United States Department of State

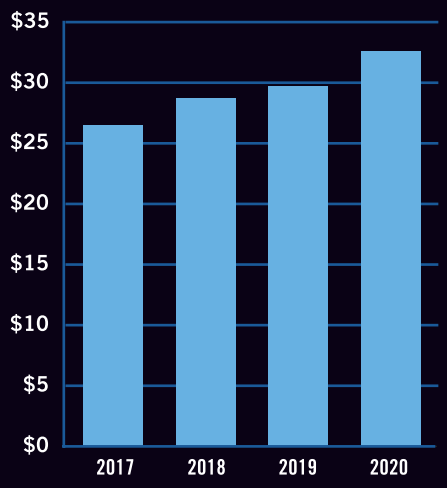
Fiscal Year 2020 Agency Financial Report

Safeguarding Unalienable Rights

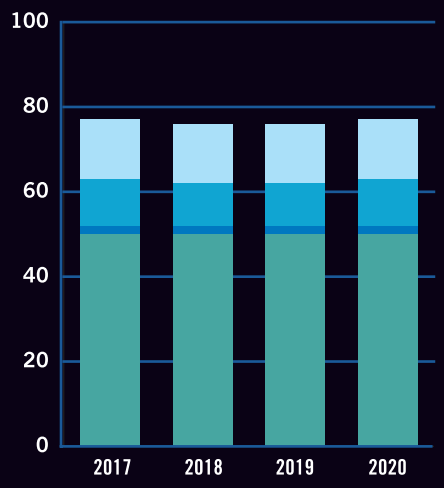
2020* Highlights *(dollars in billions)*	Percent Change 2020 over 2019	2020	2019	2018	2017
Balance Sheet Totals as of September 30					
Total Assets	+1%	$ 109.7	$ 109.0	$ 105.6	$ 100.6
Total Liabilities	+2%	33.0	32.4	29.9	26.8
Total Net Position	—	76.7	76.6	75.7	73.8
Results of Operations for the Year Ended September 30					
Total Net Cost of Operations	+10%	$ 32.6	$ 29.7	$ 28.7	$ 26.5
Budgetary Resources for the Year Ended September 30					
Total Budgetary Resources	+3%	$ 77.1	$ 74.9	$ 72.3	$ 71.0

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

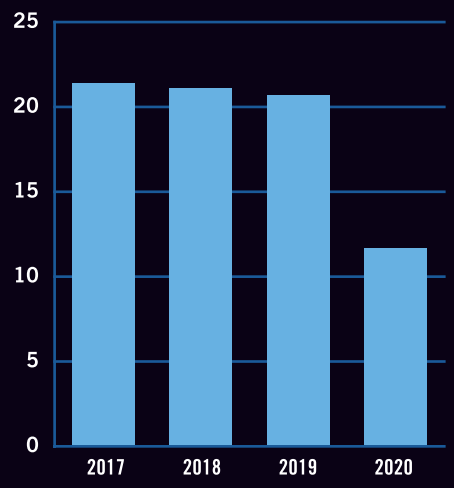
Total Net Cost of Operations *(dollars in billions)*



State Department Employees *(in thousands)*



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



Foreign Service
Eligible Family Members*
Civil Service
Locally Employed Staff**

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

ABOUT THE COVER

The cover (wrapped front to back), selected in support of this year's AFR theme *Safeguarding Unalienable Rights*, features a portion of John Trumbull's *Declaration of Independence*, one of the artist's four murals in the U.S. Capitol Rotunda. Thomas Jefferson (red vest) and his fellow drafters are shown presenting their work to John Hancock (seated), President of the Continental Congress on June 28, 1776.

A virtual G20 Foreign Ministers meeting in Washington, D.C., September 3, 2020. *Department of State*

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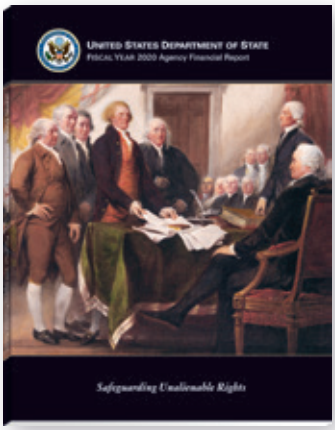
About This Report



The U.S. Department of State's *Agency Financial Report* (AFR) for Fiscal Year (FY) 2020 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,
- Payment Integrity Information Act of 2019, and
- GPRA Modernization Act of 2010.

The AFR is the first of a series of two annual financial and performance reports the Department will issue. The reports include: (1) an *Agency Financial Report* issued in November 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 August 2020, 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 2019 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 thirteenth time the Department has won the CEAR award.

How This Report is Organized

The State Department's Fiscal Year 2020 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2019, and ending on September 30, 2020, 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 goals, 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, information on real property and grants programs, resource management systems, and a summary of the Department's heritage assets.

Secretary Pompeo delivers keynote remarks at the Munich Security Conference in Munich, Germany, February 15, 2020.
Department of State

Appendices

The appendices include data that supports the main sections of the AFR. This includes a glossary of abbreviations and acronyms used in the report and a map of the Department of State's locations across the globe.

Secretary Pompeo participates in a virtual town hall with overseas staff, a new norm for conducting business, April 9, 2020. *Department of State*

Message from the Secretary

I am pleased to present the Department of State's Agency Financial Report (AFR) for Fiscal Year (FY) 2020. At the core of the AFR is trust. Continuing to earn the trust of the American people will aid the Department in advancing our country's long-term interests at a time of complex threats and important opportunities. To that end, this report illustrates our determination to spend and invest American taxpayer funds carefully and effectively.

The State Department 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 continue to find guidance in principles of our nation's founders: realism, restraint, and respect. In the Middle East, the Trump Administration has mitigated threats posed by the Islamic Republic of Iran to the American people by restoring credible deterrence and strengthening ties with our Gulf allies and partners. And we continue to counter radical Islamist terrorism in all of its forms, including the threat of ISIS and other non-state actors. The Trump Administration

has also recognized the Chinese Communist Party (CCP) as a sustained threat to American security. That's why we've refused to legally recognize the CCP's claims regarding the South China Sea, and worked with our allies and partners to get more than forty countries on board the Clean Network – countries committed to keeping untrusted 5G vendors like Huwaei out of their telecommunications networks.

Renewing America's Competitive Advantage for Sustained Economic Growth and Job Creation. Robust international trade is in America's economic interest. We continue to work with key partners throughout the world to ensure that the rules that govern commerce between nations are fair and reciprocal. We've also made the case to American companies for their role in American security. Our companies shouldn't do deals that strengthen the military capability of competitors such as China. So too must we ensure that American partnerships and technological exports do not contribute to the CCP's oppression of its own people.

We also know that the private sector is an essential force for bringing sustainable prosperity to the developing world, and to that end have worked in concert with the revamped U.S. Development Finance Corporation to help American companies make new inroads around the world.

Promoting American Leadership through Balanced Engagement. This year's AFR is built around the theme of *Safeguarding Unalienable Rights*. Unalienable rights are at the core of the American experiment and American foreign policy. I established the Commission on Unalienable Rights to help re-ground American diplomacy in a commitment to our founding principles. By doing so, we will uphold the best American traditions of defending freedom and human rights worldwide, and remain a powerful moral witness to the world.

Ensuring Effectiveness and Accountability to the American Taxpayer. The State Department's professionals, like all Americans, have been challenged to adapt to the conditions brought by the COVID-19 pandemic. I'm proud of the resilience our team has shown in continuing to fulfill its mission. Rallying under the banner of *Diplomacy Strong*, our workforce has deployed new technology and demonstrated creativity to ensure that the work of American diplomacy has moved forward. We also have implemented new ways to coordinate our efforts, for example, holding quarterly strategic reviews through virtual formats to ensure that financial management, information systems, human resources, and other key organizational elements are aligned.

This AFR is our principal report to the President, Congress, and the American people on our leadership in managing and stewarding well the public funds entrusted to us. To ensure this AFR is complete and reliable, the Department 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 2020 Financial Statements are complete and reliable. Similarly, the reliable reports on performance and additional financial information in the AFR should further bolster confidence in the Department's management. The Message from the Comptroller in this AFR underscores our improvements in FY 2020 and includes the results of the independent audit of our FY 2020 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
November 16, 2020

Secretary Pompeo holds a town hall meeting on the Report of the Commission on Unalienable Rights in Washington, D.C., September 9, 2020. *Department of State*

SECTION I:

Management's Discussion and Analysis

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.

LEARN MORE

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

Did You Know?

Michael R. Pompeo has visited more than 75 countries during his 29 months as Secretary of State. He travels to all corners of the world to do his job. His duties as Secretary include acting as the President's representative at all international forums, negotiating treaties and other international agreements, and conducting everyday, face-to-face diplomacy.

LEARN MORE

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

Our Organization and People

The Department of State advances U.S. objectives and interests in the world through its primary role in developing and implementing the President's foreign policy worldwide. The Department also supports the foreign affairs activities of other U.S. Government entities including 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, 30 security offices, and two financial service centers.

Secretary Pompeo meets with staff and families of Embassy Addis Ababa and U.S. Mission to the African Union in Addis Ababa, Ethiopia, February 18, 2020. *Department of State*

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 2020, the Department was comprised of approximately 77,000 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 2019, there were 2,971 adoptions to the United States, and 56 adoptions from the United States to other countries. In calendar year 2019, there were 1,253 children reported abducted

The 11th Annual Historically Black Colleges and Universities Foreign Policy Conference in Washington D.C., February 14, 2020. *Department of State*

to and from the United States, and we assisted in the return of 255 children to the United States.

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

3. **We promote democracy and foster stability around the world.** Stable democracies are less likely to pose a threat to their neighbors or to the United States. We partner with the public and private sectors in countries in conflict to foster democracy and peace.

4. **We help to make the world a safer place.** Under the New Strategic Arms Reduction Treaty, we are reducing the number of deployed nuclear weapons to levels not seen since the 1950s. The Department has helped over 40 post-conflict countries clear millions of square meters of landmines and unexploded ordnance. We also work with foreign partners to strengthen international aviation and maritime safety and security.

5. **We save lives.** Strong bipartisan support for U.S. global health investments has led to worldwide progress against HIV/AIDS, tuberculosis, malaria, and polio. Better health abroad reduces the risk of instability and enhances our national security.

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

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

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

9. **We help Americans see the world.** The Department's Bureau of Consular Affairs supports and protects the American public. In 2020, we issued 11.7 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 Secretary of State is supported by a Deputy Secretary, the Executive Secretariat, the Office of Foreign Assistance, 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

Secretary Pompeo, First Lady of the United States Melania Trump, Assistant Secretary Marie Royce, and the 2020 Annual International Women of Courage awardees pose in Washington, D.C., March 4, 2020. *Department of State*

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 (M) 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?

Thomas Jefferson was the first Secretary of State (1790-1793). He later was elected Vice President in 1796 and served two terms as President (1801-1809).

LEARN MORE

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

The Department also includes the Bureau of International Organization Affairs. This Bureau develops and implements U.S. policy in the United Nations, its specialized and voluntary agencies, and other international organizations. The Department's organization chart can be found at *https://www.state.gov/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.

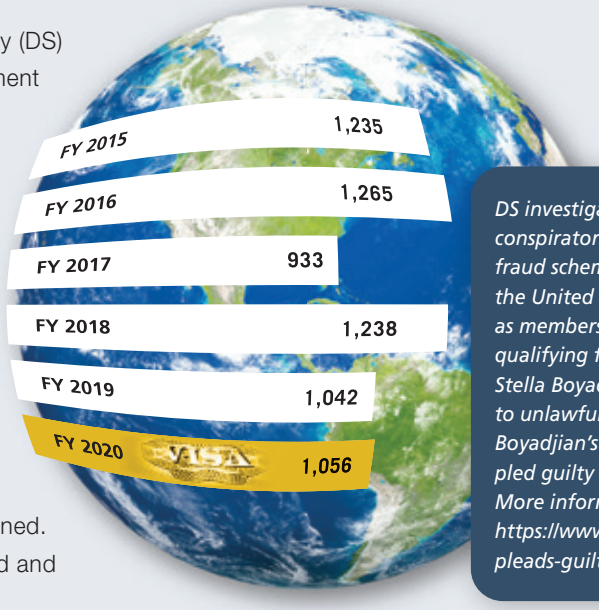
Every diplomatic mission in the world operates under a security program designed and maintained by the Department's Bureau of Diplomatic Security (DS). In the United States, DS investigates passport and visa fraud, conducts personnel security investigations, and protects the Secretary of State and high-ranking 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 2020, 1,056 new cases were opened. In addition, 1,484 cases were closed and DS made 19 arrests.



DS investigated a transnational network of conspirators who engaged in a widespread visa fraud scheme to bring Armenian citizens into the United States by fraudulently claiming them as members of folk dance performance groups qualifying for P-3 "Culturally Unique Artist" visas. Stella Boyadjian, the criminal leader, pled guilty to unlawfully bringing in aliens and visa fraud. Boyadjian's co-conspirator, Hrachya Atoyan, pled guilty to the same charges in October 2019. More information on the case can be found at: https://www.justice.gov/opa/pr/armenian-citizen-pleads-guilty-his-role-profit-us-visa-fraud-scheme.

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

FOCUS

The Idea of the Commission on Unalienable Rights

Secretary Pompeo determined in 2019 that it was time for an informed review of the role of human rights in a foreign policy that serves American interests, reflects American ideals, and meets the international obligations that the United States has assumed. To that end, he established the Commission on Unalienable Rights, an independent, non-partisan advisory body created under the Federal Advisory Committee Act of 1972.

The Commission's charge, as stated in its Charter, "is not to discover new principles, but to furnish advice to the Secretary for the promotion of individual liberty, human equality, and democracy through U.S. foreign policy." The Charter further states that the Commission's advice is to be "grounded in our nation's founding principles and the 1948 Universal Declaration of Human Rights." Such a mandate is in keeping with both the spirit of the Declaration of Independence and the spirit of the Universal Declaration of Human Rights (UDHR).

The Declaration of Independence affirms that the primary task of government is to secure the rights inherent in all persons – America's founders called them "unalienable rights" – while the drafters of the UDHR fully expected the diverse nations of the world to look within their own distinctive traditions to find support for the fundamental principles it outlined.

As elaborated by the Secretary, the Commission's instructions were to focus on principle, not policy formulation. Recognizing that foreign policy must be tailored to changing circumstances and must necessarily consider many other factors along with human rights, the Commission did not seek to enter debates about the application of human rights principles to current controversies. Rather, it has striven to bring those principles into focus and clarify common misunderstandings and perplexities, with the aim of assisting those who bear the heavy responsibility for making principled and prudent policy decisions. It is the Commission's hope that this Report will be helpful to the people who are engaged, day in and day out, with framing a foreign policy worthy of a nation founded on the proposition that all human beings are created equal and endowed with certain unalienable rights. The Commission also hopes that this Report will stimulate discussion among fellow citizens and friends of freedom around the world about securing human rights.

Secretary Pompeo holds a town hall meeting on the Report of the Commission on Unalienable Rights in Washington, D.C., September 9, 2020. *Department of State*

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 greater emphasis on program and project design, key performance metrics, and strategic reviews to assess achievement of policy priorities. The Department uses the Managing for Results (MfR) Framework to foster enterprise-wide linkages of strategic planning, budgeting, managing, and learning to improve results. Bureaus and missions are achieving better outcomes by engaging in policy, resource, and program decision making that is informed by strategic planning and performance data gleaned through rigorous monitoring and evaluation practices.

Managing for Results Framework

Joint State-USAID Strategic Goals

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

The Department of State and USAID published the FY 2018-2022 JSP in February 2018 following a consultative process that involved the senior leadership of the two agencies, bureau leadership, subject matter experts, and representatives from 22 other Federal agencies who are stakeholders in the Department's programs and policy initiatives. 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, and the National Security Council. State and USAID further consulted with Congress prior to the JSP's release.

The JSP informed the overarching policy direction for the seven new Joint Regional Strategies, 40 Functional Bureau Strategies, and 185 Integrated Country Strategies. The goals and objectives established in the JSP provided both a policy and a strategic vision for all Department bureaus and posts by laying out actions and performance goals, which all bureaus and posts 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/*.

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 four APGs for the FY 2020 – FY 2021 cycle:

- ***Data Informed Diplomacy:*** *By September 2021, we will align and augment a data and analytics cadre that can harness data and apply cutting-edge analytics processes and products to foreign policy and operational challenges, and fulfill the requirements of the Federal Data Strategy to include building the first Department Data Strategy and enterprise Data Catalog.*

- ***IT Modernization:*** *By September 30, 2021, the Department will satisfy Field Enabling IT baseline levels for capability and performance at all field locations; modernize its suite of core, mission-aligned IT systems incorporating a Cloud Smart approach that enables the Department to share resources and measure efficiencies gained via common cloud platform environments; and achieve a continuous cyber risk diagnostics and monitoring capability that embeds security equities throughout the full lifecycle of all IT systems within every sponsored environment.*

- ***Enhancing Security Monitoring Solutions:*** *By September 30, 2021, upgrade 20 percent of Department of State facilities' security monitoring solutions.*

- ***Category Management:*** *By September 30, 2021, meet or exceed Federal targets for managed spending (identifying and proactively managing key vendors and contracts) as determined by the President's Management Agenda.* The Department of State plans to retire this APG at the end of 2020.

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

United States Representative to the United Nations Kelly Craft delivers remarks to the media on Iran Snapback Sanctions in Washington, D.C., September 21, 2020. *Department of State*

Cross-Agency Priority Goals

The President's Management Agenda's long-term vision for modernizing the Federal Government will improve the ability of agencies to deliver mission outcomes, provide excellent customer service, and serve as effective stewards of taxpayer dollars on behalf of the American people. To drive these management priorities, the Administration leverages Cross-Agency Priority (CAP) goals to coordinate and publicly track implementation across Federal agencies. As of October 2020, the Department contributes to nine President's Management Agenda CAP goals: IT Modernization; Data, Accountability and Transparency; Workforce for the 21st Century; Improving Customer Experience; Sharing Quality Services; 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*.

FOCUS

The Work of the Commission on Unalienable Rights

The Commission was comprised of a variety of activists – lawyers, philosophers, humanities scholars, and non-governmental organization (NGO) leaders, who were ideologically, religiously, and politically diverse but of one mind when it came to the paramount importance of human rights in U.S. foreign policy. Public meetings began in October 2019 and proceeded once per month until February 2020. (A sixth meeting was planned but canceled on account of the COVID-19 pandemic.) The conversations – which included prepared remarks delivered by invited experts, followed by questions posed by individual commissioners – were wide-ranging. Topics included the nature of rights at America's founding; the New Deal emergence of social and economic rights; the distinction between rights and freedom, as seen through the experience of African-American slaves; China's Marxist, nationalist conception of human rights; the operations, priorities, and failures of American human rights NGOs; international treaties and international war crime tribunals; and more. Attendees were given a chance at the close of each meeting to ask questions of the Commission. At various times, the Commission heard the perspectives of members of the clergy; activists from both the right and left; congressional staff members; law professors; and representatives from foreign embassies. (Governments like Brazil's had indicated an acute interest in the Commission's work.) Members of think tanks and NGOs were also present.

In addition, commissioners received briefings from State Department personnel. Over the course of the year, they met with the Office of Legal Adviser; the Bureau of Democracy, Human Rights, and Labor; the Ambassador-at-Large for International Religious Freedom; the Bureau of Population, Refugees, and Migration; the U.S. Special Representative for Venezuela; and the Secretary of State himself.

Apart from these briefings, there were a series of administrative sessions, in which commissioners reflected on speakers' testimony, assigned responsibilities for drafting various portions of the report Secretary Pompeo had tasked them to produce, and considered how to proceed.

Secretary Pompeo and Commission Chairman Mary Ann Glendon, professor emerita Harvard Law School and former U.S. Ambassador to the Holy See, participate in a session on "Unalienable Rights and the Securing of Freedom" in Philadelphia, Pennsylvania, July 16, 2020. ***Department of State***

Over the course of six months, what eventually emerged was a sketch of the Commission's final report, the core of which would consist of parallels drawn between two forms of secular rights "scripture," the American Declaration of Independence, and the Universal Declaration of Human Rights. In particular, commissioners, in crafting the report, were attentive to the ways in which the ideals of the former declaration were reflected and refracted in the latter, a document written close to 200 years after the thirteen colonies' break with Britain, at a time when America's role in the world was vastly different, and vastly more consequential. The purpose of the report – the intended audience for which was not only the Secretary of State, but also the State Department, the American public, and international readers of various stripes – was not to discover new principles as much as to restate and clarify confusion regarding older ones that had been lost to what Abraham Lincoln referred to "the silent artillery of time." In other words, the report would be "a return to basics," but supplemented with fresh and penetrating insights.

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 2021 APP/FY 2019 APR at *https://www.state.gov/plans-performance-budget/performance-plans-and-reports/*.

In summer 2020, Department of State held internal strategic review meetings (Strategy and Resource Reviews) and provided the Office of Management and Budget (OMB) with a summary of findings. In addition, the Department of State continually reviews performance progress against the JSP's 16 strategic objectives in a variety of complementary fora throughout the year, and thereby leverage planning, performance, evaluation, and budgeting processes to strengthen the use of data and evidence to inform decisions. These cumulative reviews foster a culture of continuous review and improvement.

The next section provides an overview of major program areas that are aligned with the four strategic goals of the State-USAID Joint Strategic Plan. These programs are also included in the Financial Section, Section II of this AFR, on the Consolidated Statement of Net Cost.

Major Program Areas

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

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.

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

American national security requires sustained economic prosperity. As new challenges and opportunities emerge in a changing international landscape, our economic engagement with the world must be comprehensive, forward-looking, and flexible. The United States can advance its economic and security goals only through robust diplomacy, assertive trade and commercial policies, and broad-based engagement with governments and societies. Growth and economic security among U.S. allies and partners also builds markets for U.S. goods and services and strengthens the ability to confront global challenges. We must counter models promoted by other nations by offering a clear choice: The American approach is to help our partners prosper. Our economic diplomacy and development assistance are key tools in projecting this leadership to enhance security and prosperity at home.

Strategic Goal 3: Promote American Leadership through Balanced Engagement

America First does not mean America alone. The United States is a beacon of liberty, freedom, and opportunity. Since the conclusion of the Second World War, the United States has led the development of a rules-based international order that allows nations to compete peacefully and cooperate more effectively with one another. We worked together with allies and partners to build the institutions and structures to defend the sovereignty, self-governance, security, and prosperity of

Secretary Pompeo visits a water sanitation and hygiene USAID-NGO program site in Boa Vista, Brazil, September 18, 2020. *Department of State*

all nations and peoples. Past successes alone cannot ensure this system will continue indefinitely without being renewed, rejuvenated, and truly reciprocal. The ability to ensure peace, security, and prosperity requires a more principled and balanced approach to our engagement with our allies and partners: balanced between opportunity and responsibility; between shared goals, interests, and values; and between assistance and enforcement.

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

The Federal Government can and should operate more effectively, efficiently, and securely. As such, the Administration set goals in areas that are critical to improving the Federal Government's effectiveness, efficiency, cybersecurity, and accountability. This includes taking an evidence-based approach to improving programs and services; reducing the burden of compliance activities; delivering high performing program results and services to citizens and businesses through effective and efficient mission support services; and holding agencies accountable for improving performance. Department leadership and financial managers seek to foster an expansive and forward-leaning approach to enterprise risk management, thereby remaining able to respond to demands, events, conditions, or trends at times when significant changes trigger the need to take action. For example, this year Under Secretary for Management Brian Bulatao led quarterly strategic reviews with key leaders centered on the guiding principles of field first focus, innovation, accountability, agility, and data-informed decision making. In the face of the COVID-19 pandemic, the cultural change and cohesion arising from this effort enabled the Department to modify procedures and to acquire the tools needed to remain productive while working remotely.

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, the Foundations for Evidence-Based Policymaking 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, 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. The Department also established guidance and a plan for implementing the updated policy and is working with bureaus and offices to complete program and project design steps for their major lines of effort.

The Department is developing further revisions to 18 FAM 300 to cover all OMB guidance program evaluation standards from the Evidence Act, specifically, to add a section on ethics previously only addressed in the Department's evaluation policy guidance.

Maximizing America's Investments Through Analysis and Evidence

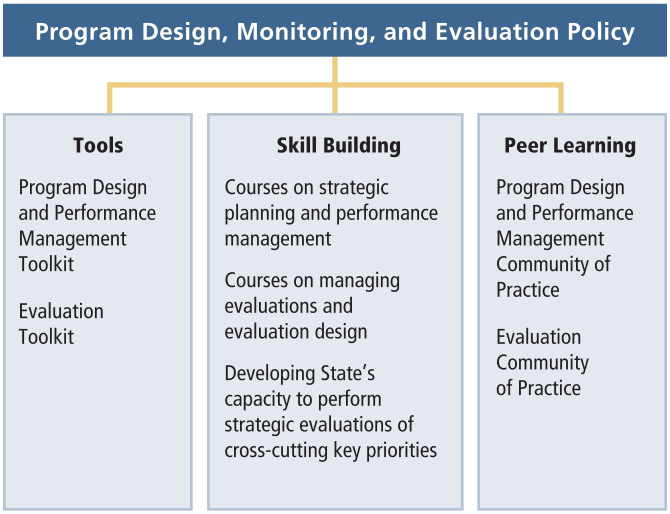
Evidence and Evaluation

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 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.

Ongoing efforts to bolster the Department's ability to plan and execute programs and projects in a way that encourages learning and adapting include:



Evidence Act Implementation

In summer 2020, the Department formed a working group – the Evidence Act Team – comprised of performance and evaluation professionals working under the co-evaluation officers' leadership to address implementation of Title 1 of the Foundations for Evidence-Based Policymaking Act (Evidence Act; Public Law No. 115–435). The Evidence Act Team and corresponding sub-groups are leading implementation of

Deputy Secretary of State Stephen E. Biegun meets with OSCE Troika, including the current, past, and future Chairperson-in-Office of the Organization for Security and Co-operation in Europe (OSCE), in Vienna, Austria, August 27, 2020. *Department of State*

the Department's deliverables required per the Evidence Act and OMB Memorandum-19-23: learning agenda; capacity assessment; and annual evaluation plan.

The Evidence Act implementation activities go hand in hand with the Department's strategic planning activities, as development of the next Joint Strategic Plan.

The stakeholder and leadership input and adoption are key to effective Evidence Act implementation, as well as required by law, the Evidence Act Team first carried out an extensive stakeholder analysis. The Evidence Act Team developed a stakeholder engagement plan to ensure transparent engagement with stakeholders throughout the enterprise, across leadership and working level staff. As part of this plan, the team regularly meets and coordinates with the Performance Improvement Officer, Director of Foreign Assistance, Chief Data Officer, and Statistical Officer as appropriate.

In July 2020 focus groups were convened to contribute to the Evidence Act deliverables, as well as strengthen bureaus' learning agendas. The Evidence Act deliverables will reflect the results of this ongoing engagement. Continued stakeholder communication includes surveys, emails, and department notices as well as participation in focus groups on the learning agenda and the capacity assessment to begin in fall 2020.

LEARN MORE

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

The Department is also implementing Title 2: Open Government Data Act, and Title 3: Confidential Information Protection and Statistical Efficiency Act of the Foundations for Evidence-Based Policymaking Act.

Management Challenges: Providing an Independent Statement of the Agency

In the 2020 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; management and 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 115-129). 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.

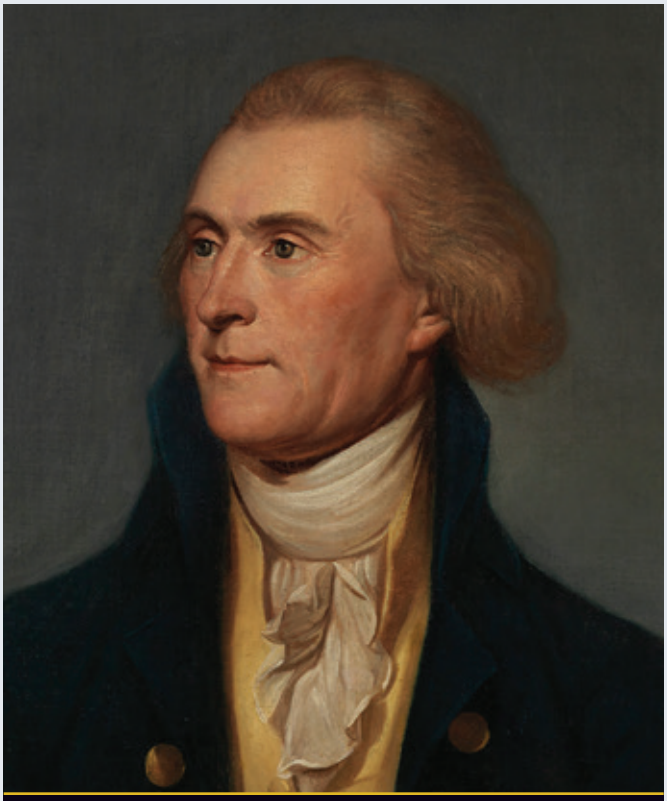
FOCUS

The Founders' Recognition of Unalienable Rights

The American experiment in free and democratic self-government stems from several sources. The 17th Century British subjects who settled, and built thriving communities along, the eastern seaboard of what they regarded as a new world brought with them a variety of traditions. These traditions both reinforced one another and pulled in different directions. Eventually, their intertwining gave rise to a distinctive and dynamic national spirit.

The colonists' momentous decision in July 1776 to break away from England in order to govern themselves marked the first time in human history that an independent nation came into existence by affirming a universal moral principle that stood above, and served as a standard for, all government. That principle – that all human beings are by nature free and equal – has roots in beliefs about human nature, reason, and God and has profound ramifications for politics.

The main purpose of the Declaration of Independence was to announce the dissolution of the political bonds that tied the Americans to Great Britain and to proclaim that the 13 colonies "are, and of Right ought to be Free and Independent States." The Declaration justified these drastic steps by means of a long list of allegations of tyrannical rule directed against King George III. Americans sought for themselves what they viewed as the prerogative of all peoples: "to assume among the powers of the earth, the separate and equal station to which the Laws of Nature and of Nature's God entitle them." Owing in part to this conviction of the equality of peoples and their common interest in freedom, the Declaration views American independence also as a matter of foreign affairs, observing that "a decent respect to the opinions of mankind requires that" the American people "should declare the causes which impel them to the separation."



