tr>
<td>OI</td>
<td>Other Information</td>
</tr>
<tr>
<td>OIG</td>
<td>Office of Inspector General (DOS)</td>
</tr>
<tr>
<td>OMA</td>
<td>Office of Oversight and Management Analysis (DOS)</td>
</tr>
<tr>
<td>OMB</td>
<td>U.S. Office of Management and Budget</td>
</tr>
<tr>
<td>OPM</td>
<td>U.S. Office of Personnel Management</td>
</tr>
<tr>
<td>ORSC</td>
<td>OBO Regional Support Center</td>
</tr>
<tr>
<td>OSCE</td>
<td>Organization for Security and Co-operation in Europe</td>
</tr>
<tr>
<td>PBO</td>
<td>Projected Benefit Obligation</td>
</tr>
<tr>
<td>PD</td>
<td>Public Diplomacy</td>
</tr>
<tr>
<td>PKO</td>
<td>Peacekeeping Operations</td>
</tr>
<tr>
<td>PP&amp;E</td>
<td>Property, Plant, and Equipment</td>
</tr>
<tr>
<td>PPA</td>
<td>Prompt Payment Act</td>
</tr>
<tr>
<td>PrOPP</td>
<td>Property related Obligation and Payment</td>
</tr>
<tr>
<td>R&amp;I</td>
<td>Repair &amp; Improvement</td>
</tr>
<tr>
<td>RFMS</td>
<td>Regional Financial Management System</td>
</tr>
<tr>
<td>SAT</td>
<td>Senior Assessment Team</td>
</tr>
<tr>
<td>SBR</td>
<td>Statement of Budgetary Resources</td>
</tr>
<tr>
<td>SCA</td>
<td>Bureau of South and Central Asian Affairs (DOS)</td>
</tr>
<tr>
<td>SID</td>
<td>Software in Development</td>
</tr>
<tr>
<td>SDN</td>
<td>Specially Designated Nationals</td>
</tr>
<tr>
<td>SFFAS</td>
<td>Statements of Federal Financial Accounting Standards</td>
</tr>
<tr>
<td>SoA</td>
<td>Statement of Assurance</td>
</tr>
<tr>
<td>SSA</td>
<td>Social Security Administration</td>
</tr>
<tr>
<td>SSAE</td>
<td>Statement on Standards for Attestation Engagements</td>
</tr>
<tr>
<td>T&amp;A</td>
<td>Time and Attendance</td>
</tr>
<tr>
<td>TOP</td>
<td>Treasury Offset Program</td>
</tr>
<tr>
<td>TPS</td>
<td>Office of Training and Performance Standards (DOS)</td>
</tr>
<tr>
<td>Treasury</td>
<td>U.S. Department of the Treasury</td>
</tr>
<tr>
<td>TSP</td>
<td>Thrift Savings Plan</td>
</tr>
<tr>
<td>UDO</td>
<td>Undelivered Orders</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>ULO</td>
<td>Unliquidated Obligation</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNEP</td>
<td>United Nations Environment Programme (UN)</td>
</tr>
<tr>
<td>UNVIE</td>
<td>U.S. Mission to International Organizations in Vienna</td>
</tr>
<tr>
<td>USAID</td>
<td>U.S. Agency for International Development</td>
</tr>
<tr>
<td>USC</td>
<td>University of Southern California</td>
</tr>
<tr>
<td>USG</td>
<td>U.S. Government</td>
</tr>
<tr>
<td>USSGL</td>
<td>U.S. Standard General Ledger</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>VAU</td>
<td>Venezuela Affairs Unit</td>
</tr>
<tr>
<td>VCP</td>
<td>Variable Contribution Plan</td>
</tr>
<tr>
<td>WebRABIT</td>
<td>Resource and Budget Integration Toolkit</td>
</tr>
<tr>
<td>WHA</td>
<td>Bureau of Western Hemisphere Affairs (DOS)</td>
</tr>
<tr>
<td>WSP</td>
<td>Worldwide Security Protection</td>
</tr>
<tr>
<td>YTIJI</td>
<td>Young Transatlantic Innovation Leaders Initiative</td>
</tr>
</tbody>
</table>
Appendix B: Department of State Locations
ACKNOWLEDGEMENTS