Thomas Jefferson was the principal drafter of the Declaration of Independence and later served as the first Secretary of State and third President of the United States.

Financial Summary and Highlights

The financial summary and highlights that follow provide an overview of the 2020 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, 2020 and 2019, along with the Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statement of Budgetary Resources[1]. The Department received an unmodified ("clean") audit opinion on both its 2020 and 2019 financial statements. A summary of key financial measures from the Balance Sheet and Statements of Net Cost and Budgetary Resources is provided in the table below. The complete financial statements, including the independent auditor's reports, notes, and required supplementary information, are presented in Section II: Financial Information.

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

Summary Consolidated Balance Sheet Data	2020	2019	Change	% Change
Fund Balance with Treasury	$ 59.6	$ 61.2	$ (1.6)	(3)%
Investments, Net	20.1	19.4	0.7	4%
Property and Equipment, Net	26.3	25.6	0.7	3%
Cash, Receivables, and Other Assets	3.7	2.8	0.9	32%
Total Assets	**$ 109.7**	**$ 109.0**	**$ 0.7**	**1%**
Accounts Payable	$ 2.6	$ 2.3	$ 0.3	13%
After-Employment Benefit Liability	25.9	24.2	1.7	7%
International Organizations Liability	2.5	3.8	(1.3)	(34)%
Other Liabilities	2.0	2.1	(0.1)	(5)%
Total Liabilities	**$ 33.0**	**$ 32.4**	**$ 0.6**	**2%**
Unexpended Appropriations	46.9	46.6	0.3	1%
Cumulative Results of Operations	29.8	30.0	(0.2)	(1)%
Total Net Position	**$ 76.7**	**$ 76.6**	**$ 0.1**	**0%**
Total Liabilities and Net Position	**$ 109.7**	**$ 109.0**	**$ 0.7**	**1%**
Summary Consolidated Statement of Net Cost Data				
Total Cost and Loss on Assumption Changes	$ 39.4	$ 38.5	$ 0.9	2%
Less Total Revenue	6.8	8.8	(2.0)	(23)%
Total Net Cost	**$ 32.6**	**$ 29.7**	**$ 2.9**	**10%**
Summary Combined Statement of Budgetary Resources Data				
Unobligated Balance from Prior Year Budget Authority, Net	$ 32.7	$ 31.1	$ 1.6	5%
Appropriations	36.4	35.8	0.6	2%
Spending Authority from Offsetting Collections	8.0	8.0	0.0	0%
Total Budgetary Resources	**$ 77.1**	**$ 74.9**	**$ 2.2**	**3%**

[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:

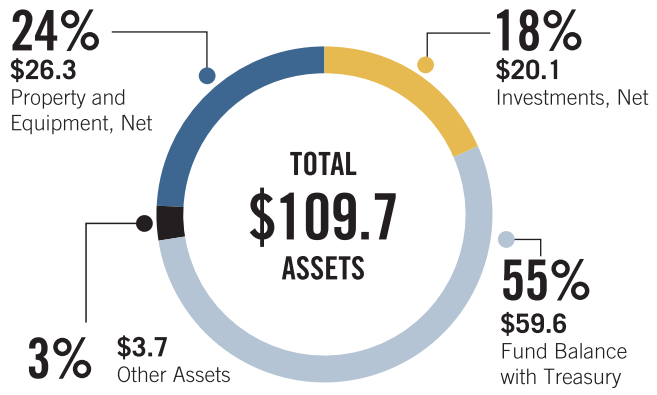
- Balance Sheet: Overview of Financial Position,
- Statement of Net Cost: Yearly Results of Operations,
- Statement of Changes in Net Position: Cumulative Overview,
- Combined Statement of Budgetary Resources,
- The Department's Budgetary Position,
- Impact of COVID-19, and
- Limitation of Financial 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 current and 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 $109.7 billion at September 30, 2020, an increase of $766 million (0.7 percent) over the 2019 total. Fund Balance with Treasury decreased $1.5 billion (2 percent). Property and Equipment increased by $726 million (3 percent) from September 30, 2019. New buildings, structures, and improvements accounted for most of this increase with the top ten New Embassy Compound projects accounting for $701 million of the increase.

ASSETS BY TYPE 2020 *(dollars in billions)*



Real Property Projects – 2020 Capitalized Activity
(dollars in millions)

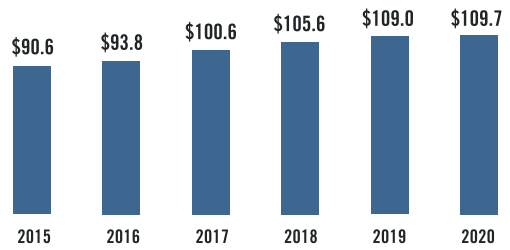
Project Name	Amount
Mexico City, Mexico	$ 95
Erbil, Iraq	94
Ankara, Turkey	81
Beirut, Lebanon	79
Guatemala City, Guatemala	71
Dhahran, Saudi Arabia	65
Nassau, Bahamas	61
Tegucigalpa, Honduras	54
Hyderabad, India	52
Asuncion, Paraguay	49
TOTAL	$ 701

Other assets increased $871 million (39 percent) as a result of an increase in advances under the Global Health and Child Survival program for $507 million. Investments increased $669 million (3 percent) because contributions and appropriations received to support the Foreign Service Retirement and Disability Fund (FSRDF) were greater than benefit payments. Fund Balance with Treasury, Investments, and Property and Equipment comprise 97 percent of total assets for 2020 and 2019.

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 $19.1 billion (21 percent) since 2015. This upward trend resulted primarily from an $9.6 billion increase in Fund Balance with Treasury, a $6.1 billion increase in Property and Equipment, and a $1.9 billion increase in Investments.

Many Heritage Assets, including art, historic American furnishings, rare books and cultural objects, are not reflected as assets on the Department's Balance Sheet. Federal accounting standards attempt to match costs to accomplishments in operating performance, and have

TREND IN TOTAL ASSETS (2015 – 2020)
(dollars in billions)

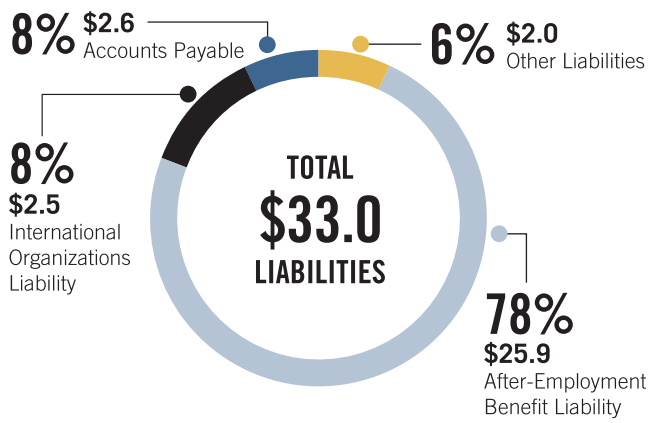


deemed that the allocation of historical cost through depreciation of a national treasure or other priceless item intended to be preserved forever as part of our American heritage would not contribute to performance cost measurement. Thus the acquisition cost of heritage assets is expensed not capitalized. 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.

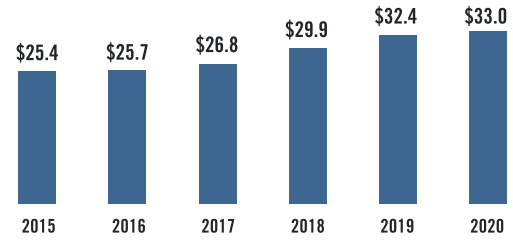
Liabilities. The Department's total liabilities were $33.0 billion at September 30, 2020, an increase of $631 million (2 percent) between 2019 and 2020. After-Employment Benefit Liability comprises 78 percent of total liabilities and increased $1.7 billion (7 percent) from 2019. International Organizations Liability decreased $1.3 billion (34 percent) and Accounts Payable increased $278 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 $7.6 billion (30 percent). This change is principally due to the increase in the After-Employment Benefit Liability, a $5.9 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.

LIABILITIES BY TYPE 2020 *(dollars in billions)*



TREND IN TOTAL LIABILITIES (2015 – 2020)
(dollars in billions)



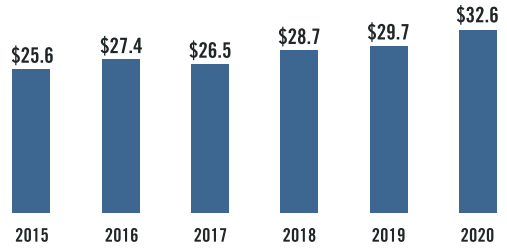
Ending Net Position. The Department's net position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, increased $135 million (.02 percent) between 2019 and 2020. Cumulative Results of Operations decreased $159 million and Unexpended Appropriations were up $294 million due 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 strategic goal. 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 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 2020 equaled $32.6 billion, an increase of $2.9 billion (10 percent) from 2019. This increase of net costs was mainly due to decreases in fee and surcharge collections from consular operations, such as machine readable visa fees, passport fees and security surcharges, and other surcharges as a direct result of the global coronavirus pandemic. In addition, spending increased for humanitarian assistance.

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 2015 to 2020 of $7.0 billion. Increases from 2015 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.

TREND IN NET COST OF OPERATIONS (2015 – 2020)
(dollars in billions)



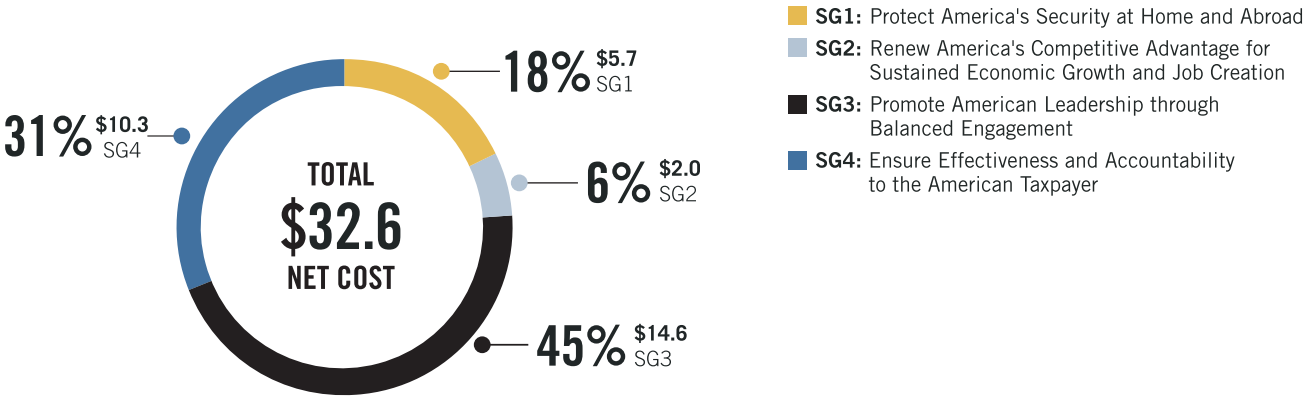
The "Net Cost of Operations by Strategic Goal" pie chart illustrates the results of operations by strategic goal, as reported on the Statement of Net Cost. As shown, net costs associated with two of the strategic goals (Strategic Goal 3: Promote American Leadership through Balanced Engagement) and (Strategic Goal 4: Ensure Effectiveness and Accountability to the American Taxpayer) represents the largest net costs in 2020 – a combined $24.9 billion (76 percent). The largest increase was in Strategic Goal 1: Protect America's Security at Home and Abroad. The net cost increased $1.4 billion resulting from the decrease in consular fee revenue due to the reduced travel from the global coronavirus pandemic. In Strategic Goal 3: Promote American Leadership through Balanced Engagement, net cost increased $653 million due to an increase in spending on humanitarian relief and global health programs.

Earned Revenues

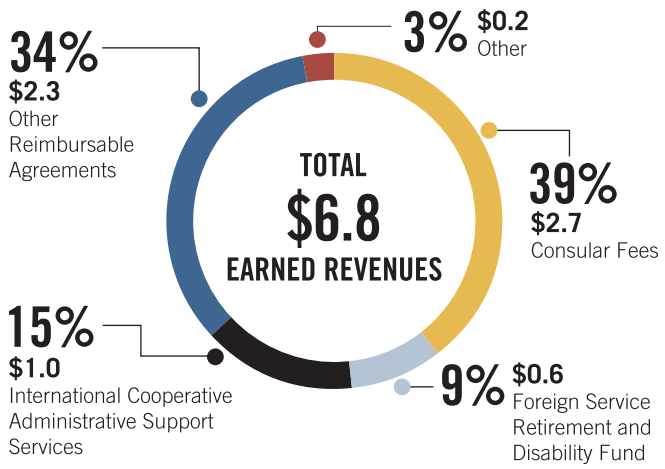
Earned revenues occur when the Department provides goods or services to another Federal entity or the public. The Department reports earned revenues regardless of whether it is permitted to retain the revenue or remit it to Treasury. Revenue from other Federal agencies must be established and billed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

Earned revenues totaled $6.8 billion in 2020, and are depicted, by program source, in the "Earned Revenues by Program Source" pie chart. The major sources of revenue were from consular fees ($2.7 billion or 39 percent), reimbursable agreements ($2.3 billion or 34 percent), and ICASS earnings ($1.0 billion or 15 percent). These revenue sources totaled $6.0 billion (88 percent). Overall, revenue decreased by 23 percent – $2.0 billion from 2019 to 2020. This decrease is primarily a result of a decrease in revenue from consular fees due to a decrease in travel as a result of COVID-19.

NET COST OF OPERATIONS BY STRATEGIC GOAL 2020 *(dollars in billions)*



EARNED REVENUES BY PROGRAM SOURCE 2020
(dollars in billions)



Statement of Changes in Net Position: Cumulative Overview

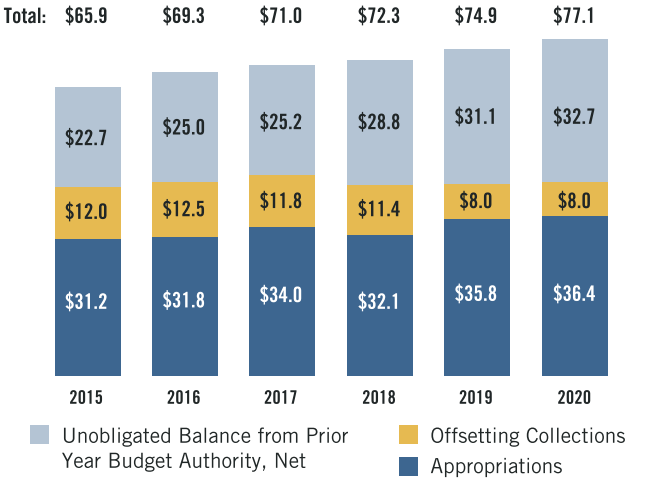
The Statement of Changes in Net Position identifies all financing sources available to, or used by, the Department to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals the Net Position at year-end. The Department's net position at the end of 2020 was $76.7 billion, a $135 million (.18 percent) increase from the prior fiscal year. This change resulted from the $294 million increase in Unexpended Appropriations and a $159 million decrease 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 2015 through 2020. A comparison of the two most recent years shows a $2.2 billion (3 percent) increase in total resources since 2019. This change resulted from increases in unobligated balances from prior year budget authority ($1.6 billion) and appropriations ($0.6 billion).

TREND IN TOTAL BUDGETARY RESOURCES (2015 – 2020)
(dollars in billions)



The Department's Budgetary Position

For 2020, the majority of the Department's funding was provided by the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2020 (Division F, Public Law No. 116-94) (the "FY 2020 Act") enacted on December 20, 2019. Supplemental 2020 funding was provided for Coronavirus response by the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (Public Law No. 116-123) and the Coronavirus Aid, Relief, and Economic Security Act, 2020 (Public Law No. 116-136). The Bureau of Budget and Planning manages the Diplomatic Engagement portion of the budget, and the Office of Foreign Assistance manages Foreign Assistance funds.

Looking ahead, the 2021 President's Budget puts U.S. national security interests first, while carrying out our fiduciary responsibility to the U.S. taxpayer through necessary trade-offs and reductions. The request focuses our resources to address challenges such as terrorism, international health and humanitarian disasters, and competition from nations that do not share our values of freedom and democracy. It promotes U.S. economic growth by creating welcoming environments for U.S. businesses overseas, supporting the Department's continued efforts to strengthen engagement with the private sector, and creating a fair and level playing field. The Budget recalibrates American contributions to international organizations to a more sustainable level, maintaining American leadership while asking other nations to increase their support. Finally, the request also continues to invest in the Department's global workforce and promote efficient operations through information technology modernization and overseas humanitarian assistance restructuring.

Budgetary Position for Diplomatic Engagement

The 2020 funding provided for Diplomatic Engagement totaled $19.8 billion, which included $11.8 billion in appropriated Enduring funds and $3.7 billion in appropriated Overseas Contingency Operations (OCO) funds included in Title I of the FY 2020 Act, an additional $3.7 billion in non-appropriated retained fee revenue in the Consular and Border Security Program, and $588 million in cumulative supplemental appropriated Coronavirus response funds. Funding provided in these Acts 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 the $19.8 billion in new 2020 funding, $13.5 billion in prior year Diplomatic Engagement funding remained available for obligation in 2020.

In 2020, the Department earned and retained $3.7 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.

For 2021, the Department's Diplomatic Engagement budget request totals $16.2 billion in new budget authority. The 2021 estimate for consular fee revenue to support Consular and Border Security programs has been revised downwards to $3.1 billion, a reduction from the 2021 request due to reduced visa and passport demand. The Department is not requesting OCO funding in 2021.

Budgetary Position for Foreign Assistance

For 2020, Foreign Assistance funding for the Department of State and USAID totaled $39.0 billion, which included $33.2 billion in appropriated Enduring funds, and $4.1 billion in appropriated OCO funds in the FY 2020 Act, as well as a total of $1.7 billion in supplemental Foreign Assistance funding to respond to the coronavirus pandemic through Public Law No. 116-123 and Public Law No 116-136. The 2020 funding supported 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 accounts fully managed by the Department of State totaled $19.3 billion, approximately half of the total 2020 Foreign Assistance budget. The Department also implements funds from the Assistance for Europe, Eurasia, and Central Asia account and the Economic Support Funds account, although these are also implemented by USAID. USAID fully implements the following accounts: Global Health Programs-USAID, International Disaster Assistance, Food for Peace, Development Assistance, Transition Initiatives, Complex Crises Fund, Operating Expenses, Capital Investment Fund, and the Office of the Inspector General

Diplomatic Engagement Appropriations and Fee Revenue

Appropriation / Program *(dollars in millions)*	Prior Year Unobligated Balances for 2020	2020 Estimate			2020 Supplemental	2020	2021 Request
	Total	Enduring	OCO	Total	Total	Grand Total	Total
Diplomatic Engagement	**$13,557.3**	**$15,503.3**	**$3,697.5**	**$19,200.8**	**$588.0**	**$19,788.8**	**$16,281.8**
Administration of Foreign Affairs	**12,428.0**	**13,088.2**	**2,612.6**	**15,700.8**	**588.0**	**16,288.8**	**14,023.6**
State Programs	**3,859.4**	**10,376.0**	**2,376.1**	**12,752.1**	**583.0**	**13,335.1**	**11,819.6**
Diplomatic Programs	2,206.6	6,489.6	2,376.1	8,865.7	309.0	9,174.7	8,489.9
Ongoing Operations	437.0	5,019.8	—	5,019.8	309.0	5,328.8	4,794.5
Worldwide Security Protection	1,769.6	1,469.8	2,626.1	4,095.9	—	4,095.9	3,695.4
Worldwide Security Protection (Rescission/ transfer of prior year balances)	—	—	(250.0)	(250.0)	—	(250.0)	—
Worldwide Security Protection	—	—	—	—	—	—	—
Capital Investment Fund	0.8	139.5	—	139.5	—	139.5	256.7
Consular and Border Security Programs (Fee Funded, non appropriated)	1,652.0	3,746.9	—	3,746.9	274.0	4,020.9	3,073.0
Embassy Security, Construction, & Maintenance	**8,242.7**	**1,551.4**	**181.6**	**1,733.0**	**—**	**1,733.0**	**1,683.8**
Ongoing Operations	—	769.8	—	769.8	—	769.8	742.1
Worldwide Security Upgrades	8,242.7	781.6	424.1	1,205.7	—	1,205.7	941.7
Worldwide Security Upgrades (Rescission of prior year balances)	—	—	(242.5)	(242.5)	—	(242.5)	—
Other Administration of Foreign Affairs	**325.9**	**1,160.8**	**54.9**	**1,215.7**	**5.0**	**1,220.7**	**520.2**
Office of Inspector General	9.1	90.8	54.9	145.7	—	145.7	141.4
Educational and Cultural Exchange Programs	53.3	730.7	—	730.7	5.0	735.7	310.0
Representation Expenses	—	7.2	—	7.2	—	7.2	7.4
Protection of Foreign Missions and Officials	1.3	30.9	—	30.9	—	30.9	25.9
Emergencies in the Diplomatic and Consular Service	262.2	267.9	—	267.9	—	267.9	7.9
Repatriation Loans Program Account	—	1.3	—	1.3	—	1.3	1.3
Payment to the American Institute in Taiwan	—	32.0	—	32.0	—	32.0	26.3
International Organizations	**1,012.8**	**1,915.3**	**1,084.9**	**3,000.2**	**—**	**3,000.2**	**2,045.4**
Contributions to International Organizations	6.1	1,377.6	96.2	1,473.8	—	1,473.8	966.2
Contributions for International Peacekeeping Activities	1,006.7	537.7	988.7	1,526.4	—	1,526.4	1,079.2
International Commissions	**104.0**	**162.8**	**—**	**162.8**	**—**	**162.8**	**144.2**
International Boundary and Water Commission – S&E	—	48.2	—	48.2	—	48.2	49.8
IBWC – Construction	103.5	36.9	—	36.9	—	36.9	49.0
American Sections	0.5	15.0	—	15.0	—	15.0	10.7
International Fisheries Commissions	—	62.7	—	62.7	—	62.7	34.7
Related Programs	**—**	**335.7**	**—**	**335.7**	**—**	**335.7**	**67.3**
The Asia Foundation	—	19.0	—	19.0	—	19.0	—
National Endowment for Democracy	—	300.0	—	300.0	—	300.0	67.3
East-West Center	—	16.7	—	16.7	—	16.7	—
Special and Trust Funds	**12.5**	**1.3**	**—**	**1.3**	**—**	**1.3**	**1.3**
Center for Middle Eastern-Western Dialogue	12.2	0.2	—	0.2	—	0.2	0.3
Eisenhower Exchange Fellowship Program	—	0.3	—	0.3	—	0.3	0.2
Israeli Arab Scholarship Program	0.3	0.1	—	0.1	—	0.1	0.1
International Chancery Center	—	0.7	—	0.7	—	0.7	0.7
Foreign Service Retirement and Disability Fund (non-add)	—	158.9	—	158.9	—	158.9	158.9

Security assistance totaled $9.0 billion in 2020, and was appropriated in the following accounts: Foreign Military Financing (FMF); International Military Education and Training; International Narcotics Control and Law Enforcement; Nonproliferation, Antiterrorism, Demining, and Related Programs; and Peacekeeping Operations. The majority of security assistance, $6.2 billion in FMF, was provided to countries in the Middle East and North Africa, including $3.3 billion for Israel.

In 2020, the portion of the Global Health Programs appropriation managed by the Department totaled $5.9 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.

In 2020, the portion of humanitarian assistance managed by the Department through the Migration and Refugee Assistance (MRA) and U.S. Emergency Refugee and Migration Assistance accounts totaled $3.8 billion, of which $1.5 billion was OCO and $2.3 billion was for core programs including supplemental funds. These funds provided humanitarian assistance and resettlement opportunities for refugees and conflict victims around the globe and contributed to key multilateral and non-governmental organizations that address pressing humanitarian needs overseas. Of the $1.7 billion in 2020 supplemental Foreign Assistance appropriated for the Department of State and USAID, $350.0 million in MRA funding was provided to prevent, prepare for, and respond to COVID-19 in existing complex emergency responses, and to address the potential humanitarian consequences of the pandemic.

The Democracy Fund appropriation totaled $273.7 million in 2020; the funds are split, however, between the Department and USAID. The Department was allocated $178.5 million to promote democracy in priority countries where egregious human rights violations occur, democracy and human rights advocates are under pressure, governments are not democratic or are in transition, where there is growing demand for human rights and democracy, and for programs promoting Internet Freedom.

The 2020 International Organizations and Programs appropriation totaled $390.5 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.

The President's 2021 Request for Foreign Assistance for the Department of State and USAID is currently under congressional consideration. The State and USAID request is for $27.6 billion to support all core programs; no OCO funding is requested. The Department of State-managed accounts sum to $11.7 billion or 42 percent of the total request.

Impact of COVID-19

In response to the coronavirus disease 2019 (COVID-19) global pandemic, the Department of State has taken decisive action to inform and safeguard U.S. citizens overseas, protect the homeland, advance the Administration's commitment to building global health security capacity for this and future outbreaks, and reduce the impact for U.S. companies and supply chains overseas. As of June 2020, the Department had coordinated the repatriations of 100,000 American citizens as part of the U.S. Government's efforts to combat COVID-19 and protect American citizens abroad.

Resources were mobilized to support these efforts. The Department's 2020 funding provided for Diplomatic Engagement included $588 million in cumulative supplemental funding appropriated for COVID-19 response. The $588 million in 2020 supplemental funding was provided to prevent, prepare for, and respond to the coronavirus pandemic. These funds were used to provide critical support to American citizens overseas and maintain consular operations in light of declining visa and passport revenues, and increase the Department's global capacity for medical response, diagnosis, treatment, and evacuations.

Department of State and USAID Budget by Account

Appropriation / Program *(dollars in millions)*	2020 Estimate			2020 Supplemental	2020	2021 Request
	Enduring	OCO	Total	Total	Grand Total	Total
Foreign Assistance	**$33,231.0**	**$4,092.5**	**$37,323.5**	**$1,689.0**	**$39,012.5**	**$27,624.2**
State Only Accounts	**16,586.6**	**2,358.5**	**18,945.1**	**350.0**	**19,295.1**	**11,716.7**
Security Assistance	**8,176.8**	**837.1**	**9,013.9**	**—**	**9,013.9**	**7,579.6**
Foreign Military Financing	5,645.0	511.9	6,156.9	—	6,156.9	5,420.9
International Military Education & Training	112.9	—	112.9	—	112.9	104.9
International Narcotics Control and Law Enforcement	1,391.0	—	1,391.0	—	1,391.0	1,010.3
Nonproliferation, Antiterrorism, and Demining	895.8	—	895.8	—	895.8	753.5
Peacekeeping Operations	132.1	325.2	457.3	—	457.3	290.0
Health	**5,930.0**	**—**	**5,930.0**	**—**	**5,930.0**	**3,837.9**
Global Health Programs - State	5,930.0	—	5,930.0	—	5,930.0	3,837.9
Humanitarian Assistance	**1,910.8**	**1,521.4**	**3,432.2**	**350.0**	**3,782.2**	**299.2**
Migration and Refugee Assistance	1,910.7	1,521.4	3,432.1	350.0	3,782.1	299.2
Emergency Refugee & Migration Assistance	0.1	—	0.1	—	0.1	—
Economic & Development Assistance	**569.0**	**—**	**569.0**	**—**	**569.0**	**—**
Democracy Fund	178.5	—	178.5	—	178.5	—
International Organizations and Programs	390.5	—	390.5	—	390.5	—
Other Accounts	**16,644.4**	**1,734.0**	**18,378.4**	**1,339.0**	**19,717.4**	**15,907.5**
Health	**3,162.5**	**—**	**3,162.5**	**435.0**	**3,597.5**	**2,160.1**
Global Health Programs - USAID	3,162.5	—	3,162.5	435.0	3,597.5	2,160.1
Humanitarian Assistance	**4,386.4**	**1,734.0**	**6,120.4**	**558.0**	**6,678.4**	**5,968.0**
International Disaster Assistance	2,661.4	1,734.0	4,395.4	558.0	4,953.4	—
Food for Peace, Title II	1,725.0	—	1,725.0	—	1,725.0	—
International Humanitarian Assistance	—	—	—	—	—	5,968.0
Economic & Development Assistance	**7,432.5**	**—**	**7,432.5**	**250.0**	**7,682.5**	**6,187.6**
Assistance for Europe, Eurasia & Central Asia	770.3	—	770.3	—	770.3	—
Economic Support and Development Fund	—	—	—	—	—	6,075.6
Economic Support Fund	3,045.0	—	3,045.0	250.0	3,295.0	—
Development Assistance	3,400.0	—	3,400.0	—	3,400.0	—
Democracy Fund	95.2	—	95.2	—	95.2	—
Transition Initiatives	92.0	—	92.0	—	92.0	112.0
Complex Crises Fund	30.0	—	30.0	—	30.0	—
USAID Administrative Expenses	**1,663.0**	**—**	**1,663.0**	**96.0**	**1,759.0**	**1,591.8**
USAID Operating Expense	1,377.2	—	1,377.2	95.0	1,472.2	1,311.9
USAID Capital Investment Fund	210.3	—	210.3	—	210.3	205.0
USAID Inspector General	75.5	—	75.5	1.0	76.5	74.9

Secretary Pompeo meets Israeli Prime Minister Benjamin Netanyahu in Jerusalem, Israel, August 24, 2020. *Department of State*

Supplemental funds also facilitated travel and covered support costs for State Department employees and families on authorized departure and ordered departure, as well as enhancing information technology support for telework and remote access so that employees could continue to deliver on the Department's mission while following Federal, state, and local public health guidance. Funds were also used to prevent and respond to exposure at State Department facilities through increased decontamination, disinfection, and cleaning. In addition, funds supported the tracking and response to adversarial narratives and disinformation related to COVID-19, as well as providing enhanced intelligence analysis, and extending foreign language training to online class offerings. Internally, the Department implemented its Diplomacy Strong framework, a phased approach and methodology for COVID-19 mitigation in our domestic and overseas operations and facilities.

As noted, the impact to Department visa and passport fee-based revenue has been significant. Nonimmigrant visa and passport revenue declined by more than $1.4 billion in 2020 from 2019. In addition to the supplemental resources appropriated to the Department, the CARES Act temporarily expanded expenditure authority for the passport security surcharge and the immigrant visa security surcharge to enable carryforward amounts from those fees to also offset expenses necessary to maintain consular operations with a priority on U.S. citizen services. These expenses would otherwise have been covered by machine readable visa fees generated from nonimmigrant visa applications.

Limitation of Financial Statements

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

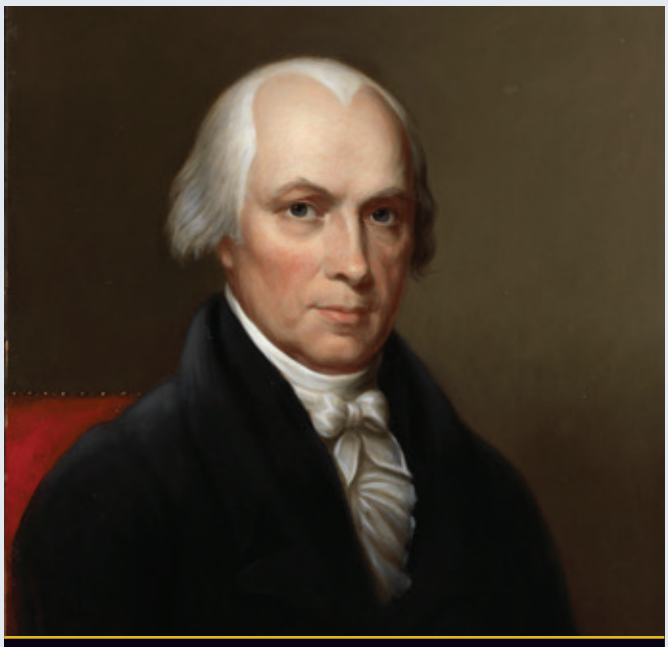
FOCUS

The Paramount Importance of Religious Freedom

Religious liberty enjoys similar primacy in the American political tradition – as an unalienable right, an enduring limit on state power, and a protector of seedbeds of civic virtues. In 1785, James Madison gave classic expression to its centrality in founding-era thinking in his "Memorial and Remonstrance Against Religious Assessments." Quoting the Virginia Declaration of Rights' definition of religion, Madison wrote, "we hold it for a fundamental and undeniable truth, 'that Religion or the duty which we owe to our Creator and the manner of discharging it, can be directed only by reason and conviction, not by force or violence.'" Freedom of conscience in matters of religion is unalienable "because the opinions of men, depending only on the evidence contemplated by their own minds cannot follow the dictates of other men." While government may practice intolerance and enforce orthodoxy, it can never, in Madison's view, coerce true.

Madison maintains that religious liberty is also unalienable "because what is here a right towards men, is a duty towards the Creator." The duty to exercise reason in determining the content and scope of one's religious obligations is akin to the duty to exercise reason in determining the content and scope of justice and the obligations that it imposes. Governments that respect unalienable rights preserve the ability of those who live under them to determine and pursue, consistent with the like right of others, what is fitting, proper, and good.

Some mistakenly suppose that so generous a conception of liberty must rest on skepticism about salvation and justice. Why give people freedom to choose if God's will and the imperatives of justice are knowable? In fact, a certain skepticism is involved, but it is directed not at faith and justice but at the capacity of government officials to rule authoritatively on the deepest and greatest questions. The Madisonian view of religious liberty – like the view to which Jefferson gave expression in his Virginia Bill for Religious Freedom – proceeds from a theistic premise about the sources of human dignity even as it denies the state the power to dictate final answers about ultimate matters.



"Father of the Constitution" James Madison also was the fifth Secretary of State and the fourth President of the United States.

Drawing on the modern tradition of freedom and their Biblical heritage, the American founders saw themselves as intellectual and political pioneers of religious liberty. When in 1787, two years after his Memorial and Remonstrance, Madison and his colleagues at the Constitutional Convention in Philadelphia incorporated into the new charter of government a ban on religious tests for public office, America took a step that no other nation had ever taken. In 1788, at a parade in Philadelphia celebrating the ratification of America's new system of government, Dr. Benjamin Rush, who signed the Declaration, marveled at the sight of the religious leaders of the city's diverse faiths walking arm in arm. "There could not have been a more happy emblem contrived" of the Constitution, Rush observed, because it "opens all its power and offices alike, not only to every sect of Christians, but to worthy men of every religion."

Management Assurances and Other Legal 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, which is titled GAO's *Standards for Internal Control in the Federal Government* (Green Book). 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, 2020.

As a result of its inherent limitations, internal control over financial reporting, no matter how well designed, cannot provide absolute assurance of achieving financial reporting objectives and may not prevent or detect misstatements. Therefore, even if the internal control over financial reporting is determined to be effective, it can provide only reasonable assurance with respect to the preparation and presentation of financial statements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Michael R. Pompeo
Secretary of State
November 16, 2020

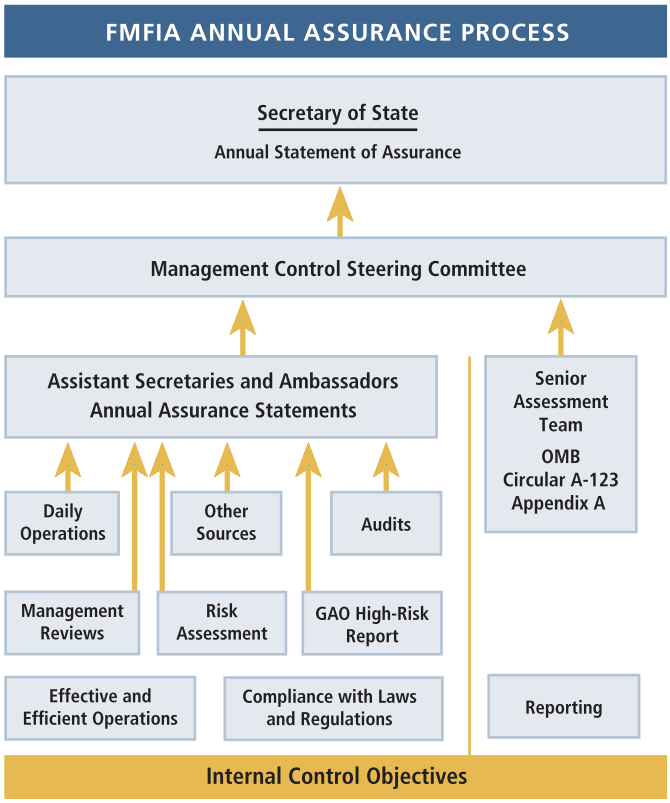
OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* provides implementation guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by identifying and managing risks, establishing requirements to assess, correct, and report on the effectiveness of internal controls. OMB Circular A-123 implements the FMFIA and GAO's 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 FFMIA and Appendix D to OMB Circular A-123, *Compliance with the Federal Financial Management Improvement Act of 1996*. The 2020 results are discussed in the section titled "Federal Financial Management Improvement Act."

The Secretary of State's 2020 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.

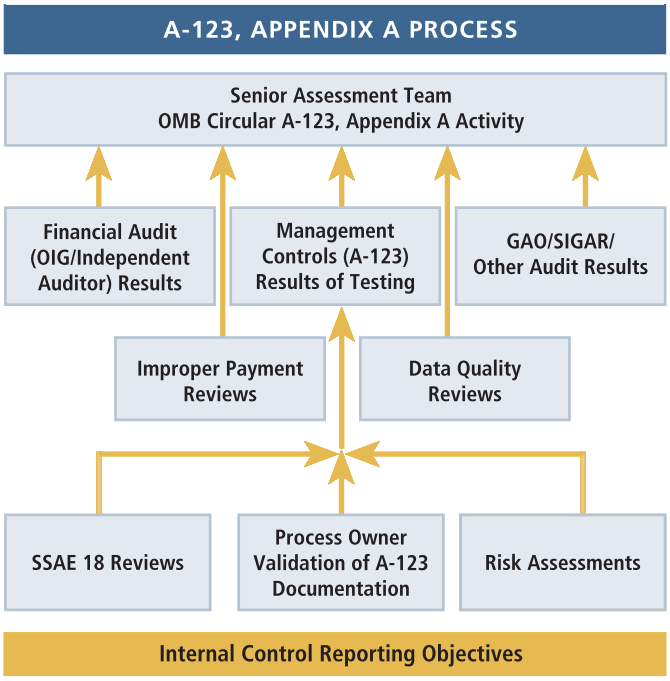
The Department's Management Control Steering Committee (MCSC) oversees the Department's management control program. The MCSC is chaired by the Comptroller, and is comprised of eight Assistant Secretaries, in addition to the Chief Information Officer, the Deputy Comptroller, the Deputy Legal Adviser, the Director for the Office of Budget and Planning, the Director for Human Resources, the Director for Management Strategy and Solutions, 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 2020 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 14 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 2020 unmodified Statement of Assurance. The 2020 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 reporting that management is closely monitoring. The Department complied with the requirements in OMB Circular A-123 during 2020 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 2020, the Department continued taking important steps to advance its Enterprise Risk Management (ERM) program. The Enterprise Governance Board (EGB), which is comprised of the Deputy Secretary and all Under Secretaries, serves as the Enterprise Risk Management Council. In this capacity, the EGB reviews the Department's risk profile at least once per year. The Department's Office of Management Strategy and Solutions (M/SS) serves as the Executive Secretariat to the EGB and manages the Department's overall risk management program. It is the Department's policy that advancement of U.S. foreign policy objectives inherently involves diverse types of risk, and the Department recognizes that taking considered risks can be essential to creating value for our stakeholders.

The EGB reviewed the Department's ERM processes and risk posture during 2020. The EGB endorsed updates to the Department's overarching governance structure that sets the tone and direction for risk management policies, communications, and training throughout the organization. The EGB clarified roles and responsibilities with regard to risk and also updated the Department's "Risk Principles" to provide a more common understanding of how Department employees and leaders should approach risk decisions. The EGB also recognized that Department bureaus have risk management built into a wide range of existing procedures and manage risk in a variety of ways, and incorporate mitigation strategies into strategic planning processes. The Department looks forward to continued development of ERM policies in 2021.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The Department conducted its evaluation of financial management systems for compliance with FFMIA in accordance with OMB Circular A-123, Appendix D. Based on the results of this assessment, the Department can provide reasonable assurance that its overall financial management systems substantially comply with principles, standards, and requirements prescribed by the FFMIA as of September 30, 2020.

Michael R. Pompeo
Secretary of State
November 16, 2020

Federal Financial Management Improvement Act

The purpose of the Federal Financial Management Improvement Act of 1996 (FFMIA) is to advance Federal financial management by ensuring that Federal financial management systems generate timely, accurate, and useful information with which management can make informed decisions and to ensure accountability on an ongoing basis.

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, and other relevant information. The Department's annual Federal Information Security Modernization Act Report for 2020 was not available for review due to the Department being granted a 60 day deadline extension.

The Department's assessment also relies upon evaluations and assurances under the Federal Managers' Financial Integrity Act of 1982 (FMFIA), including assessments performed to meet the requirements of OMB Circular A-123 Appendix A. When applicable, particular importance is given to any reported material weakness and material non-conformance identified during these internal control assessments. The Department has made it a priority to meet the objectives of the FFMIA.

In its Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements, the Independent Auditor identified instances of substantial noncompliance with Federal financial management systems requirements. The Department acknowledges that the Independent Auditor has noted certain weaknesses in our financial management systems. OMB's Appendix D provides a revised compliance model that entails a risk-and outcome-based approach to assess FFMIA compliance. In our assessments and evaluations, the Department identified similar weaknesses. However, applying the guidance and the assessment framework noted in Appendix D to OMB Circular A-123, the Department considers them deficiencies versus substantial non-conformances relative to substantial compliance with the requirements of the FFMIA. Nonetheless, the Department is committed to continuing to work to address all identified financial management system deficiencies.

Federal Information Security Modernization Act

The Federal Information Security Modernization Act of 2014 (FISMA) requires Federal agencies to develop, document, and implement an agency-wide program to protect government information and information systems that support the operations and assets of the agency. FISMA authorized the Department of Homeland Security (DHS) to take a leadership and oversight role in this effort, created cyber breach notification requirements, and modified the scope of reportable information from primarily policies and financial information to specific information about threats, security incidents, and compliance with security requirements.

The Department of State remains committed to adopting the best cybersecurity practices and embedding them into the

agency's culture. As a result, the agency continues to improve its cybersecurity posture and provide transparency internally and with external partners in other Federal agencies.

In 2019, OMB and DHS used the core areas of the National Institute of Standards and Technology (NIST) Cybersecurity Framework to assess cybersecurity capabilities and compliance and concluded that overall, the Department improved its security posture to actively "managing" cybersecurity risk for all of 2019 and last two quarters for 2020.

The FISMA audit that would normally be completed in November of 2020 was granted an extension for 60 days, and findings will be available at that time. In the meantime, the OIG recognized the agency's progress in maturing the information security program in two of the five core areas of the Cybersecurity Framework and we continue to make progress to fully mature the program. To that end, in 2020, the Department accomplished the following:

- Enhanced capabilities to better inform top leadership and support risk-based decision making through an updated Agency Cyber Risk Management Strategy and implementation of agency and bureau level risk assessments and cyber performance scorecards. For high value assets, in response to DHS's Binding Operational Directive 18-02, the risk reporting initiatives also included annual and quarterly metrics to facilitate a more comprehensive view of risk remediations.
- Initiated a multi-year effort to strengthen the Department's security posture through greater alignment between business needs, cybersecurity, and enterprise architecture. Instead of adopting a flavor of the month approach to cyber security technologies and a complex sprawl of tools and processes with no integration, the Department is developing a robust framework to decide how much security is needed to protect the most critical and sensitive information assets in a more cost-effective manner that Department staff can efficiently administer and maintain. Using the NIST Risk Management Framework, NIST Cyber Security Framework, and the Sherwood Applied Business Security Architecture, the Department developed governance and a methodology to provide oversight for security architecture enterprise wide. By doing so, the Department can ensure different functions and locations worldwide consistently interpret, select and integrate cyber tools and processes, as we modernize our information technology assets in a changing threat landscape.
- Implemented continuous diagnostic monitoring (CDM) and enhanced the Department's capacity to ensure role-based access controls through its identity access credential management program. The enhanced capacity will give the Department immediate access to comprehensive attributes of any single user after consolidating all digital identities including cybersecurity training records, clearance suitability, and system access rights. Additionally, the CDM identity management capabilities allow Department-wide users single sign-on service to reduce both the number of passwords a user must memorize and the probability of password compromise.

The actions that the Department continues to undertake are based on the premise that cybersecurity is an ongoing effort that requires agility to respond to ever evolving threats and the mission needs.

Did You Know?

Robert Smith, the sixth Secretary of State, served both as the Secretary of the Navy (1801-1809) and the Secretary of State (1809-1811).

LEARN MORE

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

Resource Management Systems Summary

Other Information, Section III of this AFR, provides an overview of the Department's current and future resource management systems framework and systems critical to effective agency-wide financial management operations, financial reporting, internal controls, and interagency

administrative support cost sharing. This summary presents the Department's resource management systems strategy and how it will improve financial and budget management across the agency. This overview also contains a synopsis of critical projects and remediation activities that are planned or currently underway. These projects are intended to modernize and consolidate Department resource management systems.

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 dedicated considerable resources 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 successfully transitioned the Global Financial Management System data warehouse into a Global Business Intelligence solution. This was a significant undertaking, which included upgrading its supporting infrastructure. This solution has greatly improved the Department's capability to utilize data mining techniques and expanded internal and external financial reporting proficiency for the Department.

Secretary Pompeo meets with staff and families of U.S. Embassy Dakar in Dakar, Senegal, February 16, 2020. *Department of State*

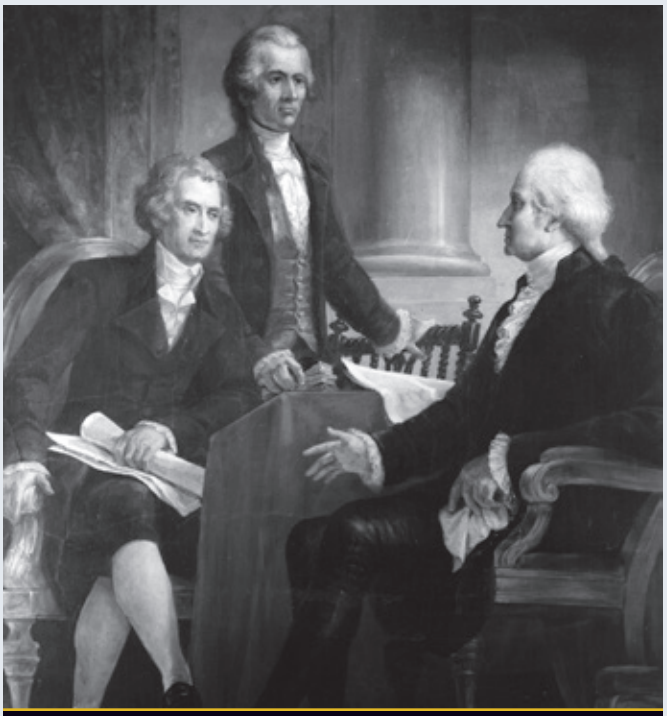
FOCUS

Unalienable Rights and the Constitution

The genius of the Constitution, which was drafted in 1787 and came into effect in 1788, was to establish a unique design for a government capable of securing the unalienable rights affirmed by the Declaration of Independence. The Constitution translates the universal promise of fundamental rights belonging to all persons into the distinctive positive law of the American republic.

According to the Preamble, the Constitution's aims are manifold: "We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America." In seven austere articles, the original Constitution – the drafting and ratification of which were themselves extraordinary acts of self-government sets forth institutional arrangements that enabled the people to rule themselves while respecting freedom and equality.

The primary means by which the Constitution enables the people to secure those blessings is through the structure it gives to, and the limitations it imposes on, government. Limited government is crucial to the protection of unalienable rights because majorities are inclined to impair individual freedom, and public officials are prone to putting their private preferences and partisan ambitions ahead of the public interest. This is not to deny the capacity for public-spirited action on the part of the people or public officials, but to recognize the need for institutional safeguards for rights because of the unreliability of high-minded motives. Nor is it to overlook that, within its limits, government must act energetically and effectively to secure rights.



U.S. President George Washington in consultation with his Secretary of State Thomas Jefferson and Secretary of the Treasury Alexander Hamilton. A painting by Constantino Brumidi, circa 1790. *Getty Images*

The Constitution's complex framework operates to constrain momentary whims and passing fancies of any given majority or officeholder; to cool the passions of public servants as well as of the people and redirect politics toward constitutionally appropriate goals; and to induce compromise among the factions that inevitably arise in free societies. Government so moderated is not therefore passive or sluggish. Indeed, the Constitution's design aims to channel energy toward the vindication of rights.

FOCUS

Unalienable Rights and the Evil of Slavery

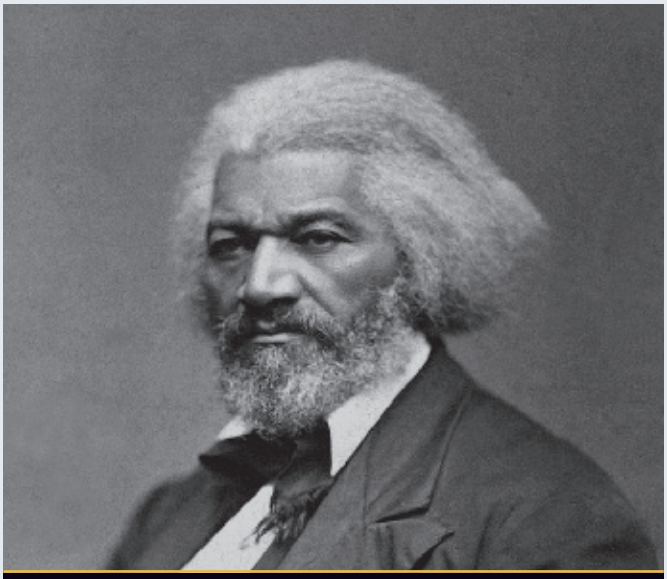
Prominent among the unalienable rights that government is established to secure, from the founders' point of view, are property rights and religious liberty. A political society that destroys the possibility of either loses its legitimacy.

For the founders, property refers not only to physical goods and the fruit of one's labor but also encompasses life, liberty, and the pursuit of happiness. They assumed, following philosopher John Locke, that the protection of property rights benefits all by increasing the incentive for producing goods and delivering services desired by others.

The benefits of property rights, though, are not only pecuniary. Protection of property rights is also central to the effective exercise of positive rights and to the pursuit of happiness in family, community, and worship. Without the ability to maintain control over one's labor, goods, land, home, and other material possessions, neither can one enjoy individual rights, nor can society build a common life. Moreover, the choices we make about what and how to produce, exchange, distribute, and consume can be tightly bound up with the kinds of human beings we wish to become. Not least, the right of private property sustains a sphere generally off limits to government, a sphere in which individuals, their families, and the communities they form can pursue happiness in peace and prosperity.

The importance that the founders attached to private property only compounds the affront to unalienable rights involved at America's founding in treating fellow human beings as property. It also explains why many abolitionists thought that owning property was a necessary element of emancipation: only by becoming property-owning citizens could former slaves exercise economic independence and so fully enjoy their unalienable rights.

Respect for unalienable rights requires forthright acknowledgement of not only where the United States has fallen short of its principles but also special recognition of the sin of slavery – an institution as old as human civilization and our nation's deepest violation of unalienable rights. The legally protected and institutionally entrenched slavery that disfigured the United States at its birth reduced fellow human beings to property to be bought, sold, and used as a means for their owners' benefit. Many slave-owning founders, not least Thomas Jefferson, recognized that in the light of unalienable rights, slavery could only be seen as a cruel and indefensible institution. In contemplating slavery in his Notes on the State of Virginia, he wrote, "I tremble for my country when I reflect that God is just." Nevertheless, it would take a grievous civil war, costing more American lives by far than any other conflict in the nation's history, to enable the federal government to declare slavery unlawful. It would take another century of struggle to incorporate into the laws of the land protections to guarantee African Americans their civil and political rights. Our nation still works to secure, in its laws and culture, the respect for all persons our founding convictions require.



Born a slave, Frederick Douglass through the power of his oratorical gifts became an important influence on his countrymen, including President Abraham Lincoln, in winning recognition of the unalienable rights of black Americans, both before and after the abolition of slavery.

It has been the work of Americans down through the generations to understand that unalienable rights, realized in part in the privileges and protections of citizenship, apply to all persons without qualification. Far from a repudiation of, this progress in understanding represents fidelity to, the nation's founding principles.

Secretary Pompeo delivers remarks at the Intra-Afghan negotiations opening ceremony in Doha, Qatar, September 12, 2020. ***Department of State***

SECTION II:

Financial Section

Message from the Comptroller

Jeffrey C. Mounts, Comptroller

It is an honor to present the Fiscal Year (FY) 2020 Financial Statements on behalf of the Department of State. As noted in the Secretary's message, the FY 2020 Agency Financial Report (AFR) reflects our continuing efforts to earn the trust of the American people as we advance the Country's long-term interests. It is our key financial accountability document and principal report to the President, Congress, and the American people; illustrating our firm commitment, resolve, and resilience in delivering the highest standard of financial accountability and transparency to the American public. This year's AFR theme focuses on "Safeguarding Unalienable Rights." We take pride in knowing strong financial stewardship furthers the Department's essential foreign policy mission and our founding principles. We understand our stewardship responsibilities and the information contained in this AFR represents the diligence and dedication demonstrated daily by the Department's professionals – One Team – around the world in some of the most difficult environments and circumstances.

The Department's financial operating setting is indeed 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 $77 billion in budgetary resources and nearly $110 billion in assets in over 500 separate fiscal accounts; and manage real and personal property assets with historical costs of more than $40 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. The Department's operating context was additionally challenged in 2020 by a Global Pandemic impacting our operations and requiring extraordinary efforts by the Department supporting the U.S. Government's COVID-19 global response. As part of this support, the Department indirectly and directly facilitated the evacuation and repatriation of more than 100,000 American citizens. Internally, we were confronted with a previously unimaginable task of quickly pivoting to large-scale remote operations. What transpired was a remarkable transformation to ensure the successful continuity of our financial management controls, programs, and services. I am grateful for the partnerships, innovation, and amazing resilience across the Department's management platform.

For the Department's corporate financial management platform and programs, we continue to 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 use of data as a resource, enterprise system integration, and robotic process automation 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 know strong and effective internal controls are fundamental to our success, and we embrace our leadership role in promoting them. We are pleased to report that the Department maintains a robust system of internal controls that are validated by senior leadership. For 2020, no material weaknesses in internal controls 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 internal controls in accordance with the Federal Managers' Financial Integrity Act (FMFIA). The Secretary also provided assurance that the Department's financial systems were in substantial compliance with the Federal Financial Management Information Act. 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 most recent 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 following pages 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 in 2020, there are always opportunities to improve, challenges to address, and issues that require further clarification as we meet Government-wide compliance and accounting standards.

For 2020, I am pleased to report the Department received an unmodified ("clean") audit opinion on its 2020 and 2019 Financial Statements, with no material weaknesses in internal controls over financial reporting identified by the Independent Auditor.

We value this result and applaud what was accomplished by the Department this year. However, we fully recognize there are several items noted in the Independent Auditor's Report that require our continued attention and additional focus. I am confident 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.

Sincerely,

Jeffrey C. Mounts
Comptroller
November 16, 2020

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November 16, 2020

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Diana R. Shaw

SUBJECT: *Independent Auditor's Report on the U.S. Department of State FY 2020 and FY 2019 Financial Statements* (AUD-FM-21-08)

An independent external auditor, Kearney & Company, P.C., was engaged to audit the financial statements of the U.S. Department of State (Department) as of September 30, 2020 and 2019, 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 2020 and FY 2019 financial statements, Kearney & Company found:

- the financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2020 and 2019, 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;
- five significant deficiencies[2] in internal control, specifically in the areas of property and equipment, budgetary accounting, validity and accuracy of unliquidated obligations, financial reporting, and information technology; and
- three instances of reportable noncompliance with laws, regulations, contracts, and grant agreements tested, specifically the Antideficiency Act, the Prompt Payment Act, and FFMIA.

[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.

Office of Inspector General | U.S. Department of State | 1700 North Moore Street | Arlington, Virginia 22209
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Kearney & Company is responsible for the attached auditor's report, which includes the Independent Auditor's Report; the Report on Internal Control Over Financial Reporting; and the Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements, dated November 16, 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.

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INDEPENDENT AUDITOR'S REPORT
AUD-FM-21-08

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

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Department of State (Department), which comprise the consolidated balance sheets as of September 30, 2020 and 2019; 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 financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2020 and 2019, 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 financial statements. Such information, although not a part of the 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 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 financial statements, and other knowledge we obtained during our audits of the 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 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 financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the 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 November 16, 2020, on our consideration of the Department's internal

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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, 2020. 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
November 16, 2020

KEARNEY & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Secretary of the U.S. Department of State and the Deputy 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 financial statements and the related notes to the financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2020, and we have issued our report thereon dated November 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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.

[1] Federal Managers' Financial Integrity Act of 1982, Pub. L. No. 97-255, 96 STAT 814 (September 8, 1982).

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Significant Deficiencies

I. Property and Equipment

The Department reported more than $26 billion in net property and equipment on its FY 2020 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 financial statements and subsequent audits. In FY 2020, 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:

- 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 numerous real property acquisitions and disposals overseas that were not recorded by the Department in a timely manner. Although the Department implemented certain controls, such as a quarterly data call, to identify acquisitions and disposals 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 acquisitions and disposals resulted in misstatements in the Department's asset and expense balances.

- Overseas Construction Projects – During FY 2020, the Department managed over $5 billion in overseas construction projects. All construction projects should be tracked in the construction-in-progress (CIP) account until the project reaches substantial completion. Once a construction project is substantially complete, the Department transfers the asset to the appropriate real property asset account and the asset is depreciated[2] over its estimated useful life. The Department notified us of construction projects that had either reached substantial completion or were terminated prior to FY 2020 but remained in the Department's CIP account. These projects were not managed in accordance with the Department's policies and controls relating to overseas construction. The projects were managed by a bureau that does not normally manage construction projects. This bureau did not provide accurate responses to data calls related to the status of the construction projects. The untimely transfer of completed and terminated construction projects resulted in misstatements in the Department's asset and expense balances.

- Domestic Construction Projects – The Department currently manages over $400 million in domestic construction projects. Similar to overseas projects, domestic construction

[2] Depreciation is the allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

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projects should be tracked in the CIP account until the project reaches substantial completion. We identified domestic construction projects that were substantially complete prior to FY 2020 but that continued to be tracked in the CIP account. The Department does not have clear policies regarding the accounting treatment of domestic construction projects or processes to monitor the status of domestic construction projects. The untimely transfer of completed domestic construction projects resulted in misstatements in the Department's asset and expense balances.

In addition to construction projects for property that the Department owns, under some circumstances the Department pays for the renovation or improvement of facilities that are occupied by the Department but that are owned or leased by the General Services Administration (GSA). The Department's policies require the capitalization of major real property renovations or leasehold improvements of $1 million or more. We obtained a list of ongoing domestic construction projects and found that the costs for each project was being recorded as operating expenses by the Department, rather than CIP. However, we determined that several of the projects had estimated costs that met the capitalization threshold. The Department does not have a policy specific to the accounting treatment for improvements to domestic real property under occupancy agreements, such as with GSA. Without a policy, the Department may not appropriately and consistently account for domestic real property transactions, thus understating assets and overstating operating expenses in the Department's financial statements.

- 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 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 financial statements.

- 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 and disposals 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 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.