This Agency Financial Report (AFR) was produced with the energies and talents of Department of State staff in Washington, D.C. and our offices and posts around the world. We offer our sincerest thanks and acknowledgement. In particular, we recognize the following individuals and organizations for their contributions:

Office of the Comptroller:
Jeffrey Mounts, Acting Comptroller
William Davisson, Deputy Comptroller (Charleston)
Carmen Castro, Associate Comptroller
Jamie McCullough, Acting Managing Director of Financial Policy, Reporting & Analysis
Joan Lugo, Managing Director of Global Financial Operations
Carole Clay, Director of Office of Management Controls
Paul McVicker, Director of Office of Financial Coordination and Reports for Oversight, Management & Analysis
Monika Moore, AFR Editor
Elvira Arauco, Jonathan Ashwell, Carl Biggs, Lance Binford, Bradley Biondi, Marcus Bowman, Nadine Bradley, Zachary Coho, John Coyle, Joshua Crown, Maude Cugnon, Amanda Dombrowski, Justin Endy, Cindy Fleming, Kyle Grindstaff, Matthew H. Johnson, Yen Le, Christine Malley, Trevor McNamara, Alex Reinhardt, Troy Scaputra, Meredith Shears, Melissa Sizemore, William Truman, Kyle Weitendorf, Alexander Williams, and Donald Wood.

Global Financial Services personnel in Charleston,
Bangkok, Paris, and Washington, D.C.

Other Contributors:
Stephanie Cabell, Christine Jacobs, and Andrew Mosley.

We would also like to acknowledge the Office of Inspector General for their objective review of the Department’s performance and Kearney & Company for the professional manner in which they conducted the audit of the 2019 financial statements.

We would also like to acknowledge Dora Clarke, Jessica Kerns, and Dong Kim of Clarke & Leiper PLLC for their contributions to our report.

We offer special thanks to our designers, Michael James, Sheri Beauregard, and Don James of The DesignPond.

2019 IMAGE CREDITS

Department of State: Front Cover, Table of Contents, pages 3, 4, 6, 8, 9, 10, 12, 15, 16, 18, 21, 23, 33, 39, 40, 41, 69, 75, 77, 80, 83, 85, 107, 109, 110, 135, 146, 152, 153, 154, 156, 157, 158, Back Cover
National Archives: page 71

The Agency Financial Report for Fiscal Year 2019 is published by the

U.S. Department of State
Bureau of the Comptroller and Global Financial Services
Office of Financial Policy, Reporting and Analysis

An electronic version is available on the World Wide Web at
http://www.state.gov/plans-performance-budget/agency-financial-reports

Please call (202) 261-8620 with comments, suggestions, or requests.

U.S. Department of State Publication
Bureau of Global Public Affairs
January 2020

Thank you for your interest in the U.S. Department of State and its Fiscal Year 2019 Agency Financial Report. Electronic copies of this report and prior years’ reports are available through the Department’s website: [www.state.gov](http://www.state.gov).

You may also stay connected with the Department via social media and multimedia platforms listed above.

In addition, the Department publishes *State Magazine* monthly, except bimonthly in July and August. This magazine facilitates communication between management and employees at home and abroad and acquaints employees with developments that may affect operations or personnel. The magazine is also available to persons interested in working for the Department of State and to the general public. *State Magazine* may be found online at: [statemag.state.gov](http://statemag.state.gov).

**ABOUT THE BACK COVER**

The back cover images include: (center) Secretary Pompeo (2018 to present) and the Department’s professional ethos statement that was delivered on April 26, 2019; and (left) to (right) the thirty-four Secretaries of State (1898 to 2018). The Secretaries of State and the presiding President(s) are listed and shaded by row on the right inside back cover bar.