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- Contractor-Held Property – The Department uses contractors to provide support in overseas locations, which may include acquiring personal property on behalf of the Department. This type of property is generally referred to as contractor-held property (CHP). The Department has title to the CHP and reports all CHP with an acquisition cost over $25,000 as an asset in its financial statements. In some cases, the property can be transferred to host-country governments for their use. Depending on the type of agreement, the Department may retain ownership of the property after it is transferred. Once an asset is provided to its intended user (e.g., a host-country government), it should be put "in service," which means that the asset begins to depreciate over its useful life. The Department found that it had been incorrectly accounting for certain CHP. Specifically, the Department acquired assets in FY 2014 that it planned to transfer to a host-country government. That property was placed into service prior to FY 2020 but was not recorded correctly in the financial system. Although the Department implemented a quarterly CHP data call, the process did not ensure that all CHP assets were properly accounted for in the Department's financial statements. As a result, the Department's prior year financial statements were misstated. The Department recorded an adjustment to correct the impact on its FY 2020 financial statements.

- 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 financial statements. We identified numerous instances in which the data recorded for SID were unsupported. We also identified some instances where completed projects were not transferred from SID to the internal use software account. 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 financial statements. Without an effective process to obtain complete and accurate information pertaining to software applications, the Department may continue to misstate its 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 financial statements, we identified budgetary accounting as a significant deficiency. During FY 2020, 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

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several 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. Although Department officials indicated that improvements were made in the oversight of low-value obligations, these efforts were not fully effective during FY 2020. As in past years, we found that allotment holders did not always record valid and accurate obligations prior to the receipt of goods and services; therefore, the Department established low-value obligations that allowed invoices to be paid in compliance with the Prompt Payment Act.[3] This process effectively bypassed system controls. The continued use of this practice could lead to a violation of the Antideficiency Act[4] 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 the audit, we identified numerous obligations that were not recorded within the requisite 15 days of execution of the obligating document and that were recorded in the financial management system prior to the execution of the obligating document. We also noted instances where goods and services were received, or periods of performance began, prior to the execution of a proper obligating document. The Department did not have processes to ensure the 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[5] and the Prompt Payment Act.[6]

- 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 financial statements were misstated.

- 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 and documented the circumstances under which an allotment override

[3] 31 U.S.C. § 39, "Prompt Payment."
[4] Antideficiency Act, Pub. L. No. 97-258, 96 STAT. 923 (September 13, 1982).
[5] Ibid.
[6] 31 U.S.C. § 39.

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is acceptable. Overriding allotment controls could lead to a violation of the Antideficiency Act[7] 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 of ULOs. Weaknesses in controls over ULOs were initially reported in the audit of the Department's FY 1997 financial statements. We continued to identify a significant number and amount of invalid ULOs based on expired periods of performance, inactivity, lack of supporting documentation, or inability to support bona fide need.

Although the Department continues to take steps to remediate long-standing ULO validity issues through its annual ULO review, the scope of the review does not include all ULOs. Overseas ULOs and domestic ULOs that do not meet the annual domestic review categories established by the Department continue to be a risk for invalidity. Furthermore, not all allotment holders were performing periodic reviews of ULO balances as required. As a result of invalid ULOs that were identified by our audit, the Department adjusted its FY 2020 financial statements. In addition, funds that could have been used for other purposes may have remained open as invalid ULOs, and the risk of duplicate or fraudulent payments because of the large number of invalid ULOs is increased.

IV. 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. In FY 2020, the Department addressed a control deficiency related to the classification of Funds from Dedicated Collections. However, we continued to identify a control deficiency related to the monitoring of allocation transfers that we concluded was a significant deficiency.

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 financial statements. During FY 2020, the Department made significant child fund transfers to three 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 other auditors identified numerous invalid ULOs. We also requested detailed financial information from the third agency, which received a less significant amount of child funds from the Department. However, the data provided by the third agency did not reconcile to trial balance data. Therefore, we were unable to validate the information provided. The Department did not have an effective, routine process to ensure that amounts reported by agencies receiving child

[7] Pub. L. No. 97-258, 96 STAT. 923.

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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 financial statements to correct the errors identified with the ULOs. However, without an effective process to accurately monitor child funds, a risk of errors remains in the Department's future financial statements.

V. 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),[8] the Office of Inspector General (OIG) is responsible for annually auditing the Department's information security program. In the FY 2019 FISMA report,[9] OIG reported security deficiencies that significantly impacted the Department's information security program and were considered a significant deficiency within the scope of the FY 2019 financial statements audit.[10] Due to the COVID-19 pandemic, OMB granted OIG an extension, from October 2020 to December 2020, for reporting the results of the FY 2020 FISMA audit. As a result, the FY 2020 FISMA audit report was not available before the deadline for reporting the results of the annual financial statements audit. Therefore, we performed procedures to assess the Department's corrective actions to remediate deficiencies in the FY 2019 FISMA audit report that we considered to be the most significant to the FY 2020 financial statements. We found that the Department did not sufficiently develop, prioritize, and monitor corrective actions to remediate known security weaknesses and deficiencies, including those identified and reported to the Department by OIG.

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 and deficiencies increase the risk that the Department will be unable to report financial data accurately.

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[8] Pub. L. No. 113-283, 128 STAT. 3079-3080 (December 18, 2014).
[9] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-20-04, October 2019).
[10] OIG, *Independent Auditor's Report on the U.S. Department of State FY 2019 and FY 2018 Consolidated Financial Statements* (AUD-FM-20-18, January 2020).

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We considered the unremediated issues to be a significant deficiency within the scope of the FY 2020 financial statements audit. We have reported deficiencies in IT security controls as a significant deficiency in each audit since our audit of the Department's FY 2009 financial statements.

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

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control Over Financial Reporting that was included in the audit report on the Department's FY 2019 financial statements,[11] we noted several issues that were related to internal control over financial reporting. The status of the FY 2019 internal control findings is summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2020 Status	FY 2019 Status
Property and Equipment	Significant Deficiency	Significant Deficiency
Budgetary Accounting	Significant Deficiency	Significant Deficiency
Validity and Accuracy of Unliquidated Obligations	Significant Deficiency	Significant Deficiency
Intragovernmental Revenue	Not Reported	Significant Deficiency
Financial Reporting	Significant Deficiency	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

Department's Response to Findings

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

[11] Ibid.

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Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of the Department's internal control. This report is an integral part of an audit performed in accordance with *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
November 16, 2020

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

To the Secretary of the U.S. Department of State and the Deputy 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 financial statements, and the related notes to the financial statements, of the U.S. Department of State (Department) as of and for the year ended September 30, 2020, and we have issued our report thereon dated November 16, 2020.

Compliance

As part of obtaining reasonable assurance about whether the Department's 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),[1] that we determined were applicable. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

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exceed available allotment authority. Establishing obligations that exceed available allotment authority increases the risk of noncompliance with the Antideficiency Act. Conditions impacting the Department's compliance with the Antideficiency Act have been reported annually since our FY 2009 audit.

- *Prompt Payment Act*.[3] This act requires Federal agencies to make payments in a timely manner, pay interest penalties when payments are late, and take discounts only when payments are made within the discount period. We found that the Department did not consistently calculate or pay interest penalties for overdue payments to overseas vendors or international organizations. The Department was unable to provide legal justification exempting the Department from paying interest penalties for payments to these types of entities. Conditions impacting the Department's compliance with the Prompt Payment Act have been reported annually since our FY 2009 audit.

Under FFMIA,[4] 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, and financial reporting.
- During its FY 2019 evaluation of the Department's information security program, as required by the Federal Information Security Modernization Act (FISMA), the Office of Inspector General (OIG) reported control weaknesses and deficiencies in all eight FY 2019 Inspector General FISMA metric domains.[5] During FY 2020, we assessed the Department's actions to address deficiencies reported in the FY 2019 FISMA audit report that we considered to be significant to the FY 2020 financial statements. We found that the Department did not remediate known FISMA deficiencies. We considered the unremediated issues to be a significant deficiency within the scope of the FY 2020 financial statements audit.
- The Department did not maintain effective administrative control of funds. Specifically, obligations were not created in a timely manner or were recorded in advance of an executed obligating document. In addition, systemic issues were

[3] 31 U.S.C. § 39, "Prompt Payment."
[4] Pub. L. No. 104-208, 110 STAT. 3009.
[5] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-20-04, October 2019).

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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, OIG reported a significant amount of questioned costs and funds put to better use during FY 2020.
- 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 had 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 systems 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.

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.

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Alexandria, Virginia
November 16, 2020

Appendix A

United States Department of State

Comptroller

Washington D.C. 20520

November 15, 2020

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MEMORANDUM

TO: OIG – Diana Shaw, Deputy Inspector General

FROM: CGFS – Jeffrey C. Mounts, Comptroller

SUBJECT: Draft Report on the Department of State's Fiscal Year 2020 Financial Statements

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

As the OIG is aware, the Department operates in over 270 locations in over 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 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 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 appreciate and extend our sincere thanks for the professionalism and commitment by all parties, including the OIG 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. Efforts to meet the process requirements and cadence of the audit this year reflect remarkable resilience and flexibility by all parties. The overall results of the audit reflect the continuous improvement and strong performance 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 the Department has received an unmodified ("clean") audit opinion on its FY 2019 and FY 2020 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

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appreciate the OIG's participation in both the SAT and MCSC forums. For FY 2020, 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 recognize there is more to be done and the items identified in the Draft Report will require our continued attention, additional action, and improvement. We look forward to working with you, Kearney & Company, and other stakeholders addressing these issues in the coming year.

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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 2019 are included.

Unless otherwise designated all use of a year indicates fiscal year, e.g., 2020 equals Fiscal Year 2020.

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 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)

As of September 30,	Notes	2020	2019
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	2	$ 59,653	$ 61,158
Investments, Net	3	20,071	19,402
Interest Receivable	3	120	133
Accounts Receivable, Net	4	110	148
Other Assets	7	1,847	1,235
Total Intragovernmental Assets		81,801	82,076
Accounts and Loans Receivable, Net	4	125	84
Cash and Other Monetary Assets	5	241	226
Property and Equipment, Net	6	26,305	25,579
Other Assets	7	1,266	1,007
Total Assets		**$ 109,738**	**$ 108,972**
Stewardship Property and Equipment – Heritage Assets	6		
LIABILITIES			
Intragovernmental Liabilities:			
Accounts Payable		$ 151	$ 160
Other Liabilities	8	361	342
Total Intragovernmental Liabilities		512	502
Accounts Payable		2,427	2,140
After-Employment Benefit Liability	9	25,899	24,159
International Organizations Liability	10	2,518	3,803
Other Liabilities	8,11	1,686	1,807
Total Liabilities		**33,042**	**32,411**
Contingencies and Commitments	12		
NET POSITION			
Unexpended Appropriations – Funds from Dedicated Collections		(190)	—
Unexpended Appropriations – Other funds		47,107	46,623
Cumulative Results of Operations – Funds from Dedicated Collections	13	2,772	1,968
Cumulative Results of Operations – Other Funds		27,007	27,970
Total Net Position		**76,696**	**76,561**
Total Liabilities and Net Position		**$ 109,738**	**$ 108,972**

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

CONSOLIDATED STATEMENT OF NET COST (NOTE 14)

(dollars in millions)

For the Year Ended September 30,	2020	2019
SG1: Protect America's Security at Home and Abroad		
Total Cost	$ 7,554	$ 7,294
Earned Revenue	(1,864)	(2,974)
Net Program Costs	5,690	4,320
SG2: Renew America's Competitive Advantage for Sustained Economic Growth and Job Creation		
Total Cost	2,113	2,049
Earned Revenue	(92)	(106)
Net Program Costs	2,021	1,943
SG3: Promote American Leadership through Balanced Engagement		
Total Cost	14,709	14,072
Earned Revenue	(68)	(84)
Net Program Costs	14,641	13,988
SG4: Ensure Effectiveness and Accountability to the American Taxpayer		
Total Cost	13,961	14,312
Earned Revenue	(4,729)	(5,584)
Net Program Costs Before Assumption Changes	9,232	8,728
Actuarial Loss on Pension Assumption Changes (Notes 1 and 9)	1,056	719
Net Program Costs	10,288	9,447
Cost Not Assigned to Programs		
Total Cost	(1)	12
Earned Revenue	(2)	(1)
Net Costs	(3)	11
Total Cost and Loss on Assumption Changes	**39,392**	**38,458**
Total Revenue	**(6,755)**	**(8,749)**
Total Net Cost	**$ 32,637**	**$ 29,709**

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,	2020				2019
	Combined Funds From Dedicated Collections	Combined All Other Funds	Intra-Departmental Eliminations	Consolidated Total	Consolidated Total
Unexpended Appropriations					
Beginning Balances	$ —	$ 46,623	$ —	$ 46,623	$ 46,493
Budgetary Financing Sources:					
Appropriations Received	—	33,457	—	33,457	31,548
Appropriations Transferred in(out)	273	(344)	—	(71)	98
Rescissions and Canceling Funds	—	(389)	—	(389)	(677)
Appropriations Used	(190)	(32,513)	—	(32,703)	(30,839)
Total Budgetary Financing Sources	83	211	—	294	130
Total Unexpended Appropriations	**83**	**46,834**	**—**	**46,917**	**46,623**
Cumulative Results of Operations					
Beginning Balances	$ 2,933	$ 27,005	$ —	$ 29,938	$ 29,181
Budgetary Financing Sources:					
Appropriations Used	190	32,513	—	32,703	30,839
Donations	62	—	—	62	18
Transfers in(out) without Reimbursement	115	(86)	1	30	53
Other Financing Sources:					
Donations	—	—	—	—	8
Transfers in(out) without Reimbursement	—	34	(1)	33	—
Imputed Financing from Costs Absorbed by Others	53	268	(135)	186	216
Non-entity Collections	—	(536)	—	(536)	(668)
Total Financing Sources	**420**	**32,193**	**(135)**	**32,478**	**30,466**
Net Cost of Operations	(1,236)	(31,536)	135	(32,637)	(29,709)
Net Change	(816)	657	—	(159)	757
Total Cumulative Results of Operations	**2,117**	**27,662**	**—**	**29,779**	**29,938**
Net Position	**$ 2,200**	**$ 74,496**	**$ —**	**$ 76,696**	**$ 76,561**

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

COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 15)

(dollars in millions)

For the Year Ended September 30,	2020	2019
Budgetary Resources:		
Unobligated balance from prior year budget authority, net	$ 32,742	$ 31,089
Appropriations (discretionary and mandatory)	36,384	35,858
Borrowing authority (discretionary and mandatory)	3	2
Spending authority from offsetting collections (discretionary and mandatory)	7,974	7,980
Total Budgetary Resources	**$ 77,103**	**$ 74,929**
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 49,157	$ 43,642
Unobligated balance, end of year:		
Apportioned, unexpired accounts	26,542	28,347
Exempt from apportionment, unexpired accounts	49	1,463
Unapportioned, unexpired accounts	152	468
Unexpired unobligated balance, end of year	26,743	30,278
Expired unobligated balance, end of year	1,203	1,009
Unobligated balance, end of year (total)	27,946	31,287
Total Budgetary Resources	**$ 77,103**	**$ 74,929**
Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	37,680	33,285
Distributed offsetting receipts (-)	(2,877)	(3,831)
Agency outlays, net (discretionary and mandatory)	**$ 34,803**	**$ 29,454**

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, and the International Center. 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 counsels. Note 10, *International Organizations Liability*, discusses the Department's funding, payments, and open liabilities to these organizations.

The East-West Center (EWC) is a Congressionally-authorized non-profit organization dedicated to educational and policy engagement on substantive issues between the United States and the Asia Pacific region. Established by Congress in 1960, for more than 50 years the EWC has been promoting better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperation study, research, and dialogue. Approximately half of EWC's annual revenues comes from the Department which received an annual appropriation of $16.7 million for EWC in 2020. The EWC Board of Governors consists of 18 members including five appointed by the Secretary of State and the Assistant Secretary of State for Educational and Cultural Affairs.

The Department receives an annual appropriation and provides monies to several International Fisheries Commissions to fund the U.S. share of operating expenses for ten international fisheries commissions including the Great Lakes Fishery Commission, International Pacific Halibut Commission, and Pacific Salmon Commission. Each commission facilitates international cooperation by conducting and coordinating scientific studies of fish stocks and other marine resources and their habitats. Many also oversee the allocation of fishing rights to their members.

Amounts provided maintain voting privileges and influence in the commissions and organizations to advance the economic and conservation interests of the United States. The Department provided approximately $62 million for the year ended September 30, 2020.

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.

Secretary Pompeo delivers remarks virtually to the Global Business Alliance in Washington, D.C., September 10, 2020.
Department of State

C. Revenues and Other Financing Sources

As a component of the Government-wide reporting entity, the Department is subject to the Federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in agency and the Government-wide financial reports.

The reporting entity's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public if there is a budget deficit.

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 with offsetting 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. Deferred revenue consists of monies received for goods and services that have not yet been provided or rendered by the Department. 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, gain 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 (e.g., 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), 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

Fund Balance with Treasury is an asset of the Department and a liability of the General Fund. The amount 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, but it does not represent net assets to the Government as a whole. 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 Intragovernmental Accounts Receivable and non-Federal Accounts and Loans Receivable. Intragovernmental Accounts Receivable are amounts owed the Department principally from

Assistant Secretary of State for the Bureau of East Asian and Pacific Affairs Davis R. Stilwell delivers remarks to the press in Washington, D.C., September 2, 2020. ***Department of State***

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 Foreign Service National Defined Contribution Fund, 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:

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

Personal Property

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

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

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

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

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

See Note 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 – Heritage Assets

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. FSPS was established pursuant to Section 415 of Public Law No. 99-335, which became effective June 6, 1986. Foreign Service employees hired after December 31, 1983 participate in FSPS with certain exceptions. FSRDS employees contribute 7.25 percent of their salary; the Department contributes 7.25 percent. FSPS employees contribute 1.35 percent, 3.65 percent, or 4.95 percent of their base salary depending on their start date; the Department contributes 20.22 percent or 17.92 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

Deputy Secretary of State Stephen E. Biegun meets with Ukrainian Foreign Minister Dmytro Kuleba in Kyiv, Ukraine, August 26, 2020. ***Department of State***

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 imputed cost and imputed financing source for the annualized unfunded portion of CSRS, post-retirement health benefits, and life insurance for employees covered by these programs.

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. 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.

Y. Comparative Data

Certain 2019 amounts have been reclassified to conform to the 2020 presentation. The Consolidated Statement of Net Cost presentation has been updated to report by strategic goal for 2020 and 2019.

2 Fund Balance with Treasury

Fund Balance with Treasury at September 30, 2020 and 2019, is summarized below *(dollars in millions)*.

Status of Fund Balance with Treasury	2020	2019
Unobligated Balances Available	$ 26,536	$ 29,765
Unobligated Balances Unavailable	1,348	1,466
Obligated Balances not yet Disbursed	31,691	29,867
Total Unobligated and Obligated	59,575	61,098
Deposit and Receipt Funds	78	60
Total	$ 59,653	$ 61,158

3 Investments

Investments at September 30, 2020 and 2019, are summarized below *(dollars in millions)*. All investments are classified as Intragovernmental Securities.

At September 30, 2020:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	$ 19,981	$ 19,981	2021 – 2028	0.750% – 5.125%	$ 120
Subtotal	19,981	19,981			120
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2021 – 2024	2.000% – 2.625%	—
Eisenhower Exchange Fellowship Fund	7	7	2020 – 2021	0.125% – 2.500%	—
Middle Eastern-Western Dialogue Fund	11	12	2020 – 2024	1.750% – 2.875%	—
Gift Funds, Treasury Bills	23	24	2020 – 2027	1.625% – 2.750%	—
International Center	12	12	2020	0.000%	—
Foreign Service National Defined Contribution Fund – Variable Contribution Plan	32	33	2020 – 2043	0.500% – 2.875%	—
Subtotal	90	93			—
Total Investments	$ 20,071	$ 20,074			$ 120

At September 30, 2019:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	$ 19,318	$ 19,318	2020 – 2028	1.375% – 5.125%	$ 133
Subtotal	19,318	19,318			133
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2021 – 2024	2.000% – 2.625%	—
Eisenhower Exchange Fellowship Fund	8	4	2020	2.250% – 2.500%	—
Middle Eastern-Western Dialogue Fund	11	11	2020 – 2023	1.375% – 2.625%	—
Gift Funds, Treasury Bills	22	20	2019 – 2027	1.125% – 2.750%	—
International Center	15	15	2019	0.000%	—
Foreign Service National Defined Contribution Fund – Variable Contribution Plan	23	23	2020 – 2043	1.250% – 2.875%	—
Subtotal	84	78			—
Total Investments	$ 19,402	$ 19,396			$ 133

(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.

4 Accounts and Loans Receivable, Net

The Department's Accounts and Loans Receivable, Net at September 30, 2020 and 2019, are summarized below *(dollars in millions)*. All are entity receivables.

	2020			2019		
	Entity Receivables	Allowance for Uncollectible	Net Receivables	Entity Receivables	Allowance for Uncollectible	Net Receivables
Intragovernmental Accounts Receivable	$ 129	$ (19)	$ 110	$ 148	$ —	$ 148
Non-Intragovernmental Accounts and Loans Receivable	168	(43)	125	127	(43)	84
Total Receivables	$ 297	$ (62)	$ 235	$ 275	$ (43)	$ 232

The Accounts and Loans Receivable, Net of allowance for uncollectible accounts as of September 30, 2020 and 2019, is $235 million and $232 million, respectively. The allowance for uncollectible accounts are recorded using aging methodologies based on analysis of historical collections and write-offs. The allowance recognition for intragovernmental receivables does not alter the statutory requirement for the Department to collect payment.

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 value added taxes, emergency COVID-19 evacuations, IBWC receivables for Mexico's share of activities, civil monetary fines and penalties, and repatriation loans and associated administrative fees (see Accounts and Loans Receivable in Note 1.F).

In 2020, the Department estimated $4 million in accounts receivable to be collectible for criminal restitution.

5 Cash and Other Monetary Assets

The Cash and Other Monetary Assets at September 30, 2020 and 2019, are summarized below *(dollars in millions)*. There are no restrictions on entity cash.

	2020			2019		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
After-Employment Benefit Assets	$ 238	$ —	$ 238	$ 221	$ —	$ 221
Emergencies in the Diplomatic and Consular Service	3	—	3	5	—	5
Total	$ 241	$ —	$ 241	$ 226	$ —	$ 226

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 finances the Defined Contribution Plan (DCP) which 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 DCP is $238 million and $221 million as of September 30, 2020 and 2019, respectively.

Secretary Pompeo meets with Emirati Minister of Foreign Affairs and International Cooperation Sheikh Abdullah bin Zayed Al Nahyan and National Security Advisor Sheikh Tahnoun bin Zayed Al Nahyan in Abu Dhabi, United Arab Emirates, August 26, 2020.

Department of State

6 Property and Equipment, Net

Property and Equipment, Net balances at September 30, 2020 and 2019, are shown in the following table *(dollars in millions)*.

	2020			2019		
Major Classes	**Cost**	**Accumulated Depreciation**	**Net Value**	**Cost**	**Accumulated Depreciation**	**Net Value**
Real Property:						
Overseas –						
Land and Land Improvements	$ 2,933	$ (107)	$ 2,826	$ 2,868	$ (104)	$ 2,764
Buildings and Structures	25,387	(10,639)	14,748	24,852	(9,871)	14,981
Construction-in-Progress	5,343	—	5,343	4,200	—	4,200
Assets Under Capital Lease	144	(52)	92	171	(67)	104
Leasehold Improvements	684	(405)	279	662	(400)	262
Domestic –						
Structures, Facilities and Leaseholds	1,502	(500)	1,002	1,606	(607)	999
Construction-in-Progress	190	—	190	462	—	462
Assets Under Capital Lease	330	(50)	280	330	(33)	297
Land and Land Improvements	380	(18)	362	123	(10)	113
Total – Real Property	36,893	(11,771)	25,122	35,274	(11,092)	24,182
Personal Property:						
Aircraft	472	(387)	85	593	(428)	165
Vehicles	963	(689)	274	1,029	(671)	358
Communication Equipment	30	(22)	8	29	(21)	8
ADP Equipment	365	(272)	93	348	(228)	120
Reproduction Equipment	7	(6)	1	8	(7)	1
Security Equipment	285	(178)	107	278	(156)	122
Internal Use Software	396	(339)	57	391	(301)	90
Software-in-Development	405	—	405	322	—	322
Other Equipment	446	(293)	153	372	(161)	211
Total – Personal Property	3,369	(2,186)	1,183	3,370	(1,973)	1,397
Total Property and Equipment, Net	$ 40,262	$ (13,957)	$ 26,305	$ 38,644	$ (13,065)	$ 25,579

Property and Equipment, Net activity at September 30, 2020, is shown in the following table *(dollars in millions)*.

Property & Equipment, Net	**2020**
Balance beginning of year	$ 25,579
Capitalized Acquisitions	2,456
Dispositions	(390)
Revaluations	6
Depreciation Expense	(1,346)
Ending Balance	$ 26,305

NOTE 6: Property and Equipment, Net (continued)

Stewardship Property and Equipment – Heritage Assets

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

There are nine separate collections of art and furnishings: the Diplomatic Reception Rooms Collection, the Art Bank Program, the Art in Embassies Program, the Cultural Heritage Collection, the Library Rare and Special Book Collection, the Secretary of State's Register of Culturally Significant Property, the National Museum of American Diplomacy, 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 Department's deferred maintenance policy within the RSI includes analysis of Heritage Assets on the Secretary of State's Register of Culturally Significant Property list. The following table contains unaudited data as discussed in the Independent Auditor's Report.

HERITAGE ASSETS
For the Years Ended September 30, 2019 and 2020

	Diplomatic Reception Rooms Collection	Art Bank Program	Art in Embassies Program	Cultural Heritage Collection	Library Rare & Special Book Collection
Description	**Collectibles – Art and furnishings from the period 1750 to 1825**	**Collection of American works of art on paper**	**Collectibles – American works of art**	**Collections include fine and decorative arts and other cultural objects**	**Collectibles–Rare books and other publications of historic value**
Acquisition and Withdrawal	Acquired through donation or purchase using donated funds. Excess items are sold.	Acquired through purchase. Excess items are transferred.	Acquired through purchase or donation. Excess items are sold.	The program provides assessment, preservation, and restoration as needed.	Acquired through donation.
Condition	Good to excellent	Poor to excellent	Good to excellent	Good to excellent	Poor to good
Number of Assets – 9/30/2018	1,820	2,620	1,208	18,594	1,282
Acquisitions	6	27	40	95	61
Adjustments	1		15	600	
Disposals	6			702	1
Number of Assets – 9/30/2019	1,821	2,647	1,263	18,587	1,342
Acquisitions	8	13	6	93	34
Adjustments	1			565	
Disposals	5			220	5
Number of Assets – 9/30/2020	1,825	2,660	1,269	19,025	1,371

(continued on next page)

Secretary Pompeo poses for a photo with U.S. Army and Navy personnel in Georgetown, Guyana, September 18, 2020.
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HERITAGE ASSETS *(continued)*
For the Years Ended September 30, 2019 and 2020

	Secretary of State's Register of Culturally Significant Property	National Museum of American Diplomacy	Blair House	International Boundary and Water Commission
Description	Noncollection – Buildings of historic, cultural, or architectural significance	Collectibles – Historic artifacts, art and other cultural objects	Collections of fine and decorative arts, furnishings, artifacts, other cultural objects, rare books and archival materials in national historic landmark buildings	Monuments that mark the international boundary between the United States and Mexico, Falcon International Dam and Power Plant
Acquisition and Withdrawal	Acquired through purchase. Excess items are sold.	Acquired through donation or transfer. Excess items are transferred.	Acquired through purchase, donation or transfer. Excess items are transferred or disposed of via public sale.	The monuments were constructed to mark the international boundary. The dam and power plant were constructed by the United States and Mexico pursuant to Water Treaty of 1944.
Condition	Poor to excellent	Good to excellent	Good to excellent	Poor to good
Number of Assets – 9/30/2018	33	4,884	2,612	140
Acquisitions	4	1,020	1	
Adjustments		171		
Disposals		1	9	
Number of Assets – 9/30/2019	37	6,074	2,604	140
Acquisitions		142		
Adjustments			1	
Disposals	1		6	
Number of Assets – 9/30/2020	36	6,216	2,599	140

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 Other Advances are predominantly prepayments to grantees in support of the Global Health and Child Survival program. Other Non-Intragovernmental Advances include prepayments for the Population, Refugee and Migration Assistance program and the Overseas Buildings Operations real property rent and acquisitions.

The Department's Other Assets as of September 30, 2020 and 2019, are summarized below *(dollars in millions)*.

Other Assets	2020	2019
Intragovernmental:		
Other Advances and Prepayments	$ 1,847	$ 1,235
Non-Intragovernmental:		
Salary Advances	9	6
Travel Advances	10	15
Other Advances and Prepayments	1,226	971
Inventory	21	15
Total Other Assets	$ 3,113	$ 2,242

8 Other Liabilities

The Department's Other Liabilities at September 30, 2020 and 2019, are summarized below *(dollars in millions)*.

	2020			2019		
	Current	Non-Current	Total	Current	Non-Current	Total
Intragovernmental						
Deferred Revenue	$ 293	$ —	$ 293	$ 277	$ —	$ 277
Custodial Liability	15	—	15	8	—	8
Other Liabilities	28	25	53	34	23	57
Total Intragovernmental	336	25	361	319	23	342
Federal Employees Compensation Act Benefits	98	—	98	91	—	91
Capital Lease Liability	10	39	49	12	52	64
Accrued Salaries Payable	229	—	229	230	—	230
Contingent Liability	—	61	61	—	25	25
Pension Benefits Payable	67	—	67	66	—	66
Accrued Annual Leave	—	536	536	—	418	418
Environmental Liability	—	52	52	—	54	54
Other Liabilities	480	65	545	731	60	791
Deferred Revenue	49	—	49	68	—	68
Subtotal	933	753	1,686	1,198	609	1,807
Total Other Liabilities	$ 1,269	$ 778	$ 2,047	$ 1,517	$ 632	$ 2,149

Environmental Liability Associated with Asbestos Cleanup and Other

The Department has estimated both friable, $6 million, and nonfriable, $45 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, 2020, consistent with the current guidance in the Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*; SFFAS No. 6, *Accounting for Property, Plant, and Equipment, Chapter 4: Cleanup Costs*; and Technical Release (TR) 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*. The remaining $1 million in environmental liability is non-asbestos related cleanup costs for lead based paint.