<table>
<thead>
<tr>
<th>Years Served</th>
<th>Secretary &amp; President They Served Under</th>
</tr>
</thead>
<tbody>
<tr>
<td>1898-1898</td>
<td>William Rufus Day</td>
</tr>
<tr>
<td></td>
<td>William McKinley (25)</td>
</tr>
<tr>
<td>1898-1905</td>
<td>John Milton Hay</td>
</tr>
<tr>
<td></td>
<td>William McKinley (25) &amp; Theodore Roosevelt (26)</td>
</tr>
<tr>
<td>1905-1909</td>
<td>Elihu Root</td>
</tr>
<tr>
<td></td>
<td>Theodore Roosevelt (26)</td>
</tr>
<tr>
<td>1909-1909</td>
<td>Robert Bacon</td>
</tr>
<tr>
<td></td>
<td>Theodore Roosevelt (26)</td>
</tr>
<tr>
<td>1909-1913</td>
<td>Philander Chase Knox</td>
</tr>
<tr>
<td></td>
<td>William Howard Taft (27)</td>
</tr>
<tr>
<td>1913-1915</td>
<td>William Jennings Bryan</td>
</tr>
<tr>
<td></td>
<td>Woodrow Wilson (28)</td>
</tr>
<tr>
<td>1915-1920</td>
<td>Robert Lansing</td>
</tr>
<tr>
<td></td>
<td>Woodrow Wilson (28)</td>
</tr>
<tr>
<td>1920-1921</td>
<td>Bainbridge Colby</td>
</tr>
<tr>
<td></td>
<td>Woodrow Wilson (28)</td>
</tr>
<tr>
<td>1921-1925</td>
<td>Charles Evans Hughes</td>
</tr>
<tr>
<td></td>
<td>Warren G. Harding (29) &amp; Calvin Coolidge (30)</td>
</tr>
<tr>
<td>1925-1929</td>
<td>Frank Billings Kellogg</td>
</tr>
<tr>
<td></td>
<td>Calvin Coolidge (30) &amp; Herbert Hoover (31)</td>
</tr>
<tr>
<td>1929-1933</td>
<td>Henry Lewis Stimson</td>
</tr>
<tr>
<td></td>
<td>Herbert Hoover (31)</td>
</tr>
<tr>
<td>1933-1944</td>
<td>Cordell Hull</td>
</tr>
<tr>
<td></td>
<td>Franklin D. Roosevelt (32)</td>
</tr>
<tr>
<td>1944-1945</td>
<td>Edward Reilly Stettinius Jr.</td>
</tr>
<tr>
<td></td>
<td>Franklin D. Roosevelt (32) &amp; Harry S. Truman (33)</td>
</tr>
<tr>
<td>1945-1947</td>
<td>James Francis Byrnes</td>
</tr>
<tr>
<td></td>
<td>Harry S. Truman (33)</td>
</tr>
<tr>
<td>1947-1949</td>
<td>George Catlett Marshall</td>
</tr>
<tr>
<td></td>
<td>Harry S. Truman (33)</td>
</tr>
<tr>
<td>1949-1953</td>
<td>Dean Gooderham Acheson</td>
</tr>
<tr>
<td></td>
<td>Harry S. Truman (33)</td>
</tr>
<tr>
<td>1953-1959</td>
<td>John Foster Dulles</td>
</tr>
<tr>
<td></td>
<td>Dwight D. Eisenhower (34)</td>
</tr>
<tr>
<td>1959-1961</td>
<td>Christian Archibald Herter</td>
</tr>
<tr>
<td></td>
<td>Dwight D. Eisenhower (34)</td>
</tr>
<tr>
<td>1961-1969</td>
<td>David Dean Rusk</td>
</tr>
<tr>
<td></td>
<td>John F. Kennedy (35) &amp; Lyndon B. Johnson (36)</td>
</tr>
<tr>
<td>1969-1973</td>
<td>William Pierce Rogers</td>
</tr>
<tr>
<td></td>
<td>Richard Nixon (37)</td>
</tr>
<tr>
<td></td>
<td>Richard Nixon (37) &amp; Gerald Ford (38)</td>
</tr>
<tr>
<td>1977-1980</td>
<td>Cyrus Roberts Vance</td>
</tr>
<tr>
<td></td>
<td>Jimmy Carter (39)</td>
</tr>
<tr>
<td>1980-1981</td>
<td>Edmund Sixtus Muskie</td>
</tr>
<tr>
<td></td>
<td>Jimmy Carter (39)</td>
</tr>
<tr>
<td>1981-1982</td>
<td>Alexander Meigs Haig</td>
</tr>
<tr>
<td></td>
<td>Ronald Reagan (40)</td>
</tr>
<tr>
<td>1982-1989</td>
<td>George Pratt Shultz</td>
</tr>
<tr>
<td></td>
<td>Ronald Reagan (40)</td>
</tr>
<tr>
<td>1989-1992</td>
<td>James Addison Baker</td>
</tr>
<tr>
<td></td>
<td>George H. W. Bush (41)</td>
</tr>
<tr>
<td>1992-1993</td>
<td>Lawrence Sidney</td>
</tr>
<tr>
<td></td>
<td>Eagleburger</td>
</tr>
<tr>
<td></td>
<td>George H. W. Bush (41)</td>
</tr>
<tr>
<td>1993-1997</td>
<td>Warren Minor Christopher</td>
</tr>
<tr>
<td></td>
<td>Bill Clinton (42)</td>
</tr>
<tr>
<td>1997-2001</td>
<td>Madeleine Korbel Albright</td>
</tr>
<tr>
<td></td>
<td>Bill Clinton (42)</td>
</tr>
<tr>
<td>2001-2005</td>
<td>Colin Luther Powell</td>
</tr>
<tr>
<td></td>
<td>George W. Bush (43)</td>
</tr>
<tr>
<td>2005-2009</td>
<td>Condoleezza Rice</td>
</tr>
<tr>
<td></td>
<td>George W. Bush (43)</td>
</tr>
<tr>
<td>2009-2013</td>
<td>Hillary Rodham Clinton</td>
</tr>
<tr>
<td></td>
<td>Barack Obama (44)</td>
</tr>
<tr>
<td>2013-2017</td>
<td>John Forbes Kerry</td>
</tr>
<tr>
<td></td>
<td>Barack Obama (44)</td>
</tr>
<tr>
<td>2017-2018</td>
<td>Rex Wayne Tillerson</td>
</tr>
<tr>
<td></td>
<td>Donald J. Trump (45)</td>
</tr>
<tr>
<td>2018-Present</td>
<td>Michael R. Pompeo</td>
</tr>
<tr>
<td></td>
<td>Donald J. Trump (45)</td>
</tr>
</tbody>
</table>