Secretary Pompeo meets with U.S. Mining and Oil Companies in Paramaribo, Suriname, September 17, 2020. ***Department of State***

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, 2020 and 2019 are summarized in the Schedule of Liabilities Not Covered by Budgetary Resources *(dollars in millions)*.

Liabilities Not Covered by Budgetary Resources	2020	2019
Intragovernmental Liabilities		
Unfunded FECA Liability	$ 19	$ 19
Total Intragovernmental Liabilities	19	19
International Organizations Liability	2,259	2,318
After-Employment Benefit Liability:		
Foreign Service Retirement Actuarial Liability	4,977	3,750
Foreign Service Nationals (FSN):		
Defined Contributions Fund	273	247
Defined Benefit Plans	19	48
Lump Sum Retirement and Voluntary Severance	593	463
Total After-Employment Benefit Liability	5,862	4,508
Accrued Annual Leave	536	418
Environmental Liability	52	54
Capital Lease Liability	49	64
Contingent Liability	61	25
Other Liabilities	222	384
Total Liabilities Not Covered by Budgetary Resources	9,060	7,790
Total Liabilities Covered by Budgetary Resources	23,898	24,537
Total Liabilities Not Requiring Budgetary Resources	84	84
Total Liabilities	$ 33,042	$ 32,411

9 After-Employment Benefit Liability

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

For the Year Ended September 30,	2020	2019
Foreign Service Officers		
Foreign Service Retirement and Disability Fund	$ 25,014	$ 23,401
Foreign Service Nationals		
Defined Contribution Fund	273	247
Defined Benefit Plans	19	48
Lump Sum Retirement and Voluntary Severance	593	463
Total FSN	885	758
Total After-Employment Benefit Liability	$ 25,899	$ 24,159

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 2020 and 2019.

Normal Cost:	2020	2019
FSRDS	41.07%	37.36%
FSPS	32.18%	29.78%

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 assumption changes arise in connection with the annual valuation and follow the guidelines of SFFAS No. 33. The following table presents the calculation of the combined FSRDS and FSPS Pension Actuarial Liability and the assumptions used in computing it for the years ended September 30, 2020 and 2019 *(dollars in millions)*.

For the Year Ended September 30,	2020	2019
Pension Actuarial Liability, Beginning of Year	$ 23,401	$ 21,927
Pension Expense:		
Normal Cost	574	519
Interest on Pension Liability	772	742
Actuarial (Gains) or Losses:		
From Experience	316	520
From Assumption Changes		
Interest Rate	803	292
Experience Study	—	—
Other	156	387
Prior Year Service Costs	—	—
Other	—	—
Total Pension Expense	2,621	2,460
Less Payments to Beneficiaries	1,008	986
Pension Actuarial Liability, End of Year	25,014	23,401
Less: Net Assets Available for Benefits	20,037	19,651
Actuarial Pension Liability – Unfunded	$ 4,977	$ 3,750

Actuarial Assumptions:	2020	2019
Rate of Return on Investments	3.10%	3.33%
Rate of Inflation	1.55%	1.50%
Salary Increase	1.80%	1.75%

Net Assets Available for Benefits at September 30, 2020 and 2019, consist of the following *(dollars in millions)*.

At September 30,	2020	2019
Fund Balance with Treasury	$ —	$ —
Accounts and Interest Receivable	141	416
Investments in U.S. Government Securities	19,981	19,318
Total Assets	20,122	19,734
Less: Liabilities Other Than Actuarial	85	83
Net Assets Available for Benefits	$ 20,037	$ 19,651

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 50,000, 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 FSN 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, 2020, 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 2020 and 2019 were $30.0 million and $28.9 million, respectively. Total liability reported for the FSN DCP is $240 million and $223 million as of September 30, 2020 and 2019, respectively.

The FSN VCP reported employee and employer contributions of $10.2 million and $8.1 million as of September 30, 2020 and 2019, respectively. The total liability reported for the FSN VCP is $33 million and $24 million as of September 30, 2020 and 2019, 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 2020 and 2019 were $28 million and $25 million, respectively.

Defined Benefit Plans

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

As discussed in Note 1.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 $19 million and $48 million as of September 30, 2020 and 2019, respectively. There was a decrease of $29 million in 2020 and a decrease of $42 million in 2019.

The material FSN defined benefit plans include plans in Germany and the United Kingdom (UK) which represent 78 percent of total assets, 78 percent of total projected benefit obligations, and 86 percent of the net defined benefit liability as of September 30, 2020. The Germany Plan's most recent evaluation report, dated August 6, 2020, is as of July 1, 2020. The UK Plan's most recent evaluation, dated August 20, 2020, is as of April 5, 2019.

For the Germany Plan the change in the net defined benefit liability was an increase of $0.4 million in 2020 and a increase of $0.2 million in 2019, while for the UK plan the change was a decrease of $23 million in 2020 and a decrease of $36 million in 2019.

For Germany, the increase in the net defined benefit liability in 2020 was primarily due to actuarial losses on experience. The increase in 2019 was primarily due to actuarial losses on assumption changes; primarily the discount rate.

For the UK Plan in 2020, the decrease in the net defined benefit liability was primarily due to a lump-sum contribution to fund the deficit. The decrease in 2019 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 tables below show the changes in the projected benefit obligation and plan assets during 2020 and 2019 for the Germany and UK plans *(dollars in millions)*.

Change in Benefit Obligations:	2020	2019
Benefit obligations beginning of year	$ 415	$ 439
Service Cost	7	6
Interest Cost	31	29
Other	9	(59)
Benefit obligations end of year	$ 462	$ 415

Change in Plan Assets:	2020	2019
Fair value of plan assets beginning of year	$ 376	$ 364
Return on plan assets	25	24
Contributions less Benefits Paid	23	7
Other	21	(19)
Fair value of plan assets end of year	445	376
Net Defined Benefit Liability	$ 17	$ 39

The table below shows the allocation of the plan assets by category during 2020 and 2019 for the German and UK plans.

	2020	2019
Insurance Policies	32%	34%
Equity Securities	41%	40%
Money Market and Cash	4%	4%
Debt Securities	23%	22%
Total	100%	100%

The principal actuarial assumptions used for 2020 and 2019 for the Germany and UK plans are presented below:

Actuarial Assumptions:	2020	2019
Discount Rate	2.75% – 4.60%	2.75% – 4.60%
Salary Increase Rate	2.25% – 4.10%	2.25% – 4.10%
Pension Increase Rate	1.75% – 3.10%	1.75% – 3.10%

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, 2020, 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, 2020, 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, 2020 and 2019, are:

	2020	2019
Discount Rate	2.74%	2.78%
Rate of inflation	1.69%	1.73%
Salary Increase	4.86%	4.45%

Based upon the projection, the total liability reported for the Retirement and Voluntary Severance Lump Sum Payment is $593 million and $463 million as of September 30, 2020 and 2019, respectively, as shown below *(dollars in millions)*:

At September 30,	2020	2019
Retirement	$ 200	$ 154
Voluntary Severance	393	309
Total	$ 593	$ 463

The September 30, 2020 total PBO of $593.1 million represents a $130.0 million increase compared to the September 30, 2019 total PBO of $463.1 million. Changes to the discount rate, merit salary increase, and inflation assumptions increased total PBO by about $72 million. Changes to the withdrawal and retirement assumptions further increased total PBO by about $25 million.

The table below shows the changes in the projected benefit obligation during 2020 and 2019 *(dollars in millions)*:

Changes in Benefit Obligations:	2020	2019
Benefit obligations beginning of year	$ 463	$ 397
Normal Cost	36	30
Benefit Payments	(33)	(28)
Interest Cost	13	12
Actuarial (gain) loss on assumptions	97	40
Actuarial (gain) loss due to experience	17	10
Other	—	2
Benefit obligations end of year	$ 593	$ 463

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, 2020 and 2019.

The IO Liability decrease of $1.3 billion is largely attributed to timing differences in payments for CIPA and IO&P. Specifically, at the end of FY 2019 $1.1 billion of the ending IO liability was obligated for FY 2019 assessments which were subsequently paid in FY 2020.

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

As of September 30,	2020	2019
Regular Membership Assessments Payable to UN	$ 1,090	$ 1,055
Dues Payable to UN Peacekeeping Missions	1,221	2,121
International Organizations Liability	935	1,310
Total Owed to International Organizations	3,246	4,486
Less Amounts Mandated to be Withheld and not likely to be Paid	728	683
International Organizations Liability	$ 2,518	$ 3,803
Funded Amounts	$ 259	$ 1,485
Unfunded Amounts	2,259	2,318
Total International Organizations Liability	$ 2,518	$ 3,803

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 $95.8 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 lease meets 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 Leases and Future Minimum Lease Payments as of September 30, 2020 and 2019 *(dollars in millions)*. Lease liabilities are not covered by budgetary resources.

As of September 30,	2020	2019
Net Assets under Capital Leases:		
Federal		
Buildings	$ 330	$ 330
Accumulated Depreciation	(50)	(33)
Total Federal	280	297
Non-Federal		
Buildings	144	171
Accumulated Depreciation	(52)	(67)
Total Non-Federal	92	104
Net Assets under Capital Leases	$ 372	$ 401

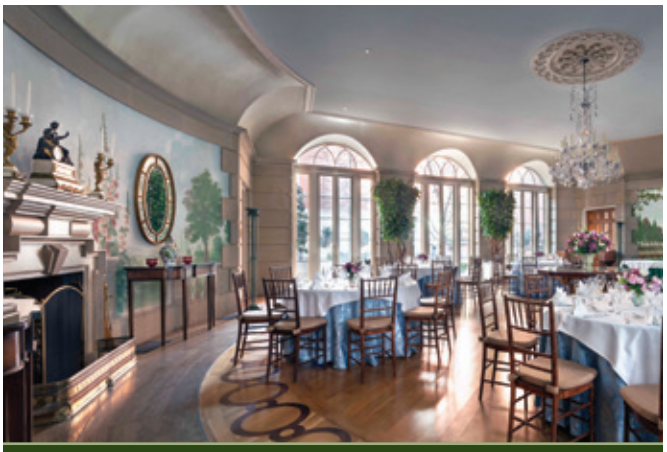
Future Minimum Lease Payments:

2020

Fiscal Year	Non-Federal Lease Payments
2021	$ 10
2022	10
2023	7
2024	4
2025	4
2026 and thereafter	59
Total Minimum Lease Payments	94
Less: Amount Representing Interest	(45)
Liabilities under Capital Leases	$ 49

2019

Fiscal Year	Non-Federal Lease Payments
2020	$ 12
2021	11
2022	11
2023	8
2024	5
2025 and thereafter	86
Total Minimum Lease Payments	133
Less: Amount Representing Interest	(69)
Liabilities under Capital Leases	$ 64



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

Operating Leases

The Department leases real property under operating leases. These leases are non-Federal and expire in various years. Future minimum lease payments under operating leases have remaining terms in excess of one year as of September 30, 2020 and 2019 for each of the next 5 years and in aggregate are as follows *(dollars in millions)*:

Year Ended September 30, 2020	Non-Federal Lease Payments
2021	$ 449
2022	328
2023	206
2024	128
2025	66
2026 and thereafter	184
Total Future Minimum Lease Payments	$ 1,361

Year Ended September 30, 2019	Non-Federal Lease Payments
2020	$ 431
2021	329
2022	227
2023	136
2024	76
2025 and thereafter	172
Total Future Minimum Lease Payments	$ 1,371

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 $62 to $263 million and reasonably possible claims could result in potential estimable losses of $0 to $60 million if the outcomes were unfavorable to the Department. The probable cases involve claims related to residential construction, security contracts, 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, sale of Unites States real property overseas dispute, 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 Judgment Fund for cases covered under the Contract Disputes Act and Notification and Federal Employees Antidiscrimination and Retaliation Act of 2002 on behalf of the Department totaled $5 million and $63 million as of September 30, 2020 and 2019, respectively.

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, 2020 and 2019 *(dollars in millions)*.

2020			
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingencies:			
Probable	$ 61	$ 62	$ 263
Reasonably Possible	$ —	$ —	$ 60
Environmental Contingencies:			
Probable	$ 52	$ 52	$ 52
Reasonably Possible	$ —	$ —	$ —

2019			
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingencies:			
Probable	$ 25	$ 25	$ 795
Reasonably Possible	$ —	$ —	$ 60
Environmental Contingencies:			
Probable	$ 54	$ 54	$ 54
Reasonably Possible	$ —	$ —	$ —

Commitments

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, *Combined 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 (RFJ) is a 21st Century national security tool that is leveraged by the White House, the Department of State, and interagency partners throughout the U.S. Government. In 2020, RFJ became an office commensurate with its level of increased responsibilities. RFJ's traditional mission since the 1980's, counterterrorism, was dramatically expanded by Congress in 2017 to include countering malicious cyber activity and Democratic People's Republic of Korea sanctions violators, essentially tripling the size of RFJ's mandate and scope of the program. See further details at *www.rewardsforjustice.net*. The Narcotics Rewards Program has the authority to offer rewards for information leading to the arrest or conviction in any country of persons committing major foreign violations of U.S. narcotics laws or the killing or kidnapping of U.S. narcotics law enforcement officers or their family members. The War Crimes Rewards Program offers rewards for information leading to the arrest, transfer, or conviction of persons indicted by a judge of the International Criminal Tribunal for the former Yugoslavia, the International Criminal Tribunal for Rwanda, or the Special Court of Sierra Leone for serious violations of international humanitarian law. The Transnational Organized Crime Rewards Program offers rewards for information leading to the arrest or conviction of significant members of transnational criminal organizations involved in activities that threaten national security, such as human trafficking, and trafficking in arms or other illicit goods.

Pending reward offers under the four programs total $1.3 billion. Under the programs, we have paid out $354 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.

13 Funds from Dedicated Collections

The Department administers 10 Funds from Dedicated Collections as listed below. They are presented in accordance with SFFAS No. 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

Treasury Fund Symbol	Description	Statute
19X5713	Consular and Border Security Programs	Public Law No. 115-31

All Other Funds

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

The 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 2020, unobligated balances totaling $73 million related to the fees and surcharges were transferred from the former fund to the CBSP. Additionally, $273 million was received in direct appropriations from the former fund related to the Coronavirus Preparedness and Response Supplemental Appropriations (CARES) Act (see Note 19, *COVID-19 Activity*). 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, 2020 and 2019 *(dollars in millions)*.

	2020			2019		
	Consular and Border Security Programs	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections	Consular and Border Security Programs	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet as of September 30						
ASSETS						
Intragovernmental Assets:						
Fund Balance with Treasury	$ 2,003	$ 239	$ 2,242	$ 2,703	$ 212	$ 2,915
Investments, Net	—	46	46	—	46	46
Other Assets	93	1	94	45	1	46
Total Intragovernmental Assets	2,096	286	2,382	2,748	259	3,007
Accounts and Loans Receivable, Net	1	—	1	—	—	—
Property and Equipment, Net	9	107	116	—	107	107
Other Assets	8	(1)	7	14	(1)	13
Total Assets	**$ 2,114**	**$ 392**	**$ 2,506**	**$ 2,762**	**$ 365**	**$ 3,127**
LIABILITIES						
Intragovernmental Liabilities:						
Accounts Payable	$ 49	$ —	$ 49	$ 19	$ —	$ 19
Other Liabilities	26	—	26	20	—	20
Total Intragovernmental Liabilities	75	—	75	39	—	39
Accounts Payable	128	—	128	68	—	68
Other Liabilities	101	2	103	85	2	87
Total Liabilities	**304**	**2**	**306**	**192**	**2**	**194**
NET POSITION						
Unexpended Appropriations	83	—	83	—	—	—
Cumulative Results of Operations	1,727	390	2,117	2,570	363	2,933
Total Net Position	1,810	390	2,200	2,570	363	2,933
Total Liabilities and Net Position	**$ 2,114**	**$ 392**	**$ 2,506**	**$ 2,762**	**$ 365**	**$ 3,127**
Statement of Net Cost for the Year Ended September 30						
Gross Program Costs	$ 3,169	$ 79	$ 3,248	$ 2,379	$ 62	$ 2,441
Less: Earned Revenues	2,011	1	2,012	3,492	—	3,492
Net Program Costs	1,158	78	1,236	(1,113)	62	(1,051)
Net Cost of Operations	**$ 1,158**	**$ 78**	**$ 1,236**	**$ (1,113)**	**$ 62**	**$ (1,051)**
Statement of Changes in Net Position for the Year Ended September 30						
Net Position Beginning of Period	$ 2,570	$ 363	$ 2,933	$ —	$ 353	$ 353
Budgetary Financing Sources:						
Appropriations Used	190	—	190	—	—	—
Donations	—	62	62	—	18	18
Transfers in(out) without Reimbursement	73	42	115	1,408	52	1,460
Other Financing Sources:						
Donations	—	—	—	—	1	1
Imputed Financing from Costs Absorbed by Others	52	1	53	49	1	50
Total Financing Sources	315	105	420	1,457	72	1,529
Net Cost of Operations	(1,158)	(78)	(1,236)	1,113	(62)	1,051
Change in Net Position	(843)	27	(816)	2,570	10	2,580
Total Cumulative Results of Operations	**1,727**	**390**	**2,117**	**2,570**	**363**	**2,933**
Net Position	**$ 1,810**	**$ 390**	**$ 2,200**	**$ 2,570**	**$ 363**	**$ 2,933**

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.

	2020			2019		
	Total Combined	Less: Intra-Departmental Eliminations	Total Consolidated	Total Combined	Less: Intra-Departmental Eliminations	Total Consolidated
Consolidating Net Position:						
Unexpended Appropriations – Funds from Dedicated Collections	$ 83	$ 273	$ (190)	$ —	$ —	$ —
Unexpended Appropriations – Other Funds	46,834	(273)	47,107	46,623	—	46,623
Cumulative Results of Operations – Funds from Dedicated Collections	2,117	(655)	2,772	2,933	965	1,968
Cumulative Results of Operations – Other Funds	27,662	655	27,007	27,005	(965)	27,970
Total Net Position	**$ 76,696**	**$ —**	**$ 76,696**	**$ 76,561**	**$ —**	**$ 76,561**

Special Representative for Iran Brian Hook meets with His Highness Prime Minister Sheikh Sabah Al-Khaled Al-Sabah in Kuwait City, Kuwait, July 27, 2020. ***Department of State***

14 STATEMENT OF NET COST

The Consolidated Statement of Net Cost reports the Department's gross cost and net cost by strategic goal. 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, 2020
(dollars in millions)

	Under Secretary for							
STRATEGIC GOAL	**Arms Control, Int'l Security**	**Management-Consular Affairs**	**Civilian Security, Democracy and Human Rights**	**Economic Growth, Energy and Environment**	**Political Affairs**	**Public Diplomacy and Public Affairs**	**Intra-Departmental Eliminations**	**Total**
SG1: Protect America's Security at Home and Abroad								
Total Cost	$ 487	$ 2,181	$ 1,408	$ 21	$ 3,245	$ 292	$ (80)	$ 7,554
Earned Revenue	(29)	(1,697)	(9)	—	(174)	(4)	49	(1,864)
Net Program Costs	458	484	1,399	21	3,071	288	(31)	5,690
SG2: Renew America's Competitive Advantage for Sustained Economic Growth and Job Creation								
Total Cost	27	36	17	63	1,833	167	(30)	2,113
Earned Revenue	(4)	(27)	1	—	(81)	(2)	21	(92)
Net Program Costs	23	9	18	63	1,752	165	(9)	2,021
SG3: Promote American Leadership through Balanced Engagement								
Total Cost	165	22	12,834	16	1,491	203	(22)	14,709
Earned Revenue	(9)	(16)	(2)	—	(54)	(2)	15	(68)
Net Program Costs	156	6	12,832	16	1,437	201	(7)	14,641
SG4: Ensure Effectiveness and Accountability to the American Taxpayer								
Total Cost	189	1,382	145	67	16,687	607	(5,116)	13,961
Earned Revenue	(31)	(6,393)	5	—	(3,333)	(5)	5,028	(4,729)
Net Program Costs	158	(5,011)	150	67	13,354	602	(88)	9,232
Actuarial Loss on Pension Assumption Changes	10	76	8	4	924	34	—	1,056
Net Program Costs	168	(4,935)	158	71	14,278	636	(88)	10,288
Cost Not Assigned to Programs								
Total Cost	—	—	14	—	8	4	(27)	(1)
Earned Revenue	(1)	—	—	—	(28)	—	27	(2)
Net Costs	(1)	—	14	—	(20)	4	—	(3)
Total Cost	**878**	**3,697**	**14,426**	**171**	**24,188**	**1,307**	**(5,275)**	**39,392**
Total Revenue	**(74)**	**(8,133)**	**(5)**	**—**	**(3,670)**	**(13)**	**5,140**	**(6,755)**
Total Net Cost	**$ 804**	**$ (4,436)**	**$ 14,421**	**$ 171**	**$ 20,518**	**$ 1,294**	**$ (135)**	**$ 32,637**

Certain 2019 amounts in the Consolidated Statement of Net Cost have been reclassified to conform to the 2020 presentation.

The presentation of program results by strategic goals is based on the Department's current Strategic Plan, 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.

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 2020 and 2019 was as follows *(dollars in millions)*:

Under Secretary	2020	2019
Political Affairs	$ 16,040	$ 16,359
Management (Consular Affairs)	596	5,774
Public Diplomacy and Public Affairs	542	1,649
Arms Control, International Security Affairs	350	221
Civilian Security, Democracy and Human Rights	9,089	1,180
Economic Growth, Energy and Environment	85	49
Total	$ 26,702	$ 25,232

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, 2020 and 2019 *(dollars in millions)*:

Inter-Entity Costs	2020	2019
Other Post-Employment Benefits:		
Civil Service Retirement Program	$ 7	$ 62
Federal Employees Health Benefits Program	178	153
Federal Employees Group Life Insurance Program	1	1
Litigation funded by Treasury Judgment Fund	—	—
Subtotal – Imputed Financing Source	186	216
Future Workers' Compensation Benefits	17	17
Total Inter-Entity Costs	$ 203	$ 233

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, 2020 and 2019, consist of the following *(dollars in millions)*:

	2020			2019		
Earned Revenues	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**
Consular Fees:						
Passport, Visa and Other Consular Fees	$ 504	$ —	$ 504	$ 707	$ —	$ 707
Machine Readable Visa	916	—	916	1,894	—	1,894
Expedited Passport	133	—	133	270	—	270
Passport, Visa and Other Surcharges	1,029	—	1,029	1,568	—	1,568
Fingerprint Processing, Diversity Lottery, and Affidavit of Support	65	—	65	19	—	19
Subtotal – Consular Fees	2,647	—	2,647	4,458	—	4,458
FSRDF	1,394	779	615	1,382	739	643
ICASS	3,620	2,576	1,044	3,575	2,508	1,067
Other Reimbursable Agreements	2,766	521	2,245	2,590	242	2,348
Working Capital Fund	1,338	1,177	161	1,282	1,089	193
Other	130	87	43	98	58	40
Total	$ 11,895	$ 5,140	$ 6,755	$ 13,385	$ 4,636	$ 8,749

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, 3.65 percent, or 4.95 percent of their base salary depending on their start date and each employing agency contributes 20.22 percent or 17.92 percent.

Employing agencies report employee/employer contributions biweekly. Total employee/employer contributions for 2020 and 2019 were $416 million and $404 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 2020 and 2019 were $456 million and $425 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2020 and 2019 were $522 million and $552 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.

15 Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources reports information on how budgetary resources were made available and their status as of and for the years ended September 30, 2020 and 2019. Intra-departmental transactions have not been eliminated in the amounts presented.

The Budgetary Resources section presents the total budgetary resources available to the Department. For the years ended September 30, 2020 and 2019, the Department received approximately $77.1 billion and $74.9 billion in budgetary resources, respectively, primarily consisting of the following:

Source of Budgetary Resources *(dollars in billions)*	**2020**	**2019**
Budget Authority:		
Direct or related appropriations	$ 33.0	$ 31.5
Authority financed from Trust Funds	3.4	4.3
Spending authority from providing goods and services	8.0	8.0
Unobligated balance from prior year budget authority, net	32.7	31.1
Total Budgetary Resources	$ 77.1	$ 74.9

Unobligated balance from prior year budget authority, net

(dollars in billions)	**2020**	**2019**
Unobligated Balance – End of Prior Year	$ 31.1	$ 29.3
Transfers In/(Out) Prior Year Authority	(0.1)	0.1
Recoveries of Prior Year Paid Obligations	0.2	0.2
Recoveries of Prior Year Unpaid Obligations	1.6	1.9
Funds Returned to Treasury	(0.1)	(0.4)
Unobligated balance from prior year budget authority, net	$ 32.7	$ 31.1

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, 2020 and 2019, was approximately $31.9 billion and $27.8 billion, respectively. This includes amounts of $3.0 billion for September 30, 2020 and $2.7 billion for September 30, 2019, pertaining to revolving funds, trust funds, and substantial commercial activities. Of the budgetary resources obligated for UDO for all activities as of September 30, 2020, $28.6 billion is for undelivered, unpaid orders and $3.3 billion is for undelivered, paid orders. The amounts for both Federal and Non-Federal undelivered orders at September 30, 2020 are as follows:

Undelivered Orders at September 30, 2020

(dollars in millions)	**Federal**	**Non-Federal**	**Total**
Paid	$ 2,089	$ 1,235	$ 3,324
Unpaid	118	28,413	28,531
Total	$ 2,207	$ 29,648	$ 31,855

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 $297 million and $266 million for 2020 and 2019, 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 U.S. Government

The reconciliation of the Combined Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government (Budget) as of September 30, 2019 is presented in the table below. Since these financial statements are published before the Budget, this reconciliation is based on the 2019 Combined Statement of Budgetary Resources because actual amounts for 2019 are in the most recently published Budget (i.e., 2021). The Budget with actual numbers for September 30, 2020 will be published in the 2022 Budget and available in early February 2021. The Department of State's Budget Appendix includes this information and is available on OMB's website (*http://www.whitehouse.gov/omb/budget*).

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

For the Fiscal Year Ended September 30, 2019 *(dollars in millions)*	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Combined Statement of Budgetary Resources (SBR)	$ 74,929	$ 43,642	$ 3,831	$ 29,454
Distributed Offsetting Receipts	—	—	(3,831)	3,831
Funds not Reported in the Budget:				
Expired Funds	(1,091)	—	—	—
Undelivered Orders Adjustment	(285)	—	—	—
Other and Rounding errors	(8)	(3)	—	(2)
Budget of the United States	$ 73,545	$ 43,639	$ —	$ 33,283

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 2020 and 2019, the Department collected $16 million and $25 million, respectively, in custodial revenues that were transferred to Treasury.

FOCUS IN

Attempting to Expand Recognition of Unalienable Rights: The Universal Declaration of Human Rights

Unalienable rights direct attention to the relation between citizens and the government to which they have consented. Yet as rights inherent in all human beings, they also have implications for the conduct of foreign affairs. Indeed, the Declaration of Independence was inspired in part by "a decent respect to the opinions of mankind," which compelled the founders to "declare the causes which impel them" to vindicate their unalienable rights by setting up a new form of government.

The implications for foreign affairs of the nation's grounding in human rights are more diffuse and indirect than they are for domestic affairs, but the self-evident truths concerning individual freedom and human equality on which the United States was founded nevertheless should inform and elevate America's conduct in the world.

Perhaps the United States' most explicit commitment to promoting abroad the rights all human beings share received expression in the undertaking that culminated in December 1948 with the approval in the UN General Assembly of the Universal Declaration of Human Rights. By taking that step, the United States affirmed the correspondence between its founding convictions and the UDHR's universal political standard. In the post–World War II, atomic-age world – rendered smaller and more interconnected by successive revolutions in transportation and communications – Americans embraced the obligation to foster, as the UDHR states, "universal respect for and observance of human rights and fundamental freedoms." Since then, much of American diplomacy can be seen as a struggle to integrate the obligation to advance human rights around the world with the variety of other obligations that go into the formation of a coherent foreign policy suitable for the world's most prosperous and powerful liberal democracy.

The idea that certain principles are so fundamental as to apply to all human beings everywhere was, as we have seen, embedded in the American founding, and has an ancient pedigree in the world's religious and philosophical traditions. Yet the question of what universality might mean in the modern world loomed large in 1945 when the newly founded United Nations embarked on the preparation of what was then called an "International Bill of Rights." So large, in fact, that UNESCO convened a group of the world's best known philosophers in 1947 to study whether an agreement on basic principles was "conceivable among men who come from the four corners of the earth and who belong not only to different cultures and civilizations, but to different spiritual families and antagonistic schools of thought."

French Thomist Jacques Maritain, one of the most highly regarded philosophers of the 20th Century, had a role in shaping the Universal Declaration of Human Rights, imbuing it with intellectual depth and rigor not common in modern international affairs pronouncements.

After consulting widely with Confucian, Hindu, Muslim, and Western thinkers, the UNESCO philosophers reported that "certain great principles" were widely shared, though "stated in terms of different philosophic principles and on the background of different political and economic systems." Their survey indicated that some things are so terrible in practice that almost no one will publicly approve them, and that there are certain goods so widely valued that almost no one will publicly oppose them. That was enough, in their view, to make agreement on an international declaration possible. Such a document, they advised, should not aim "to achieve doctrinal consensus but rather to achieve agreement concerning rights, and also concerning action in the realization and defense of rights, which may be justified on highly divergent grounds."

On December 10, 1948, the philosophers' assessment was validated when the UN General Assembly approved the Universal Declaration of Human Rights without a single dissenting vote.

17 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 Years Ended September 30, *(dollars in millions)*	2020			2019
	Intragovernmental	With the Public	Total	Total
Net Cost	**$ (1,088)**	**$ 33,725**	**$ 32,637**	**$ 29,709**
Components of Net Cost that are not Part of Net Outlays:				
Property, Plant, and Equipment Depreciation	—	(1,346)	(1,346)	(1,228)
Property, Plant, and Equipment gain/(loss) on Disposal & Revaluation	—	(280)	(280)	(137)
Year-end Credit Reform Subsidy Re-estimates	—	(1)	(1)	(1)
Other	1,104	625	1,729	1,897
Increase/(decrease) in Assets:				
Accounts Receivable	(19)	40	21	(352)
Loans Receivable	—	5	5	—
Other Assets	629	252	881	(126)
(Increase)/decrease in Liabilities:				
Accounts Payable	(49)	1,018	969	126
Salaries and Benefits	258	2	260	(297)
Environmental and Disposal Liabilities	—	2	2	41
Other Liabilities	(4)	(1,579)	(1,583)	(2,455)
Other Financing Sources:				
Transfers out(in) Without Reimbursement	14	—	14	(1)
Total Components of Net Cost that are not Part of Net Outlays	**1,933**	**(1,262)**	**671**	**(2,533)**
Components of Net Outlays that are not Part of Net Cost:				
Acquisition of Capital Assets	—	2,386	2,386	2,637
Other	—	1,986	1,986	3,472
Total Components of Net Outlays that are not Part of Net Cost	**—**	**4,372**	**4,372**	**6,109**
Net Outlays	**$ 845**	**$ 36,835**	**$ 37,680**	**$ 33,285**

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

As of September 30, *(dollars in millions)*	2020						2019					
	19X6038	19X6224	19X6225	19X6226	19X6227	Total	19X6038	19X6224	19X6225	19X6226	19X6227	Total
Fiduciary Net Assets, Beginning of Year	$ —	$ —	$ 73	$ 3	$ —	$ 76	$ 103	$ —	$ 69	$ 32	$ 1	$ 205
Contributions	—	—	15	—	—	15	—	—	33	—	—	33
Investment Earnings	—	—	—	—	—	—	1	—	—	—	—	1
Disbursements to and on behalf of beneficiaries	—	—	(80)	(1)	—	(81)	(104)	—	(29)	(29)	(1)	(163)
Increases/(Decreases) in Fiduciary Net Assets	—	—	(65)	(1)	—	(66)	(103)	—	4	(29)	(1)	(129)
Fiduciary Net Assets, End of Year	$ —	$ —	$ 8	$ 2	$ —	$ 10	$ —	$ —	$ 73	$ 3	$ —	$ 76

Fiduciary Net Assets

As of September 30, *(dollars in millions)*	2020						2019					
Fiduciary Assets	19X6038	19X6224	19X6225	19X6226	19X6227	Total	19X6038	19X6224	19X6225	19X6226	19X6227	Total
Cash & Cash Equivalents												
Fund Balance with Treasury	$ —	$ —	$ 8	$ 2	$ —	$ 10	$ —	$ —	$ 73	$ 3	$ —	$ 76
Total Fiduciary Net Assets	$ —	$ —	$ 8	$ 2	$ —	$ 10	$ —	$ —	$ 73	$ 3	$ —	$ 76

19 COVID-19 Activity

The Department's budgetary resources to prevent, prepare for, and respond to the coronavirus pandemic consist of appropriations from the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (Public Law No. 116-123) and the Coronavirus Aid, Relief, and Economic Security Act, 2020 (Public Law No. 116-136). The Department received $699 million and $674 million from Public Law No. 116-123 and Public Law No. 116-136, respectively, for maintaining consular operations, reimbursement of evacuation expenses, and emergency preparedness for Diplomatic Programs and to prevent, prepare for, and respond to coronavirus for Global Health and Migration and Refugee Assistance Programs. Total budgetary resources, the status of resources, outlays, and net cost at September 30, 2020 are summarized below *(dollars in millions)*.

	2020					
Budgetary Resources	**Diplomatic Programs**	**Consular and Border Security Programs**	**Global Health Programs**	**Migration and Refugee Assistance**	**Education and Cultural Exchange**	**Total**
Appropriations	$ 588	$ —	$ 435	$ 350	$ —	$ 1,373
Transfers, net	(278)	273	—	—	5	—
Total Budgetary Resources	$ 310	$ 273	$ 435	$ 350	$ 5	$ 1,373
Status of Budgetary Resources						
New obligations	$ 273	$ 197	$ 336	$ 350	$ 5	$ 1,161
Unobligated, unexpired accounts	37	76	99	—	—	212
Total Budgetary Resources	$ 310	$ 273	$ 435	$ 350	$ 5	$ 1,373
Outlays, Net:						
Outlays, net (total)	$ 134	$ 190	$ 106	$ 302	$ 3	$ 735
Agency outlays, net	$ 134	$ 190	$ 106	$ 302	$ 3	$ 735
Net Cost						
Total Net Cost	$ 135	$ 191	$ 139	$ 302	$ 3	$ 770

Secretary Pompeo meets with Slovenian President Borut Pahor in Ljubljana, Slovenia, August 13, 2020. ***Department of State***

20 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.

2020 Balance Sheet		2020 Government-wide Reclassified Balance Sheet				
Financial Statement Line	Amounts	Dedicated Collections Combined	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Amounts	Reclassified Financial Statement Line
ASSETS						**ASSETS**
Intragovernmental Assets						**Intragovernmental Assets**
Fund Balance with Treasury	$ 59,653	$ 2,242	$ 57,411		$ 59,653	Fund Balance with Treasury
Investments, Net	20,071	46	20,025		20,071	Federal Investments
Interest Receivable	120		120		120	Interest Receivable – Investments
Accounts Receivable, Net	110		107		107	Accounts Receivable
			5	(2)	3	Benefit Program Contributions Receivable
Other Assets	1,847	94	1,839	(86)	1,847	Advances to Others and Prepayments
Total Intragovernmental Assets	**81,801**	**2,382**	**79,507**	**(88)**	**81,801**	**Total Intragovernmental Assets**
Cash and Other Monetary Assets	241		241		241	Cash and Other Monetary Assets
Accounts and Loans Receivable, Net	125	1	118		119	Accounts and Taxes Receivable, Net
			6		6	Loans Receivable, Net
Property and Equipment, Net	26,305	116	26,189		26,305	Property, Plant, and Equipment, Net
			21		21	Inventory and Related Property, Net
Other Assets	1,266	7	1,238		1,245	Other Assets
Total Non-Federal Assets	**27,937**	**124**	**27,813**		**27,937**	**Total Non-Federal Assets**
Total Assets	**$ 109,738**	**$ 2,506**	**$107,320**	**$ (88)**	**$ 109,738**	**Total Assets**
LIABILITIES						**LIABILITIES**
Intragovernmental Liabilities						**Intragovernmental Liabilities**
Accounts Payable	$ 151	$ 49	$ 102		$ 151	Accounts Payable
Other Liabilities	361					
			5		5	Loans Payable
			21		21	Liability to General Fund for Custodial and Other Non-Entity Assets
		7	372	(86)	293	Advances from Others and Deferred Credits
		19	25	(2)	42	Benefit Program Contributions Payable
Total Intragovernmental Liabilities	**512**	**75**	**525**	**(88)**	**512**	**Total Intragovernmental Liabilities**
Accounts Payable	2,427	128	2,556		2,684	Accounts Payable
After-Employment Benefit Liability	25,899	76	26,614		26,690	Federal Employee and Veteran Benefits Payable
			52		52	Environmental and Disposal Liabilities
International Organizations Liability	2,518					
Other Liabilities	1,686	27	3,077		3,104	Other Liabilities
Total Non-Federal Liabilities	32,530	231	32,299		32,530	Total Non-Federal Liabilities
Total Liabilities	**$ 33,042**	**$ 306**	**$ 32,824**	**$ (88)**	**$ 33,042**	**Total Liabilities**

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2020 Balance Sheet		2020 Government-wide Reclassified Balance Sheet				
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Amounts**	**Reclassified Financial Statement Line**
NET POSITION						**NET POSITION**
Unexpended Appropriations – Funds from Dedicated Collections	(190)	83		(273)	(190)	Unexpended Appropriations – Funds from Dedicated Collections
Cumulative Results of Operations – Funds from Dedicated Collections	2,772	2,117		655	2,772	Cumulative Results of Operations – Funds from Dedicated Collections
Unexpended Appropriations – Other Funds	47,107		46,834	273	47,107	Unexpended Appropriations – Other Funds
Cumulative Results of Operations – Other Funds	27,007		27,662	(655)	27,007	Cumulative Results of Operations – Other Funds
Total Net Position	**76,696**	**2,200**	**74,496**	**—**	**76,696**	**Total Net Position**
Total Liabilities & Net Position	**$ 109,738**	**$ 2,506**	**$ 107,320**	**$ (88)**	**$ 109,738**	**Total Liabilities & Net Position**

2020 Statement of Net Cost		2020 Government-wide Reclassified Statement of Net Cost				
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Amounts**	**Reclassified Financial Statement Line**
						Non-Federal Costs
Cost and Loss on Assumption Changes	$ 39,392	$ 1,906	$ 33,488		$ 35,394	Non-Federal Gross Cost
			1,056		1,056	Loss on Changes in Actuarial Assumptions (Non-Federal)
		1,906	**34,544**		**36,450**	**Total Non-Federal Costs**
						Intragovernmental Costs
		144	370	(50)	464	Benefit Program Costs
		53	151	(18)	186	Imputed Costs
		1,105	1,629	(680)	2,054	Buy/Sell Costs
		40	198		238	Other Expenses (without Reciprocals)
		1,342	**2,348**	**(748)**	**2,942**	**Total Intragovernmental Costs**
Total Costs and Loss on Assumption Changes	**39,392**	**3,248**	**36,892**	**(748)**	**39,392**	**Total Reclassified Gross Costs**
Earned Revenue	6,755	1,990	796		2,786	**Non-Federal Earned Revenue**
						Intragovernmental Earned Revenue
		21	4,042	(680)	3,383	Buy/Sell Revenue
			113	(50)	63	Benefit Program Revenue
		1	522		523	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		22	**4,677**	**(730)**	**3,969**	**Total Intragovernmental Earned Revenue**
Total Earned Revenue	**6,755**	**2,012**	**5,473**	**(730)**	**6,755**	**Total Reclassified Earned Revenue**
Net Cost	**$ 32,637**	**$ 1,236**	**$ 31,419**	**$ (18)**	**$ 32,637**	**Net Cost**

2020 Statement of Changes in Net Position		2020 Government-wide Reclassified Statement of Changes in Net Position				
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Amounts**	**Reclassified Financial Statement Line**
Cumulative Results of Operations					$ 76,561	Net Position, Beginning of Period
Beginning Balance	$ 29,938	$ 2,933	$ 27,005			
Unexpended Appropriations						
Beginning Balances	46,623		46,623			
Net Position, Beginning of Period	76,561	2,933	73,628		76,561	Net Position, Beginning of Period – Adjusted
Budgetary Financing Sources						**Budgetary Financing Sources**
Appropriations Received	33,457		33,068		33,068	Appropriations Received as Adjusted
Rescissions and Canceling Funds	(389)					
Appropriations Transferred in(out)	(71)					
		346	38	(346)	38	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
			(455)	346	(109)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
Appropriations Used	(32,703)	(190)	(32,513)		(32,703)	Appropriations Used (Federal)
Budgetary Financing Sources						**Budgetary Financing Sources**
Appropriations Used	32,703	190	32,513		32,703	Appropriations Expended
Non-exchange Revenue						
Donations	62	62			62	Other Taxes and Receipts – Non-Federal Other
Transfers in(out) without Reimbursement	30	45			45	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		(3)			(3)	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
			(12)		(12)	Expenditure Transfers-Out of Financing Sources
Other Financing Sources						**Other Financing Sources**
Donations						Other Taxes and Receipts – Non-Federal Other
Transfers in(out) without Reimbursement	33		61		61	Transfers-In without Reimbursement
			(28)		(28)	Transfers-Out without Reimbursement
Inputed Financing from Costs Absorbed by Others	186	53	151	(18)	186	Imputed Financing Sources
Non-entity Collections	(536)		(536)		(536)	Non-Entity Custodial Collections Transferred to the General Fund
Net Cost of Operations	(32,637)	(1,236)	(31,419)	18	(32,637)	Net Cost of Operations
Net Position	**$ 76,696**	**$ 2,200**	**$ 74,496**	**$ —**	**$ 76,696**	**Net Position – Ending Balance**

FOCUS

American Moral Leadership: Advancing Unalienable Rights Abroad in Furtherance of U.S. Interests

Following World War II, the United States took the lead in constructing an international order that reflected the commitments to freedom at the core of American constitutional government. With Europe's infrastructure in ruins, Congress adopted the Marshall Plan in 1948, a massive program of economic aid aimed at restoring "conditions abroad in which free institutions can survive." Explaining the need for such a program in his 1947 commencement speech at Harvard University, Secretary of State George Marshall said it was only "logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace."

Increased emphasis on human rights continued in the Reagan administration. Natan Sharansky wrote movingly of how the Russian translation of Ronald Reagan's 1983 "evil empire" speech came to him and other jailed Soviet dissidents as a ray of hope in the darkness of their six- foot cells. "[T]he clear moral position of the West," he said, meant that there could "be no more illusions about the nature of the Soviet Union…." The prisoners, using the secret means they had to communicate, "knocked from one cell to another by Morse [code]"; they "talk[ed] through toilets to say to one another the great day" had arrived.

President Reagan in June 1987 delivered a speech in Berlin during which he directly challenged Soviet dictator Mikhail Gorbachev to "tear down this wall." These strong words were backed up by years of fortifying American military capabilities and constructively working toward strategic arms reductions with the Soviets. Late in 1989, citizens of Germany tore down the Berlin Wall and for the first time in nearly three decades could move freely from East to West. The reunification of Germany followed the next year, and the Soviet Union dissolved in 1991.

President Reagan speaks in front of the Berlin Wall, Brandenburg Gate, in Federal Republic of Germany, June 12, 1987. *National Archives*

Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2020 ***(dollars in millions)***

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budgetary Resources:						
Unobligated balance from prior year budget authority, net	$ 16,299	$ 1,187	$ 123	$ 1,523	$ 13,610	$ 32,742
Appropriations (discretionary and mandatory)	16,159	3,000	167	1,711	15,347	36,384
Borrowing authority (discretionary and mandatory)	3	—	—	—	—	3
Spending authority from offsetting collections (discretionary and mandatory)	7,912	—	1	32	29	7,974
Total Budgetary Resources	**$ 40,373**	**$ 4,187**	**$ 291**	**$ 3,266**	**$ 28,986**	**$ 77,103**
Status of Budgetary Resources:						
New obligations and upward adjustments (total)	$ 25,189	$ 3,316	$ 142	$ 1,846	$ 18,664	$ 49,157
Unobligated balance, end of year:						
Apportioned, unexpired accounts	14,388	836	142	1,277	9,899	26,542
Exempt from apportionment, unexpired accounts	47	—	—	—	2	49
Unapportioned, unexpired accounts	71	6	2	—	73	152
Unexpired unobligated balance, end of year	14,506	842	144	1,277	9,974	26,743
Expired unobligated balance, end of year	678	29	5	143	348	1,203
Unobligated balance, end of year (total)	15,184	871	149	1,420	10,322	27,946
Total Budgetary Resources	**$ 40,373**	**$ 4,187**	**$ 291**	**$ 3,266**	**$ 28,986**	**$ 77,103**
Outlays, Net:						
Outlays, net (total) (discretionary and mandatory)	16,666	4,230	135	1,983	14,666	37,680
Distributed offsetting receipts (-)	(2,877)	—	—	—	—	(2,877)
Agency outlays, net (discretionary and mandatory)	**$ 13,789**	**$ 4,230**	**$ 135**	**$ 1,983**	**$ 14,666**	**$ 34,803**

Secretary Pompeo meets with staff and families of the U.S. Missions in Vienna, Austria, August 14, 2020. ***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, 2020

Category	Number of Assets	Condition
Diplomatic Reception Rooms Collection	1,825	Good to Excellent
Art Bank Program	2,660	Poor to Excellent
Art in Embassies Program	1,269	Good to Excellent
Cultural Heritage Collection	19,025	Good to Excellent
Library Rare & Special Book Collection	1,371	Poor to Good
Secretary of State's Register of Culturally Significant Property	36	Poor to Excellent
National Museum of American Diplomacy	6,216	Good to Excellent
Blair House	2,599	Good to Excellent
International Boundary and Water Commission	140	Poor to Good

Deferred Maintenance and Repairs

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when they should have been, that were scheduled and not performed, or that were delayed for a future period. Maintenance and repairs are activities directed towards keeping Property, Plant, and Equipment (PP&E) in acceptable operating condition. These activities include preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance and repairs exclude activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater, than those originally intended. The Department occupies more than 8,500 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 annually conducts the Federal Real Property Portfolio (FRPP) submission to GSA. Leveraging this data, OBO changed the methodology for calculating DM&R in 2020. In prior fiscal years, OBO calculated DM&R using an industry-based formula adjusted for building type, age, and geographic location to determine how much maintenance and repair funding to be allocated to each facility. The difference between the calculated allocation and actual funding was deemed to be DM&R. This methodology relied on input from global facility managers through a manual data call process. With the absence of a 100 percent response rate and only factoring in the responses received, the calculation of ending DM&R estimates were significantly lower in prior fiscal years. The new methodology for calculating DM&R is based on the Facility Condition Index (FCI). This methodology accounts for all facilities globally without the reliance on a response through a manual data call process, allowing for a more complete DM&R estimate. FCI is the ratio of repair needs to the replacement value of a facility as calculated by:

$$\text{FCI} = 1 - \frac{\$\ \text{Repair Needs}}{\$\ \text{Replacement Value}} \times 100\%$$

Repair need is defined as the non-recurring costs that reflect the amount necessary to ensure that a constructed asset is restored to a condition substantially equivalent to the originally intended and designed capacity, efficiency, or capability.

In accordance with the FRPP definition of repair need, the Department uses repair needs identified by overseas facilities managers. Since this process does not identity repair need costs for all 8,500+ properties, the Department also uses parametric modeling to supplement these results. Based on the ages and expected useful life of individual systems and documented FCI results, the FCI parametric model uses deterioration curves to reflect how systems deteriorate over time.

Replacement value is defined as the cost to design, acquire, and construct an asset to replace an existing asset of the same functionality, size, and in the same location using current costs, building codes and standards. Neither the current condition of the asset nor the future need for the asset is a factor in the replacement value estimate. The Department uses construction "unit rates" determined by its Office of Cost Management

for each property use code recorded in its Real Property Application. The Department multiplies these unit rates by the size of each property to determine replacement values.

Deferred Maintenance & Repairs are based on the FCI. An FCI score of 100 percent indicates a facility that is in a condition substantially equivalent to the originally intended and designed capacity, efficiency, or capability. Statements of Federal Financial Accounting Standards (SFFAS) No. 42 defines maintenance and repairs as activities directed toward keeping fixed assets in an "acceptable condition" and specifies management should determine which methods to apply and what condition standards are acceptable. Applying these definitions, the Department's management has determined that an FCI score of 70 percent indicates "acceptable condition".

While the Department's average FCI for its worldwide asset inventory is 80 percent, the large number of new facilities constructed over the past 20 years greatly influences this result. The proportion of properties with an FCI score below 70 percent increases for those that are older.

The Department's DM&R is the total repair need to bring all owned and capital leased properties up to an acceptable FCI score of 70 percent.

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.

The facility management of U.S. diplomatic and consular properties overseas is complex, which impacts the success and failure of properties and infrastructure on human life, welfare, morale, safety, and the provision of essential operations and services. Facility management also has a large impact on the environment and on budgets, requiring a resilient approach that results in buildings and infrastructure that are efficient, reliable, cost effective, and sustainable over their life cycle. This occurs at properties 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 property in good working order; while others must operate a complex new building that may be the most technologically advanced in the country.

The beginning and ending balances in the "Deferred Maintenance and Repairs" table were calculated using the new FCI methodology.

Deferred Maintenance and Repairs
(dollars in millions)

Asset Category	2020 Ending Balance DM&R		2020 Beginning Balance DM&R	
	Other	IBWC	Other	IBWC
General PP&E	$ 2,712	$ 5	$ 3,236	$ 6
Heritage Assets (Secretary of State's Register of Culturally Significant Property)	318	2	526	1
Total	$ 3,030	$ 7	$ 3,762	$ 7

FOCUS

Office of International Religious Freedom: Commitment to Unalienable Rights in Action

Secretary Pompeo in a speech on September 30, 2020 said, "(O)ur founders regarded religious freedom as an absolutely essential right of mankind and central to our founding." He earlier this year in connection with the work of the Commission on Unalienable Rights had remarked "… it's important for every American, for every American diplomat, to recognize how our founders understood unalienable rights." Some elements of the State Department are engaged directly in making our most lofty ideals a reality for the American people and individuals throughout the world.

Established by law in 1998 and located within the Office of the Under Secretary for Civilian Security, Democracy, and Human Rights, the Office of International Religious Freedom (IRF) promotes the freedom of religion, conscience, and belief around the world. Ambassador at Large for International Religious Freedom Sam Brownback and Special Envoy to Monitor and Combat Anti-Semitism Elon Carr travel widely and are strong, public advocates for religious freedom. A key responsibility of the Office is annual publication of the International Religious Freedom report, which describes the status of religious freedom around the world and informs the U.S. Government's designations of countries and entities of particular concern and special watch list countries each year. IRF's work is coordinated with that of regional bureaus and the Department's broader efforts, which include more than $20 million in annual foreign assistance funds to advance global respect for religious freedom.

U.S. Ambassador at Large for International Religious Freedom Samuel D. Brownback delivers remarks to the media in Washington, D.C., June 10, 2020. ***Department of State***

This past year, the Office has worked to serve the Department by developing the online distance learning course *Promoting International Religious Freedom* to explain why and how the United States promotes religious freedom worldwide, illustrate how religious freedom may be violated, and prepare U.S. personnel to engage with foreign interlocutors and religious actors on issues related to religious freedom.

Secretary Pompeo meets with United Kingdom Minister Boris Johnson in London, United Kingdom, July 21, 2020. ***Department of State***

SECTION III:

Other Information

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

INTRODUCTION

Acting Inspector General, Matthew S. Klimow

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 significant 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 often provides a unique window into topical and emergent issues. Throughout much of FY 2020, the nation has been faced with the effects of the Coronavirus (COVID-19) pandemic, which was first identified in China in December 2019. OIG has had to adapt its work to ensure our critical functions continue. OIG's travel schedule for audits and inspections has been affected and other processes have had to be altered to meet study objectives. Nonetheless, we issued 72 reports in FY 2020, 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 2020:

1. Protection of people and facilities
2. Management and 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.

Continued attention to the management challenges identified 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.

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

It is worth noting that one of the most significant challenges facing the Department has been and will continue to be the global outbreak of COVID-19. Although OIG has not yet completed any work specific to the pandemic, we anticipate that much of OIG's future work will focus on evaluating the impact of the pandemic on the Department's people, programs, and operations. In so doing, OIG looks forward to assisting the Department in its efforts to improve the efficiency and effectiveness of its programs and operations.

Executive Summary

Each of the management challenges described in this report have an effect on the Department's ability to perform its mission and to safeguard taxpayer resources while doing so. As such, each challenge independently warrants ongoing attention. It is equally important for the Department to consider how all of the challenges listed interact and how it can address them systemically. We continue to be committed to assisting the Department as it strives to improve the effectiveness of its programs and operations.

Protection of People and Facilities

With natural disasters, environmental hazards, crime, conflict, and humanitarian crises posing a risk to the health and safety of Department personnel and the security of Department property overseas, protecting people and facilities continues to be a top management challenge. OIG also found that the Department's efforts to construct and maintain safe and secure diplomatic facilities have been impacted by construction delays and design flaws due in part to contract management deficiencies that resulted in significant financial costs and security implications for the Department. OIG's work has also found deficiencies in residential security, the operation of official vehicles, and emergency preparedness that put Department personnel and their families at risk. For instance, we found that Department personnel continue to occupy residences abroad that do not meet Department safety standards and several overseas posts have failed to keep up with post-specific emergency planning.

Management and Oversight of Contracts, Grants, and Foreign Assistance

Department entities domestically and abroad did not consistently and adequately monitor contractor performance, conduct thorough invoice reviews, and oversee grants and foreign assistance programs. A growing body of OIG work also illustrates the difficulty the Department faces in managing large, long-term construction contracts, particularly in contingency environments. These issues directly affect the protection of people and facilities and present unique challenges in the realm of workforce management. Inexperienced and untrained personnel charged with oversight lead to problems with monitoring and ensuring compliance with requirements, as well as with the routine review and approval of expenditures. Finally, OIG's work highlights inadequate Contracting Officer's Representative technical knowledge that continues to result in issues with contract oversight.

Information Security and Management

OIG has acknowledged steps the Department has taken to improve its information security program; however, challenges persist. For example, we found that numerous control weaknesses affected program effectiveness and increased the chance of cyberattacks and threats to the Department. Also, pervasive Information Systems Security Officer concerns that were first identified in 2017 still exist today. The failure to record information system audits, complete account reviews, or monitor the dedicated internet network can leave the Department vulnerable to potential unauthorized access and malicious activity. Issues with developing, testing, and training on contingency plans also affects the challenge of protecting the Department's staff and facilities.

Financial and Property Management

Internal control deficiencies identified in an independent audit negatively affected the Department's ability to account for real and personal property in a complete, accurate, and timely manner. Inadequate acquisition planning; improper warehouse, inventory, and property transfer controls; and mismanagement of bulk fuel and the Department's motor

vehicle fleet contributed to this challenge. OIG notes that a significant aspect of addressing this challenge relates to 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. 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.

Operating in Contingency and Critical Environments

In some cases, the Department must operate in "critical" environments, or areas that experience various threats in the form of conflict, instability, disease, or natural disasters. These pose their own set of problems and contribute to existing challenges. OIG's work has identified contracts and other foreign assistance that is susceptible to inadequate oversight, with the absence of clear guidance and limited staff contributing to such weaknesses. Staff reductions in Afghanistan and Iraq have contributed to expedited staffing reviews, while OIG also identified the lack of a centralized database for the special immigrant visa program in Afghanistan. This contributed to delays and increases the Department's risk for fraud and threats to national security.

Workforce Management

Although the Department has experienced periods of transition in the past fiscal year, it continues to strive to be flexible and meet its resource needs, to include providing adequate compensation in challenging areas. Nevertheless, OIG continued to identify staffing gaps, frequent turnover, poor leadership, and inexperienced and undertrained staff that contribute to challenges in workforce management. The issue of underqualified staff intersects with the challenge of contract oversight. Although OIG's inspection work frequently highlights strong embassy leadership, we did identify areas where trust in leadership is lacking. For example, in one report the detail of a career employee was ended after discussion about that employee's perceived political views. As a result, OIG recommended training on the Department' merit-based personnel rules for political appointees.

Promoting Accountability Through Internal Coordination and Clear Lines of Authority

Clear lines of authority are necessary for ensuring that the Department is able to hold decision makers accountable. However, OIG finds that poor coordination and vague or dispersed authority are at the root of some of the Department's other deficiencies. As noted in our summary, OIG found that the Department lacks coordination and guidance on the investigative and disciplinary processes for its handling of sexual harassment reports. An absence of joint guidance for offices and poor coordination and unclear goals have contributed to such lapses. It's important that the Department eliminate conflicting lines of authority to ensure accountability.

1 Protection of People and Facilities

The Department's global presence and the continued threat of physical violence directed toward U.S. diplomats makes the protection of people and facilities an ongoing top management challenge. Although the Department prioritizes the safety and security of its personnel and facilities, 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.

Constructing and Maintaining Safe and Secure Diplomatic Facilities

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

In one particular review, OIG found that work on a new embassy compound in Ashgabat, Turkmenistan, had been significantly delayed because the Bureau of Overseas Buildings Operations (OBO) had allowed construction on one building to begin in a physical location that violated the city's standards.[2] Although the crux of our review related to

[2] OIG, *Review of Delays Encountered Constructing the New Embassy Compound in Ashgabat, Turkmenistan* (AUD-MERO-20-20, February 2020).

contract management deficiencies and the significant financial cost to the Department to address the situation, we also noted that there were security implications. For example, as a result of the delays, embassy operations continued to be conducted from multiple locations and in facilities that did not meet the Department's security requirements, including appropriate setback and standards for seismic activity.

A major construction project in London illustrated this challenge as well. OIG found that inadequate attention to major systems design and local building requirements led to design flaws in a semicircular pond that serves partly as a security barrier. Additionally, defects related to security, fire safety, and elevators were noted by OBO after the facility had been declared substantially complete.[3]

In 2004, OBO established a lessons learned program to update design criteria, guidance, and processes in support of the planning, design, construction, operation, and maintenance of OBO facilities overseas. However, a recent OIG report found that the current program does not capture broader best practices or lessons learned that are critical to OBO's construction work, including strengthening collaboration among stakeholders, facilitating building maintenance, and improving program and construction management. These important activities have been overlooked in the lessons learned process because OBO has devoted attention and resources solely to collecting and addressing technical design challenges encountered during its construction projects. Additionally, in examining OBO's internal reporting for construction projects in Amman, Kabul, Ashgabat, and London, OIG found errors and inconsistencies in 33 percent of 125 reports produced between 2013 and 2019 addressing those projects.[4]

Beyond ensuring the initial construction of safe and secure facilities, the Department is also responsible for comprehensive preventative and routine maintenance of its existing facilities. Our FY 2020 inspection work continued to identify problems related to facilities maintenance at several overseas posts. For example, in Lesotho, two emergency exit doors in a building on the embassy compound lacked the required electrical locks with emergency override and panic devices. Without these safety devices, an alarm does not sound if the doors are opened, and embassy security is not notified if there is an emergency.[5]

Ensuring the Health and Safety of Personnel Abroad

Our inspection work consistently finds that embassy leadership is engaged on health and safety issues. The Department frequently takes action to address these challenges when identified. For example, in Sweden, embassy staff identified a life safety issue with a large purchase of lamps. Proactive efforts by the embassy resulted in a worldwide safety alert and the vendor's replacement of the lamps at no additional cost.[6] Nonetheless, we also continue to identify instances where a lack of management oversight and failure to follow Department standards create risks for Department personnel and their families. As in previous years, we note the following three areas for improvement: residential security, operation of official vehicles, and emergency preparedness.