**Websites of Interest**

- **DipNote Blog**: [blogs.state.gov](http://blogs.state.gov)
- **Facebook**: [www.facebook.com/usdos](http://www.facebook.com/usdos)
- **Flickr**: [www.flickr.com/photos/statephotos](http://www.flickr.com/photos/statephotos)
- **Instagram**: [www.instagram.com/statedept](http://www.instagram.com/statedept)
- **RSS Feeds**: [www.state.gov/rss-feeds/](http://www.state.gov/rss-feeds/)
- **Twitter**: [www.twitter.com/StateDept](http://www.twitter.com/StateDept)
- **U.S. Department of State**: [www.state.gov](http://www.state.gov)
- **YouTube**: [www.youtube.com/user/statevideo](http://www.youtube.com/user/statevideo)
United States Department of State
Professional Ethos

I am a champion of American diplomacy.

My colleagues and I proudly serve the United States and the American people at the Department of State, America's first executive department.

We support and defend the Constitution of the United States.

We protect the American people and promote their interests and values around the world by leading our nation's foreign policy.

As a member of this team, I serve with unfailing professionalism in both my demeanor and my actions, even in the face of adversity.

I act with uncompromising personal and professional integrity.

I take ownership of and responsibility for my actions and decisions.

And I show unstinting respect in word and deed for my colleagues and all who serve alongside me.

Together, we are the United States Department of State.

ONE TEAM, ONE MISSION, ONE FUTURE