Residential Security

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.[7] To take one example, in Cameroon, OIG found the Post Occupational Safety and Health Officer (POSHO) did not enter into the appropriate system certifications for 41 residential properties listed in the real property database, making it impossible to determine whether residences met standards. In addition, half of the 10 property lease files OIG reviewed lacked POSHO certifications,

[3] OIG, *Management Assistance Report: Execution of the New Embassy Compound London Construction Project Offers Multiple Lessons* (AUD-CGI-20-36, July 2020).

[4] OIG, *Audit of Bureau of Overseas Buildings Operations Process To Identify and Apply Best Practices and Lessons Learned to Future Construction Projects* (AUD-MERO-20-39, September 2020).

[5] OIG, *Inspection of Embassy Maseru, Lesotho* (ISP-I-20-01, October 2019).

[6] OIG, *Inspection of Embassy Stockholm, Sweden* (ISP-I-20-06, December 2019).

[7] OIG, *Inspection of Embassy Yaoundé*, Cameroon (ISP-I-20-20, May 2020); OIG, *Inspection of Embassy Canberra and Constituent Posts, Australia* (ISP-I-20-07, February 2020); OIG, *Inspection of Embassy Pretoria and Constituent Posts, South Africa* (ISP-I-20-09, January 2020); *Inspection of Embassy N'Djamena, Chad* (ISP-I-20-02, November 2019).

while another 3 had expired POSHO certifications. Failure to conduct and document safety certifications and maintain housing lease files could lead to employees under chief of mission authority living in unsafe residences.[8] Additionally, OIG found several deficiencies at mission residences throughout posts in South Africa that included a lack of smoke detectors, interior and balcony railings that did not meet safety standards, and gates around pools that did not self-close or locks that did not meet the safe height requirement to prevent children from gaining access.[9]

Operation of Official Vehicles Overseas

As in previous years, several FY 2020 inspection reports identified a lack of compliance with motor vehicle safety standards in the operation of official vehicles overseas.[10] OIG found lapses in medical clearances for drivers, outdated or absent safety training for operators of armored vehicles or other official vehicles, and drivers working excessive hours, a practice that increases the risk of motor vehicle accidents caused by driver fatigue. Among several such examples, OIG found that nearly 50 drivers of armored vehicles at the embassy in Mauritania lacked required armored vehicle training. Likewise, a number of drivers had not received standard driver safety training or required retraining, and many held expired medical certifications or never received medical certifications before driving official vehicles.[11]

Emergency Preparedness

Department guidelines require Department bureaus and U.S. embassies to maintain bureau- or 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 those deficiencies that could result in significant life and safety issues.

OIG's FY 2020 work demonstrated that the Bureau of Counterterrorism (CT) and several embassies did not meet Department standards in this area.[12] For example, CT did not have a completed bureau emergency action plan, as required. Bureaus are required to develop bureau emergency action plans to identify, prioritize, and perform functions when adverse events affect operations.[13] In Eswatini, we found that the embassy's radio program, which included high frequency radio and the emergency and evacuation radio network, did not provide effective emergency communications. At the time of the inspection, the high frequency radio had been inoperable for approximately 18 months.[14]

2 Management and 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 ensure that foreign assistance programs achieved intended objectives and policy goals, monitor and document contractor performance, conduct thorough invoice reviews, and properly oversee construction contracts.

Designing/Ensuring Foreign Affairs Programs That Achieve Intended Objectives and Policy Goals

The Department continues to face challenges in designing foreign assistance programs that it can ensure will achieve

[8] ISP-I-20-20, May 2020.

[9] ISP-I-20-09, January 2020.

[10] OIG, *Inspection of Embassy Dhaka, Bangladesh* (ISP-I-20-17, June 2020); OIG, *Inspection of Embassy Kathmandu, Nepal* (ISP-I-20-22, May 2020); OIG, *Inspection of Embassy Bern, Switzerland* (ISP-I-20-21, May 2020); OIG, *Inspection of Embassy Nouakchott, Mauritania* (ISP-I-20-04, November 2019); ISP-I-20-20, May 2020; ISP-I-20-07, February 2020; ISP-I-20-09, January 2020; ISP-I-20-02, November 2019.

[11] ISP-I-20-04, November 2019.

[12] OIG, *Inspection of the Bureau of Counterterrorism* (ISP-I-20-13, May 2020); OIG, *Inspection of Embassy Mbabane, Eswatini* (ISP-I-20-03, October 2019); ISP-I-20-09, January 2020; ISP-I-20-04, November 2019; ISP-I-20-02, November 2019.

[13] ISP-I-20-13, May 2020.

[14] ISP-I-20-03, October 2019.

desired program results.[15] For example, an audit of oversight of the President's Emergency Plan for AIDS Relief (PEPFAR) examined, in part, whether the Office of the U.S. Global AIDS Coordinator and Health Diplomacy had overseen selected missions' performance toward achieving PEPFAR goals. OIG found that across the missions examined, PEPFAR teams expressed concerns regarding performance targets and the Country Operational Plan development process. PEPFAR teams consistently expressed the belief that their input was not considered during the Country Operational Plan development process, especially regarding the attainability of performance targets. OIG noted that the lack of effective communication may affect PEPFAR program implementation efforts.[16]

One report found that the Bureau of European and Eurasian Affairs, Office of the Coordinator of U.S. Assistance to Europe and Eurasia, could not perform evidence-based analysis of U.S. Government foreign assistance being provided to the region and effectively coordinate funding for policies and programs among all U.S. Government agencies. This could not be done because the Office of the Coordinator of U.S. Assistance to Europe and Eurasia did not have a tool to analyze and maintain the monitoring and evaluation data from its implementing partners to determine whether U.S. policy goals in the region were being achieved.[17]

In another example, OIG reported that deficient performance work statements as a result of inadequate Contracting Officer's Representative (COR) technical knowledge led the Bureau of African Affairs (AF) to fund several poorly designed projects that ultimately resulted in wasted funds. For example, one project in Cameroon called for the construction of a barrier wall, but the performance work statement did not require the contractor to conduct a site survey prior to submitting a proposal, which, in part, led to a section of the wall collapsing as a result of excessive rain. AF had to expend an additional $3.3 million for modifications and repairs. Another project in Niger resulted in the construction of an aircraft hangar that was not large enough for the relevant aircraft. Several costly contract modifications were required to address the deficiency, which we found was attributable to inadequacies in the performance work statement.[18]

In addressing previous challenges, AF successfully updated its Federal assistance risk assessments to better measure terrorist financing risk. As a result of prior OIG recommendations, the bureau also took steps to reduce duplicative and fragmented functions and developed some of the guidance and procedural documents necessary to manage and administer its foreign assistance programs.[19] Furthermore, in Mauritania, we reported that the embassy promoted a "whole of government" approach to foreign assistance programming that maximized the effect of foreign assistance resources, minimized redundancies, and ensured consistency with the mission's priorities.[20]

Monitoring and Documenting Contractor and Grantee Performance

The Department continues to face challenges in properly overseeing contractor performance. Personnel responsible for contractor oversight 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 2020 work found several examples of deficiencies in the performance of these duties.

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[15] OIG, *Follow-Up Audit of Department of State Efforts To Measure, Evaluate, and Sustain Antiterrorism Assistance Objectives in the Bureau of East Asian and Pacific Affairs* (AUD-MERO-20-32, May 2020); OIG, *Management Assistance Report: The Bureau of African Affairs Should Improve Performance Work Statements and Increase Subject Matter Expertise for Trans-Sahara Counterterrorism Partnership Projects* (AUD-MERO-20-29, April 2020); OIG, *Audit of the Office of the Coordinator for Assistance to Europe and Eurasia's Oversight of Foreign Assistance Funds Transferred to Implementing Partners* (AUD-CGI-20-12, March 2020); OIG, *Audit of the Department of State's Coordination and Oversight of the U.S. President's Emergency Plan for AIDS Relief* (AUD-SI-20-17, February 2020).

[16] AUD-SI-20-17, February 2020.

[17] AUD-CGI-20-12, March 2020.

[18] AUD-MERO-20-29, April 2020.

[19] OIG, *Compliance Follow-Up Review: Bureau of African Affairs' Foreign Assistance Program Management* (ISP-C-20-23, May 2020).

[20] ISP-I-20-04, November 2019.

In a recent report, OIG selected four task orders associated with four different Facilities Management Services contracts that had a combined value of more than $151 million. Findings revealed that the CORs' monitoring of contractor performance for three of the four task orders reviewed was inconsistent and not well documented. CORs stated that most performance monitoring occurred through daily interaction and undocumented inspections. However, documentation such as daily and monthly inspection reports, logs and check sheets, and inspection and acceptance reports of completed reimbursable work authorizations are needed to confirm that such performance monitoring actually occurred. The CORs involved with these three task orders did not provide such documentation.[21]

An audit reviewing 72 reports OIG issued from FY 2017 through FY 2019 showed that 63 (88 percent) of those reports contained findings related to inadequate contract oversight. Thirty-one (49 percent) of those reports cited issues with the training provided to and the experience of CORs and other contract oversight personnel.[22] For example, during one project,[23] three of seven CORs and alternate CORs interviewed stated that, in their opinions, they did not have the necessary experience to oversee the large and complex contracts to which they were assigned. In addition, four of the seven CORs and alternate CORs interviewed stated that this was their first contract oversight assignment. In another report, OIG identified 13 of 15 Government Technical Monitors who were monitoring 25 contractors and had not performed required oversight such as monitoring the number of hours worked by the contractor.[24]

OIG identified different reasons for the deficiencies identified in its reports, with most related to weaknesses in the Department's controls over its oversight of award recipients.[25] These controls did not ensure effective monitoring, compliance with requirements, or routine review of expenditures. As a result of improper actions by award recipients identified in 22 reports, OIG identified approximately $41 million in potential monetary benefits.[26]

Another report noted that AF and CT did not (a) establish standard operating procedures or document controls for managing risks, (b) document reviews of performance reports to demonstrate adherence with award terms, or (c) require documentation to be maintained in official award files. Without a documented process to identify and mitigate risks, AF and CT are at an increased risk for waste, fraud, and mismanagement, and both will have limited assurance that their awards comply with Department requirements and achieve their intended purposes.[27]

OIG also found that AF had not implemented internal controls to improve grants oversight, as recommended in an earlier report. OIG reviewed 10 award files and found that none contained all required Grants Officer Representative (GOR) evaluation reports, and 5 of 10 award files did not include any GOR reports. Until AF implements controls to ensure required evaluation reports are completed, the bureau faces program and financial management risks because of a lack of oversight.[28]

Also, an inspection of CT revealed that third-party contractors performed inherently governmental functions, which did not fully comply with Department standards. These included preparing and submitting GOR reports and authorizing an extension for a performance deliverable. These and similar functions should have been performed by a GOR. Without appropriate controls and oversight of third-party contractors, the bureau faced additional risks associated

[21] OIG, *Audit of Selected Bureau of Administration, Office of Operations, Office of Facilities Management Services, Contracts* (AUD-CGI-20-21, March 2020).

[22] OIG, *Information Report: Systemic Weaknesses Related to the Administration and Oversight of Department of State Contracts and Federal Assistance From FY 2017 to FY 2019* (AUD-CGI-20-44, September 2020).

[23] OIG, *Audit of the Oversight of Fuel Acquisition and Related Services Supporting Department of State Operations in Iraq* (AUD-MERO-17-16, December 2016).

[24] AUD-CGI-20-44, September 2020.

[25] OIG, *Inspection of the Bureau of Counterterrorism's Foreign Assistance Program Management* (ISP-I-20-14, June 2020); OIG, *Audit of Global Engagement Center Federal Assistance Award Management and Monitoring* (AUD-MERO-20-26, April 2020); ISP-I-20-07, February 2020; ISP-I-20-09, January 2020; ISP-I-20-02, November 2019.

[26] AUD-CGI-20-44, September 2020.

[27] OIG, *Audit of Department of State Foreign Assistance Grants and Cooperative Agreements in Somalia* (AUD-MERO-20-45, September 2020).

[28] ISP-C-20-23, May 2020.

with the loss of Government control and accountability for policy and program decisions.[29]

Another report noted that the Global Engagement Center (GEC) did not consistently manage and monitor awards in accordance with Federal requirements, Department policies and guidance, and award terms and conditions. OIG found that 9 of 10 of the monitoring and evaluation plans reviewed did not include all monitoring and evaluation plan elements and did not demonstrate a direct link to the proposed scope of work, as required by the Federal Assistance Directive. Until such deficiencies are fully remediated, GEC will not be in a position to ensure award recipients are using funds as intended or be able to fully demonstrate that the awards being implemented are fulfilling GEC's statutory mandate to coordinate efforts in countering propaganda and disinformation efforts aimed at undermining U.S. national security interests.[30]

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. Issues with maintaining records of invoice reviews and verifying that invoices include all required information persist.[31] For example, in one report OIG selected four task orders associated with four different contracts for facilities management services that had a combined value of more than $151 million. OIG found limited supporting documentation for the 35 invoices selected for review. In addition, OIG could not verify that some invoices were processed properly because the CORs for three of the four task orders reviewed did not maintain records of their invoice reviews. Furthermore, the CORs could not clearly explain how they reviewed invoices, and 10 out of 35 invoices reviewed did not show a COR approval stamp. As a result, OIG made several recommendations, including to develop and implement procedures to monitor and verify the completeness, accessibility, retention, and review of COR files.[32]

Other OIG work found that oversight officials at Mission Turkey and Embassy Beirut did not verify that invoices involving fuel included all of the required information to make them proper or certify them for payment and verify that prices complied with contract terms. As a result, OIG identified $3.4 million in questioned costs and concluded that the Department should implement fuel receiving procedures in accordance with the Federal Acquisition Regulation requirements that require Contracting Officers (COs) or CORs to accept fuel on behalf of the Government.[33]

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.[34] In addition to the financial consequences resulting from inadequate management and oversight of these contracts, insufficient oversight of the building process can lead to the construction of substandard facilities, which occasionally has implications for the safety and security of personnel.

An inspection of a new embassy compound (NEC) in Turkmenistan highlighted issues that arise when personnel fail to communicate properly with local government officials and follow internal procedures. In July 2016, the Government of Turkmenistan halted construction on a new building on the embassy compound because it was being constructed in a location that violated one of the city's

[29] ISP-I-20-14, June 2020.

[30] AUD-MERO-20-26, April 2020.

[31] OIG, *Audit of Mission Turkey and Embassy Beirut Fuel Oversight and Payment Process* (AUD-MERO-20-19, January 2020); ISP-I-20-21, May 2020; AUD-CGI-20-21, March 2020; ISP-I-20-09, January 2020.

[32] AUD-CGI-20-21, March 2020.

[33] AUD-MERO-20-19, January 2020.

[34] OIG, *Audit of the Bureau of Overseas Buildings Operations Process To Execute Construction Closeout Procedures for Selected Capital Construction Projects* (AUD-CGI-20-43, September 2020); AUD-MERO-20-39, September 2020; AUD-MERO-20-20, February 2020.

architectural standards. This error occurred, in part, because OBO personnel failed to properly file and share the Legal Assessment prepared in 2011. The Legal Assessment is a document that describes the building permit approval process and local building codes prepared by a local firm contracted by an embassy or post on behalf of OBO. An architecture firm hired by OBO never submitted a final Project Development Survey to OBO, as contractually required, and OIG could find no evidence that the initial OBO project manager or the OBO project manager who replaced him had attempted to enforce this contract requirement. OBO estimates that it will cost the Department between $90 million and $125 million to rebuild the new building in an approved location, which is approximately twice what was originally budgeted to construct the building.[35]

In a recent report, OIG found that, when executing award modifications for a construction contract in Amman, Jordan, the CO did not include the estimated total time necessary to accomplish the required work. This deviation is contrary to guidance and occurred, in part, to expedite the issuance of the contract modifications. However, this practice makes it difficult for OBO to hold the contractor accountable for completing the project on time.[36]

At NECs London and The Hague, OBO personnel did not ensure that major systems were commissioned prior to declaring the projects substantially complete, as required. In addition, when the projects were declared substantially complete, OBO personnel did not provide the construction contractor with a consolidated list of all remaining work to be performed, completed, or corrected before final acceptance. As of April 2020, the contractor had not completed all work required for final acceptance of NEC London, and the Project Director at NEC The Hague had not recommended to the CO final acceptance of this project. For both projects, it has been more than 2 years since substantial completion was declared.[37]

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 Department information at risk.

Strengthening Cybersecurity

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. Specifically, an FY 2020 audit found that the Department lacked a fully implemented organization-wide information security program based on evidence of security weaknesses identified in all eight areas of focus, including risk management, continuous monitoring, and contingency planning.[38]

We first identified pervasive Information Systems Security Officer (ISSO) concerns in 2017, and OIG's FY 2020 work reveals this to be a continuing problem. Specifically, weaknesses in the performance of ISSO duties is a persistent problem, as identified in several reports.[39] For example, in Bangladesh, the ISSO did not record information system audits or complete account reviews included in the Department's ISSO checklist, as required.[40] In Geneva, the mission's unclassified and classified ISSOs did not perform all

[35] AUD-MERO-20-20, February 2020.

[36] AUD-MERO-20-39, September 2020.

[37] AUD-CGI-20-43, September 2020.

[38] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-20-04, October 2019).

[39] OIG, *Inspection of the U.S. Mission to the United Nations and Other International Organizations in Geneva, Switzerland* (ISP-I-20-16, June 2020); OIG, *Inspection of Embassy Vilnius, Lithuania* (ISP-I-20-29, April 2020); ISP-I-20-17, June 2020; ISP-I-20-22, May 2020; ISP-I-20-21, May 2020; ISP-I-20-20, May 2020; ISP-I-20-07, February 2020; ISP-I-20-09, January 2020; ISP-I-20-04, November 2019; ISP-I-20-01, October 2019.

[40] ISP-I-20-17, June 2020.

information systems security duties as required. For example, they did not scan user emails and folders and section folders or monitor the dedicated internet network. OIG determined mission ISSOs audited only 16 of the 265 workstations from August 2018 to July 2019.[41] Failure to perform required ISSO responsibilities leaves Department networks vulnerable to potential unauthorized access and malicious activity. Also, without a systematic approach to monitoring networks and recording findings, Department networks could be breached, and information security compromised.

Deficiencies related to developing, testing, and training on contingency plans were also found to be persistent in several embassies, which failed to complete or annually test unclassified and classified IT contingency plans.[42] Department standards require management to develop and test IT contingency plans annually for effectiveness and to determine the embassy's readiness to execute them during unplanned system outages or disruptions.

Another cybersecurity issue identified in OIG FY 2020 work pertains to user access controls. As part of its open connection approach and contrary to Department guidance, OIG found that the Foreign Service Institute (FSI) grants wireless internet access to any on-campus user who simply accepts the Terms and Use Agreement on its opening login page. Therefore, FSI cannot determine who made any particular connection because its access controls do not require users to take steps to identify themselves prior to the start of a wireless session. The failure to capture such information makes it more difficult to identify individuals who misuse the network, such as a former FSI employee who inappropriately used the FSI guest wireless network and relied upon its open connection to the internet to engage in criminal activity.[43]

Overseeing Records Management in Accordance With Standards

Finally, we found records management deficiencies throughout FY 2020. For example, CT did not establish a records management program to institute controls over records creation, maintenance, and disposition. In addition, OIG found the bureau had never retired official records. Department standards require that all Department employees preserve documentary materials meeting the definition of a record under the Federal Records Act. In another example, Embassy Vilnius, Lithuania, had not retired political, economic, and public diplomacy program files since 2013.[44] The lack of an effective records management program could result in the loss of important data for historical insight into policy analysis, decision-making, and archival research.

4 Financial and Property Management

Management of its financial resources and property remains a challenge for the Department. This is due, in large part, to overall internal control issues—namely, the Department's ability to identify internal control weaknesses and comply with relevant standards. As with oversight of contracts and grants, attention to this challenge is particularly important to ensure that the Department appropriately uses and oversees public resources.

Since an FY 2017 report on the Digital Accountability and Transparency Act of 2014 (DATA Act), the Department has taken steps to improve procedures, quality control, and oversight. However, additional action is needed, according to an external audit firm acting on behalf of OIG. The quality of data must be improved to fulfill the intent of the DATA Act.[45]

Internal Control Deficiencies

An independent audit of the Department's FY 2019 consolidated financial statements identified certain matters that were considered significant. Weaknesses in property and equipment management were initially reported in the audit of the Department's FY 2005 consolidated financial

[41] ISP-I-20-16, June 2020.

[42] ISP-I-20-17, June 2020; ISP-I-20-16, June 2020; ISP-I-20-22, May 2020; ISP-I-20-21, May 2020; ISP-I-20-13, May 2020; ISP-I-20-09, January 2020.

[43] OIG, *Management Assistance Report: Foreign Service Institute Wireless User Access Controls* (ESP-20-03, March 2020).

[44] ISP-I-20-29, April 2020.

[45] OIG, *Audit of the Department of State's FY 2019 Implementation of the Digital Accountability and Transparency Act of 2014* (AUD-FM-20-05, November 2019).

statements and were also reported in 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. Also, 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.[46]

Additionally, an OIG audit found that internal control issues were at the root of the Department's difficulty in reforming its Special Needs Education Allowance (SNEA), an allowance granted to overseas employees with children who would fall under the Individuals with Disabilities Education Improvement Act. Our audit found that although the Department had taken steps to reform SNEA, two internal control components required attention: the Department needed to publish policies and procedures regarding medical clearances and the appeals process and implement a centralized voucher process. Without such controls, deficiencies with the administration of SNEA could go unnoticed and uncorrected.[47]

Inadequate acquisition planning was identified as a deficiency at the Bureau of Western Hemisphere Affairs, which did not have management controls in place for the procurement of IT equipment. This resulted in unnecessary purchases and, in one example, the purchase of 300 computer monitors that were incompatible with existing IT equipment. Only officers overseeing general services and financial management functions could approve procurements in the Department's procurement system, leaving the bureau's Information Management staff with no official role in or oversight of the purchase.[48]

Warehouse, inventory, and property transfer controls were also a challenge for several overseas posts.[49] In Finland, 33 percent of the embassy's property was stored in a warehouse for an average of 2 years and had a value of more than $1.3 million.[50] Domestically, a compliance follow-up review revealed that, although the Bureau of Diplomatic Security had taken steps to develop and implement a process to manage accountable property, the bureau nonetheless did not in many instances properly document the "charge out" of personal protective equipment included in high-threat kits. OIG highlighted that the items provided are sensitive equipment and must be safeguarded.[51]

As in previous years, internal control issues related to the management of bulk fuel and the Department's motor vehicle fleet persists. For example, in Mauritania the receiving clerk was not present for fuel deliveries, as required; fuel pump meters were not calibrated, as required; and embassy staff did not test fuel tanks for water before and after delivery, in accordance with the Department's Motor Pool Procedures Overseas guide.[52] In Chad, OIG found inconsistencies in information about mileage and fuel consumption that was entered into the Fleet Management Information System, which increases the risk of mismanagement of vehicles and fuel.[53]

5 Operating in Contingency and Critical Environments

Programs and posts operating in contingency and critical environments must adapt to constant change, pervasive security concerns, dramatic swings in personnel and funding, and widespread reliance on contractors and grantees. In addition to the overall challenge of protecting its people and facilities, the

[46] OIG, *Independent Auditor's Report on the U.S. Department of State FY 2019 and FY 2018 Consolidated Financial Statements* (AUD-FM-20-18, January 2020).

[47] OIG, *Audit of Selected Internal Controls for the Special Needs Education Allowance* (AUD-FM-20-33, June 2020).

[48] OIG, *Inspection of the Bureau of Western Hemisphere Affairs* (ISP-I-20-05, November 2019); ISP-I-20-04, November 2019.

[49] OIG, *Inspection of Embassy Helsinki, Finland* (ISP-I-20-08, December 2019); ISP-I-20-22, May 2020, ISP-I-20-21, May 2020; ISP-I-20-20, May 2020; ISP-I-20-07, February 2020; ISP-I-20-02, November 2019.

[50] ISP-I-20-08, December 2019.

[51] *OIG, Compliance Follow-Up Audit of Bureau of Diplomatic Security Property Management Procedures for Protective Personnel Equipment* (AUD-SI-20-30, July 2020).

[52] ISP-I-20-04, November 2019.

[53] ISP-I-20-02, November 2019.

Department faces a much more specific challenge in managing contracts and foreign assistance programs in these locations.

A recent study on rightsizing found that staffing reviews in Afghanistan and Iraq were conducted in an expedited manner because the missions were directed to immediately reduce staff. However, the foreign policy priorities and strategic diplomatic objectives for each mission were not changed to reflect staffing adjustments. For example, preventing the recurrence of a terrorist threat emanating from Afghanistan and countering malign influence in Iraq remained stated policy objectives even though personnel who advanced these objectives were significantly reduced. Just as the short time frame and limited resources affected staffing decisions overall, these same factors precluded either mission from fully assessing and adjusting its strategic objectives to align with the staff reductions prescribed.[54]

Contracts and other foreign assistance in contingency environments can also be susceptible to less oversight, as identified in several reports.[55] For example, a recent report noted that AF was not ensuring that the assistance provided to certain host countries was being used to build counterterrorism capacity. AF officials stated that the absence of clear guidance and limited staff to oversee the contracts contributed to these weaknesses. Because of these weaknesses, OIG reported $201.6 million spent on six contracts as potential wasteful spending due to mismanagement and inadequate oversight.[56]

In Somalia, OIG noted that oversight officials did not designate four foreign assistance awards as high risk even though they were implemented in a country where travel is restricted due to political instability and terrorism. When risk assessments are not accurate and kept current, bureaus operating in high-threat environments may not fully develop mitigation plans tailored to address foreseeable risks that may impede program implementation.[57]

Also, a review of the Afghan special immigrant visa (SIV) program revealed that the lack of a centralized database contributed to delays in processing visa applicants, and weaknesses in current practices for verifying Afghan SIV applicants increase the Department's risk for fraud and threats to national security.[58] OIG found that outside the workplace, U.S. Government protection for SIV applicants did not extend beyond the specific terms of their employment. We recommended the Department examine whether and how protection could be provided for those SIV applicants experiencing "imminent danger" as they await processing of their applications for immigration to the United States.

Finally, the Department continues to experience health and welfare concerns for antiterrorism assistance explosive detection canines that were first raised in a September 2019 report.[59] An FY 2020 report confirmed that additional canines beyond those described in the initial evaluation had died from non-natural (that is, preventable) causes in Jordan in 2019 after OIG concluded its fieldwork. The death of two canines from non-natural causes—namely, hyperthermia and poisoning—since June 2019 raises serious questions about the Department's contention that it has taken adequate steps to protect their health and safety. OIG is particularly concerned that the deaths of the two additional Jordanian dogs occurred while four Department-funded personnel were in-country to monitor the care of the dogs.[60]

6 Workforce Management

The Bureau of Global Talent Management identifies people 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,

[54] OIG, *Audit of the Department of State's Approach To Adjust the Size and Composition of U.S. Missions Afghanistan and Iraq* (AUD-MERO-20-38, August 2020).

[55] AUD-MERO-20-45, September 2020; AUD-MERO-20-42, September 2020; AUD-MERO-20-38, August 2020; ISP-I-20-14, June 2020; ISP-C-20-23, May 2020; AUD-MERO-20-29, April 2020.

[56] AUD-MERO-20-42, September 2020.

[57] AUD-MERO-20-45, September 2020.

[58] OIG, *Review of the Afghan Special Immigrant Visa Program* (AUD-MERO-20-35, June 2020).

[59] OIG, *Evaluation of the Antiterrorism Assistance Explosive Detection Canine Program – Health and Welfare* (ESP-19-06, September 2019).

[60] OIG, *Management Assistance Report: Continued Health and Welfare Concerns for Antiterrorism Assistance Explosive Detection Canines* (ESP-20-02, December 2019).

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

OIG continues to encounter domestic offices and overseas posts that experience difficulty maintaining staffing levels.[61] Embassy Dhaka, Bangladesh, was among those posts that faced difficulty in filling mid-level positions. Many managerial positions had long staffing gaps that exacerbated workload pressures on the remaining staff. Meanwhile, Consular Section staff routinely worked long hours in an effort to manage a growing backlog of immigrant visa work.[62]

Shortages of consular workers have also compounded the difficult situation for the Afghan SIV program mentioned above. A review of that program showed that staffing levels across various offices that process SIVs have generally remained constant since 2016 and are insufficient to reduce the SIV applicant backlog. Additionally, staffing levels during the interagency and security check process contributed to delays in processing the SIVs, and the Senior Coordinating Official position, which is intended to oversee and direct the Afghan SIV program, had been vacant since January 2017.[63]

Providing Appropriate Training/Ensuring Staff Are Appropriately Qualified

Underqualified staff is an issue that frequently intersects with the Department's difficulties in managing and overseeing contracts.[64] For example, as outlined earlier, CORs in AF, who lacked the requisite technical knowledge, developed deficient performance work statements that led to multiple poorly designed projects and millions of dollars in wasted funds.[65] Similar deficiencies were found in the CT bureau, where OIG found the bureau had assigned an employee without substantive program knowledge to serve as the COR for the technical support contract to prepare the statistical annex to the Country Reports on Terrorism.[66]

GEC also suffered from a lack of experienced personnel to issue, manage, and monitor its cooperative agreements. During an OIG audit, GEC hired additional staff members and planned to adopt internal policies, processes, and procedures. OIG noted that without adequate contract management staff, GEC will not be in a position to ensure award recipients are using funds as intended or be able to fully demonstrate that the awards being implemented are fulfilling GEC's statutory mandate to coordinate efforts in countering propaganda and disinformation efforts aimed at undermining U.S. national security interests.[67]

A report on remote missions found that, although the Department encourages locally employed (LE) staff to take courses and training to improve their ability to perform official duties, the Department does not offer guidance to supervisors on how to overcome some of the unique challenges LE staff face in accessing training opportunities. For instance, current and former Yemen Affairs Unit staff explained that while there are occasional opportunities for LE staff to attend training and conferences in other countries, it is difficult for them to obtain visas and passports for travel and to safely travel in and out of Sana'a.[68]

Our FY 2020 work also found that First- and Second-Tour (FAST) programs at overseas posts that are meant to provide professional development training and opportunities for FAST officers did not always benefit from a formal, structured program. At Helsinki, Finland, OIG found the officers were

[61] AUD-MERO-20-35, June 2020; ISP-I-20-17, June 2020; AUD-MERO-20-26, April 2020; ISP-I-20-07, February 2020.

[62] ISP-I-20-17, June 2020.

[63] AUD-MERO-20-35, June 2020.

[64] ISP-I-20-13, May 2020; AUD-MERO-20-29, April 2020; ISP-I-20-07, February 2020; ISP-I-20-08, December 2019; ISP-I-20-05, November 2019.

[65] AUD-MERO-20-29, April 2020.

[66] ISP-I-20-13, May 2020.

[67] AUD-MERO-20-26, April 2020.

[68] OIG, *Additional Guidance Needed to Improve the Oversight and Management of Locally Employed Staff Serving at Remote Missions* (AUD-MERO-20-40, September 2020).

not receiving regular, structured professional development, mentoring, training, and opportunities.[69] In Australia, FAST employees at the embassy and Consulate General Sydney told OIG there were few activities or opportunities in which they could gain additional experience.[70]

Holding Leadership Accountable to Department Principles

Effective leadership remains a paradigm of the Department's success, but FY 2020 witnessed some incidents that hindered some employees' trust in that leadership. In one report, OIG found that Department officials ended the detail of a career employee after significant discussion concerning the employee's perceived political views, association with former administrations, and perceived national origin, which are non-merit factors that may not be considered in assigning career personnel under the Department's policies. OIG recommended the Department institute training on the Department's merit-based personnel rules for political appointees.[71]

At Embassy London, OIG learned through employee questionnaires and interviews that the Ambassador sometimes made inappropriate or insensitive comments on topics generally considered sensitive, such as religion, sex, or color. According to Department policy, offensive or derogatory comments based on such categories can create an offensive working environment and could potentially rise to a violation of Equal Employment Opportunity laws.[72]

In Nepal, Consular Section managers' failure to adequately address improper conduct by two officers had a negative effect on locally employed staff morale. Several months before the inspection, staff complained to consular managers about the officers' conduct, which involved the use of abrasive language and tone with visa applicants and frequent pressure on locally employed staff to translate the rude comments. Although consular managers attempted to address the officers' conduct and had kept the Deputy Chief of Mission fully informed, the officers' conduct continued to be a problem even after the inspection. After OIG questioned their handling of the situation, consular managers worked with the Front Office and the Human Resources Officer to take further action.[73]

We note that there are counterexamples within the Department, and our inspection work frequently highlights embassy leadership that strives to set the appropriate tone at the top.[74] Additionally, in a compliance follow-up review to a 2018 report that found long-standing and widespread leadership and management deficiencies at the National Passport Center, OIG found that the Bureau of Consular Affairs had undertaken various initiatives to implement OIG recommendations.[75]

7 Promoting Accountability Through Internal Coordination and Clear Lines of Authority

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

In a recent evaluation concerning the Department's handling of sexual harassment reports, OIG found that the Department lacks coordination and guidance on the investigative and disciplinary processes for these reports. The Department does not have joint guidance that coordinates the Department's

[69] ISP-I-20-08, December 2019.

[70] ISP-I-20-07, February 2020.

[71] OIG, *Review of Allegations of Politicized and Other Improper Personnel Practices Involving the Office of the Secretary* (ESP-20-01, November 2019).

[72] OIG, *Inspection of Embassy London and Constituent Posts, United Kingdom* (ISP-I-20-12, August 2020).

[73] ISP-I-20-22, May 2020.

[74] ISP-I-20-12, August 2020; ISP-I-20-22, May 2020.

[75] OIG, *Compliance Follow-Up Review: Targeted Review of Leadership and Management at the National Passport Center* (ISP-C-20-27, June 2020).

Office of Civil Rights (OCR), the Bureau of Diplomatic Security Office of Special Investigations (OSI), and the Bureau of Global Talent Management Office's Conduct, Suitability, and Discipline (CSD) Division activities throughout the investigation and disciplinary review of sexual harassment cases and has not updated other relevant guidance. OCR, OSI, and CSD have internal policies for their roles in the investigative and disciplinary processes for sexual harassment cases, but the policies do not discuss coordination with all relevant bureaus and offices.[76]

In one audit, OIG reported that participants involved in a Department-wide organizational reform effort described the effort as a "missed opportunity" that floundered as a result of poor coordination and unclear goals. The Department had used a three-phased approach to develop and implement its organizational reform efforts. However, OIG could not establish the extent to which responses from survey participants in Phase I directly influenced recommendations offered in Phase II or the extent to which efforts described in Phase II were carried out in Phase III. Participants in the organizational reform effort told OIG that leadership deficiencies hampered the reform effort. Specifically, leaders changed frequently, and executive-level direction was minimal.[77] OIG emphasized that leadership, communication, and coordination of a coherent mission with integrated strategic goals are paramount to achieving agency efficiencies, effectiveness, and accountability.

One follow-up audit illustrated how this challenge contributes to the Department's existing difficulties managing its foreign assistance programs. OIG found that two bureaus—the Bureau of Diplomatic Security and CT—with responsibilities related to the Department's Antiterrorism Assistance (ATA) program consistently failed to coordinate in ways that hampered monitoring and evaluation and the sustainability of the program. OIG noted that the Bureau of Diplomatic Security and CT have not clearly delegated oversight duties related to ATA projects, which makes it difficult for the bureaus to fully measure ATA program performance or demonstrate that intended ATA country program goals and objectives are being achieved.[78]

Finally, accountability is sometimes blurred within the Department due to conflicting lines of authority. For example, multiple unclear and conflicting lines of authority within the Bureau of Western Hemisphere Affairs (WHA) complicated the execution of Venezuela policy. For example, Department officials told OIG the division of labor between the Special Representative for Venezuela and WHA was not well delineated, and they stated that, at times, the leaders of these offices issued conflicting policy guidance.[79]

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[76] OIG, *Evaluation of the Department's Handling of Sexual Harassment Reports* (ESP-20-06, July 2020).

[77] OIG, *Review of the Department of State's Organizational Reform Effort* (AUD-MERO-20-09, November 2019).

[78] AUD-MERO-20-32, May 2020.

[79] ISP-I-20-05, November 2019.

Management's Response to Inspector General

Fiscal Year 2020 was a unique year for the Department of State – one that showed our employees' resilience, fortitude, and exceptional teamwork as we supported our worldwide platform and American citizens abroad. The Department responded early to COVID-19, preparing for dispersed operations and maximizing telework through an effort called "Diplomacy Strong." Diplomacy Strong is the Department's framework for a phased approach to adjusting to COVID-19 operations. Information Technology (IT) and communication infrastructure improvements were implemented swiftly. For social distancing purposes and maintaining continuity of operations, the Department dispersed operations for many critical elements providing intelligence, communications, and situational awareness. The Department also formed a Coronavirus Global Response Coordination Unit. This unit facilitated the Department's response to COVID-19, as well as assisted in tracking Diplomacy Strong efforts.

The Bureau of Medical Services (MED) through its over 250 deployed medical specialists provided the expert guidance needed to keep Department personnel safe and informed. MED deployed advanced COVID-19 testing worldwide and in Washington, D.C. where it otherwise would not have been available. MED's existing Health Alert and Response Team quickly established a call-in center and set up pre-departure COVID-19 testing for employees deploying to new assignments abroad and for critical travelers. MED has fielded over 60,000 emails and 8,000 phone calls, and performed over 8,000 COVID-19 tests.

The Department established three task forces dedicated to supporting Americans caught overseas due to COVID-19, the largest one being the Repatriation Task Force. These task forces helped the Department provide a consistent level of service and support to our overseas missions and private American citizens. In total, the Department coordinated the repatriation of more than 102,000 Americans on 1,163 flights from 139 countries from January 27 - June 10, 2020. Due to social distancing and other medical guidelines, the Repatriation Task Force largely operated virtually except for a small number of staff who provided in-person support while following social distancing and other guidelines from MED. Our enhanced IT infrastructure and collaborative tools allowed the Repatriation Task Force to smoothly operate and provide uninterrupted support to the Secretary, other senior principals, and posts around the world.

Still, even in this new operating environment, the Department's usual work continued. In 2020, the Department of State's Office of Inspector General (OIG) identified management and performance challenges in the areas of: protection of people and facilities; management and oversight of contracts, grants, and foreign assistance; information security and management; financial and property management; operating in contingency and critical environments; workforce management; and promoting accountability through internal coordination and clear lines of authority.

The Department acknowledges the deficiencies identified by the OIG, and will continue to enhance and advance operations to provide an efficient, strong worldwide management platform. Throughout COVID-19, the principles that drive our work remain familiar: prioritizing the safety and health of our colleagues and mitigating risk, while balancing our operations to achieve our strategic mission.

The Department employs several collaborative groups to address systemic challenges identified by the OIG.

Throughout 2020, the Department continued establishing the Enterprise Governance Board (EGB), a senior group that meets monthly to discuss strategic issues and provide input into enterprise-level decisions. This enhances transparency, agility, and efficient alignment of resources for priorities. The EGB reviews enterprise-level matters, such as recommendations to the Secretary for the Department's annual budget request; Department legislative priorities; Enterprise Risk Management issues; policies with enterprise-wide implications (such as major multi-region U.S. policy initiatives, cybersecurity, and realignment of the Department's global staffing presence); and other topics as determined by the Board.

The Under Secretary for Management (M) also continued working across M family bureaus to advance his "High Five" priorities: Talent; Security & Infrastructure; Excellence & Innovation; Data & Analytics; and Technology. He continued to work through action plans and key tasks of the "High Five," and monitored associated metrics.

COVID-19 has changed the way the Department operates. Working through this challenging time has shown that the Department is capable of operating in new, exciting ways to advance Foreign Policy. To capitalize on the lessons learned from COVID-19, the Department created the Reimagine Task Force, a group charged with developing ways to provide our workforce with the tools and flexibility to engage in activities that move our missions forward most effectively – no matter where we are.

The Enterprise Governance Board and the M High Five together with the M "Field First" focus that centers on responsiveness to post needs, provides a framework to plan strategically and 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. The Bureau of Overseas Buildings Operations (OBO), for example, remains committed to enhancing the security, safety, functionality, and resiliency of facilities and residences for overseas personnel through the Embassy After Next, the Diplomatic Residential Initiative, and the Facilities Maintenance and Upkeep strategic priorities.

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.

Constructing and Maintaining Safe and Secure Diplomatic Facilities

The OIG highlighted problems related to constructing and maintaining safe and secure diplomatic facilities during their routine inspections of overseas posts. The Department is continuing to build more secure facilities completing three projects and moving nearly 800 people to safer facilities in 2020.

OBO's Embassy After Next strategic priority is focused on:

- Improving project management and oversight during design and construction;
- Increasing innovation and leveraging OBO (and industry) standards to reduce costs, shorten schedules, and increase quality; and
- Leveraging technology to increase efficiency and effectiveness throughout the planning, design, and construction processes.

Through the Diplomatic Residential Initiative strategic priority, OBO is focused on improving the quality of life for American diplomats and their families and evaluating the housing portfolio's compliance with life-safety and security codes and standards.

The Facility Maintenance & Upkeep strategic priority promotes a full life-cycle approach to managing the Department's global facility portfolio through a holistic and regionalized approach to maintenance and repair strategies that protect and preserve our world-wide assets.

OBO made significant progress all three strategic priorities in 2020, despite challenges related to COVID-19.

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 M's High Five action plan. The Department is expanding resilience support and training activities through ongoing outreach and other efforts, and is now establishing these activities virtually. For example, M spearheaded the TalentCare initiative, a collaborative effort that brings together access to information and programs for employees that focus on processes and policies that promote well-being, family, safety, and flexibility.

Residential Safety

The Department recognizes the need to increase the safety, security, functionality and resiliency of the Department's overseas housing pool. As part of the Diplomatic Residential Initiative, a key task within the M High Five's Security & Infrastructure priority, OBO developed and released the Quality of Life Survey to assess posts' satisfaction with the quality of housing and evaluate compliance with life-safety and security codes and standards. The results lay the groundwork for post-level analytics reports, and allow OBO to identify non-compliant housing and prioritize the Department's housing needs, either through acquisition of new or modernizing existing diplomatic housing.

2 Management and 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.

Monitoring and Documenting Contractor and Grantee Performance

As a result of the recent OIG audit, the Global Engagement Center (GEC) took significant steps to enhance management and oversight of its grants. To begin, the GEC onboarded its required complement of Grants Officers and is in the continuing process of hiring additional Grants Officer Representatives as funding becomes available. GEC reviewed and updated its Grants Policy and Procedure Manual, conducted focused staff training sessions, and updated work templates and job aids to ensure that grants staff properly apply the relevant policies. GEC reviewed and revised performance standards and commitments for multiple employees and developed new policies, processes, and procedures recommended by the OIG to maximize the effectiveness of the awards and grants. Finally, the GEC completed a staffing needs assessment, as well as a strategic personnel review that strategically prioritizes the hiring of additional Government managers and monitoring and evaluation specialists, prior to expanding its programming efforts. This comprehensive approach ensures the GEC can proficiently execute its statutory mandate to lead and coordinate Federal Government efforts to recognize, understand, expose, and counter foreign

state and non-state propaganda and disinformation aimed at undermining or influencing the policies, security, or stability of the United States and our allies and partner nations.

Overseeing Construction Contracts

OBO values the careful review and constructive feedback the OIG provides related to the oversight of construction contracts. As part of the Under Secretary's High Five priorities of Excellence & Innovation and Security & Infrastructure, OBO's Embassy After Next strategic priority created standardized building typologies and prototypes, developed an Integrated Master Schedule for all Capital Projects, and established metrics to focus on cost and schedule performance. In addition, OBO is taking steps to harness information through data standardization and centralization to make informed, data-driven decisions.

As part of M 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. Furthermore, OBO's new Data Requirements and Standards, developed under the Embassy After Next initiative, and training have improved the quality of data, with which OBO makes project-related decisions.

Monitoring Contractor Performance

The OIG also identified oversight of non-OBO contracts as a persistent management challenge. The Bureau of Administration's Office of the Procurement Executive (A/OPE) and, with respect to Facilities Management Services, the Office of Operations (A/OPR) are working closely with the OIG, Contracting Officers Representatives (COR), and the regional and functional bureaus to address this matter.

A/OPE engaged the Foreign Service Institute to recalibrate training for Contracting Officers, COR, Grants Officers, and Grants Officer Representatives (GOR) to emphasize the need for carrying out fiduciary and oversight responsibilities. A/OPE is also working to modernize its IT systems to provide the Department acquisition and Federal assistance community with improved capability to collaborate, educate, and react to dynamic events in a manner consistent with both expectations and obligations. Nearly 400 CORs have registered for a November 2020 COR workshop, with another session planned for Spring 2021 to accommodate the immense interest among CORs in enhancing their ability to provide contract oversight.

A/OPR has developed a standard operation procedure for COR electronic filing required for new contracts. A/OPR established a Quality Assurance Surveillance Plan and oversight-related mandated training, created a Financial Management position in its front office, hired a Contracts Management Specialist, and named the A/OPR Managing Director as supervisor for the Facilities Management Services' budget division.

3 Information Security and Management

When the Bureau of Information Resource Management (IRM) set its goal to establish a plan to continuously define and maintain a baseline of enabling technologies at overseas posts, it had no idea that the COVID-19 pandemic would accelerate the need to work remotely. IRM has been analyzing results from its recent telework survey to highlight any capability gaps.

Enabling mission success for the end user continues to be the dominant influence in our technology decision making activities, and these efforts have come into even sharper focus with the shift to remote work. The Department's Field First initiative to align technology to conduct diplomacy on the foreign affairs frontlines continues, with a new Chief Architect now in place. Under the Field First initiative, the Department is identifying existing IT gaps, costs to close them, and establishing post-specific roadmaps for implementation. Preliminary analysis shows that our greatest needs overseas are bandwidth, collaboration tools, and new equipment. IRM has been working with the Bureau of Administration to deploy an IT Service Management portal in myServices that will manage employee requests for IT solutions.

The OIG found that numerous control weaknesses affected program effectiveness and increased the chance of cyberattacks and threats to the Department. In 2020, the Department has expanded upon its cyber risk framework. For example, the Foreign Service Institute (FSI) is working with IRM to implement additional Wi-Fi security access protocols in order to mitigate potential misuse of the FSI network. The EGB has also met to discuss cybersecurity at the enterprise level, to ensure the Department is doing everything it can to counter adversaries in the cyber realm.

The Department continues to deliver analytics products for assessing Department challenges and are enhancing data and analytics capacity, fostering a culture of data governance, and modernizing our technical infrastructure to support data and analytics. The Department's need for an agile Center for Analytics was demonstrated in second quarter with the creation of the COVID-19 Data Analytics Team (CDAT). The CDAT is working to develop a framework for constructing a data inventory, and coordinated and prepared data to enable successful tracking, analysis, and reporting on a variety of critical issues, including repatriations, Authorized and Ordered Departures, and other global and regional data on a near real-time basis.

4 Financial and Property Management

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 (CGFS) is updating the Department's resource management processes and systems, including a new version of the Global Financial Management System. This will streamline and expedite processing financial transactions. CGFS is also working to automate and streamline financial operations through process enhancements and technology innovations, including the increased use of Robotic Process Automation, or "bots." For 2020, CGFS implemented 12 new bot processes for a total of 20 bots in financial services operations. Bots to create vendor records and receivables have supported the timely billing of more than 22,000 U.S. citizens repatriated on Department-funded COVID-19 evacuation flights.

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.

Internal Control Deficiencies

In December 2019, MED and CGFS announced plans to implement a new process that will provide for consistent processing of Special Needs Education Allowance (SNEA) reimbursements for employees at post. Furthermore, under the guidance and

direction of the Under Secretary for Management, MED is working with other bureaus to make the necessary updates to the Foreign Affairs Manual. MED is also implementing new internal controls, including a reimbursement system using a local E-2 component to route requests directly back to the child and family program where the people who write the cables detailing the allowable expenses are the first examiners of the reimbursement requests. Expenses are then authorized for payment, denied, or questioned for further detail. Like all of the other internal controls associated with SNEA (and all of MED's financial and risk management), these processes will be integrated into the annual Statement of Assurance produced under the internal control program administered under the authority of the Federal Managers' Financial Integrity Act.

5 Operating in Contingency and Critical Environments

In some cases, the Department must operate in "critical" environments, or areas that experience various challenges in the form of conflict, instability, disease, or natural disasters. These pose their own set of problems and contribute to existing challenges.

The OIG wrote that "staff reductions in Afghanistan and Iraq have contributed to expedited staffing reviews, while OIG also identified the lack of a centralized database for the special immigrant visa program in Afghanistan. This contributed to delays and increases the Department's risk for fraud and threats to national security." The Department notes the Secretary had determined that the security situations in Iraq and Afghanistan necessitated we reduce the size of these posts as expeditiously as possible. Missions and involved bureaus worked expeditiously to determine how best to implement the Secretary's directives to reduce staff, while still maintaining enough personnel to meet the highest strategic priorities in both Afghanistan and Iraq.

6 Workforce Management

The Secretary's Professional Ethos provides 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 (FS), Civil Service (CS), locally employed staff, contractors, 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 Bureau of Global Talent Management (GTM) quickly adapted to new needs in light of COVID-19 and took significant strides to improve customer service. GTM made additional human resources applications available remotely and released other innovations such as Virtual Performance Boards, virtual oaths/onboarding for Foreign Service and Civil Service, and ongoing virtual Foreign Service Oral Assessments.

The Department also continued to prioritize and advance its Diversity and Inclusion (D&I) efforts in 2020, with the goal of catalyzing a cultural shift toward shared responsibility for practicing inclusion and mitigating bias. GTM further matured its D&I architecture by supporting the establishment of additional D&I Bureau Councils and Mission Councils, providing resources and guidance to bureaus establishing new diversity and inclusion advisor positions, and finalizing the 2020-2022 D&I Strategic Plan for release before the end of calendar year 2020.

The Department successfully converted Foreign Service orientation classes to the virtual environment. Leadership Training and Professional Development also progressed. Despite new challenges in conducting in-person training, the Department quickly adapted to virtually offer mandatory leadership training, so our workforce can develop the skills and knowledge necessary to lead with integrity, promote inclusion, and protect America's interests at home and abroad.

Maintaining Adequate Staffing Levels to Meet Operational Needs

The OIG notes that domestic offices and overseas posts experience difficulty maintaining staffing levels. The Department agrees that it is critically important to reach and maintain adequate staffing levels and has continued to make progress in 2020, though efforts have been hampered by COVID-19. Among FS Specialists, GTM continued its recruitment for critical specialties, and developed and implemented a pilot virtual assessment to mitigate intake and process disruptions caused by COVID-19. Despite this challenging environment, FS Specialist hiring exceeded 2020 targets and reached the highest level since 2014. Although, unlike the FS, CS hiring occurs on a case-by-case basis, the Department has made considerable strides to increase CS staffing. During 2020, GTM cleared the CS hiring backlog and brought on approximately 470 CS hires, representing 12 consecutive months of growth.

The Department is also taking steps to improve efficiency in processing security clearances. Expediting security clearances will allow us to speed up overall hiring timelines. The Bureau of Diplomatic Security is developing a new security clearance case management system that will combine and modernize three antiquated legacy systems. In addition to improved functionality, the new system will provide greater transparency to employees and GTM colleagues. This improvement will enhance security-related customer service and allow for the tracking of a security clearance status in real-time.

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.

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 combatting 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 GTM offices, and the Drug Free Workplace administrator, in the management of the discipline program. The Manager Support Unit of the Office of Employee Relations 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.

7 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. Through the Enterprise Governance Board process, the Department is breaking down siloes and raising cross-cutting issues to the Department's highest levels.

Secretary Pompeo participates in the launch of the U.S.-Austria Friendship Tram with Vienna Mayor Michael Ludwig and United States Ambassador to the Republic of Austria Trevor D. Traina, Vienna, Austria, August 14, 2020. *Department of State*

FOCUS

Religious Freedom Ministerials Bring Spotlight to Safeguarding Unalienable Rights

In November, the government of Poland will host the third Ministerial to Advance Religious Freedom virtually. In 2018 and 2019, Secretary Pompeo hosted the landmark Ministerial to Advance Religious Freedom events in Washington, D.C. – the largest human rights events ever hosted at the U.S. Department of State. These events convened government leaders and civil society from all over the world to discuss ways to increase the promotion and protection of religious freedom globally.

The 2018 ministerial took place from July 24-26 in Washington, D.C. and was the first ever gathering of its scale focused exclusively on international religious freedom. Outcomes of the meeting included establishment of the International Religious Freedom Fund, funded by the United States and several other nations, to provide emergency assistance to victims of religious discrimination; follow-on regional conferences; and the creation by Germany, Mongolia, the United Kingdom, and Taiwan of ambassadorships focused on religious freedom.

The second Ministerial to Advance Religious Freedom, from July 16 to 18, 2019, was the largest-ever religious freedom event as well as the largest human rights-focused conference ever hosted by the State Department. With more than 1,000 civil society and religious leaders and 105 foreign delegations in attendance, this gathering marked the first time a Secretary of State convened back-to-back ministerials on the same human rights issue. Secretary Pompeo used the occasion to the launch of the International Religious Freedom Alliance, a group of like-minded nations dedicated to working to confront religious persecution around the world. He echoed the call for participation in remarks at the Vatican in October 2019.

Building on the second ministerial, President Trump hosted the "Global Call to Protect Religious Freedom" at the U.N. General Assembly on September 23, 2019. The event convened foreign heads of state, prominent religious leaders, and key civil society activists. The President called on all nations to act to end religious persecution and stop crimes against persons of faith. Survivors of religious persecution from China, Iran, and Yemen shared testimonials of how they endured persecution on account of their faith.

Participants gather at the Ministerial to Advance Religious Freedom in Washington, D.C., July 24, 2018. ***Department of State***

Summary of Financial Statement Audit and Management Assurances

As described in this report's section called Departmental Governance, the Department tracks audit material weaknesses as well as other requirements of the Federal Manager's Financial Integrity Act of 1982 (FMFIA). Below is management's summary of these matters as required by OMB Circular A-136, *Financial Reporting Requirements*, revised.

Summary of Financial Statement Audit

Audit Opinion: **Unmodified**

Restatement: **No**

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

Summary of Management Assurances

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance:	**Unmodified**					
Total Material Weaknesses	0	0	0	0	0	0
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	**Unmodified**					
Total Material Weaknesses	0	0	0	0	0	0
CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	**Federal systems conform to financial management system requirements**					
Total Non-conformances	0	0	0	0	0	0

	AGENCY	AUDITOR
COMPLIANCE WITH SECTION 803(a) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
1. Federal Financial Management System Requirements	Compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Compliance noted	Compliance noted
3. USSGL at Transaction Level	Compliance noted	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

Payment Integrity Information Act

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 required 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. The IPIA regulations also required extensive reporting requirements. In recent years, OMB transformed the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements. IPIA was repealed and replaced by the Payment Integrity Information Act of 2019 (PIIA), which was passed on March 2, 2020. The PIIA modified and restructured existing improper payments laws to help agencies better identify and reduce any money wasted as a result of improper government payments. Not all improper payments are fraud, and not all improper payments represent a loss to the government. 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.

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 2019. During 2020, the Department conducted risk assessments of the following programs: Voluntary Contributions; Assessed Contributions; Diplomatic and Support Programs; Security in Afghanistan and Pakistan; International Security; Embassy Operations; and Construction. After performing risk assessments for these programs, the Department determined that none of its programs in 2020 were risk-susceptible for making significant improper payments at or above the threshold levels set by OMB.

Annually, the Department submits data to OMB that is collected and presented on *https://paymentaccuracy.gov/* by individual agency or on a Government-wide consolidated basis. This website contains current and historical information about improper payments made under Federal programs, as well as extensive information about how improper payments are defined and tracked. Please refer to the *https://paymentaccuracy.gov/* website for detailed results from the Department's efforts in 2020 to comply with PIIA.

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.

PIIA incorporated section 3(a) of the Fraud Reduction and Data Analytics Act (FRDAA) of 2015 and officially repealed FRDAA. Therefore, under PIIA agencies are

required to report on their progress to implement financial and administrative controls in compliance with the OMB guidelines, GAO's *Standards for Internal Control in the Federal Government* (Green Book), and the OMB Circular A-123.

To help managers combat fraud and preserve integrity in government agencies and programs, GAO identified leading practices for managing fraud risks and organized them into the *Framework for Managing Fraud Risk in Federal Programs*. This framework, and other leading practice materials, provided a foundation for the Department's fraud risk program.

Progress in Implementing Financial and Administrative Controls

The Department has a strong management controls program in place, and performs extensive work to provide value beyond complying with the myriad of laws and regulations applicable to the Department. Below are examples and highlights from a few of our accomplishments in 2020.

Consular: 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 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 adjudicative training and in advanced fraud prevention training throughout their careers. CA adjudicators have access to online 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.

Property: Embassy Vienna implemented new internal controls for all personnel using vehicle fuel cards that increased its capacity to prevent the unauthorized use of vehicles and fuel theft.

Beneficiary Payments: The Department identified an individual who committed bank fraud to steal annuity payments from 20 retired annuitants. The individual exploited the Annuity Express (companion to OPM's Employee Express) system and changed email addresses and bank account information to redirect beneficiary payments. The Department remedied this vulnerability by requiring new procedures involving two-factor identification to change banking information. OPM and Treasury were fully briefed and improved controls at their agencies to help deter elder 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 Implementing Best Practices for Managing Fraud Risk

In 2020, CGFS invested significant resources to develop Department-wide fraud risk identification programs, as well as various data analytic techniques to identify and prevent fraud. 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, CGFS engaged with management from all Bureaus in the Department and documented fraud risks, controls in place to mitigate the fraud risk, and a residual risk analysis. This effort was coordinated with the Department's Enterprise Risk Management program in compliance with OMB Circular A-123.

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 recently developed fraud prevention activities. Below are examples and highlights from a few of our accomplishments in 2020.

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 a broad range of avenues, including formal fraud prevention training, 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, alien smuggling, and identity theft linked to consular products. In addition, CA supported 51 investigations involving allegations of internal malfeasance, resulting in the termination or resignation of 13 consular staff. CA provided assistance to DS in visa and passport fraud investigations, with special focus on those that involve employee malfeasance.

Procurement: An 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 2020, 201,195 annuitant payments totaling $999 million were reviewed against the Death Master File and 65 payments totaling $284,208 were stopped due to this initiative.

Did You Know?

Elihu B. Washburne, the 25th Secretary of State, served only 11 days in 1869. His term remains the shortest of any Secretary of State.

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

Travel Card Program: In 2019, 110,226 transactions totaling more than $18 million were inspected by the Department's automated Misuse tool, 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. 646 transactions were confirmed as misuse totaling $89,741. Annual 2020 results are not yet compiled.

Payroll: The COVID-19 pandemic resulted in a dramatic volume of authorized departures from Posts all over the world for personnel and their families to return to domestic safe havens. A component of how payroll is calculated includes location allowances earned while living abroad. Because personnel who relocated to the United States were no longer eligible for location allowances, this created a vulnerability to expend improper payments. The Department developed analytic reconciliation techniques to identify personnel who were granted safe passage payments and those who were still receiving location allowances, and as a result identified approximately 300 individuals who were required to return the overpaid allowances.

Progress on Establishing Strategies, Procedures, and Other Steps to Curb Fraud

Instances of potential and actual fraud are investigated by the Office of Inspector General. Some fraud investigations are also coordinated with the Criminal Fraud Investigations office in DS. In addition, posts routinely report the occurrences of fraud on an annual basis in the Statement of Assurance. Department-wide, all personnel are encouraged

to anonymously report suspicious activity through the OIG hotline, which is prominently displayed on the Department's intranet website in an easy to use reporting tool.

Fraud risk management is an important aspect of the Department's strategy to achieve its mission and goals. During 2020, 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 2021.

Debt Management

Outstanding debt from non-Federal sources (net of allowance) increased from $59.7 million at September 30, 2019 to $79.3 million at September 30, 2020. Direct Loans, IBWC, and Administrative Loans increased by $22.4 million while Civil Monetary Penalties and Passport non-sufficient funds decreased by $2.8 million at September 30, 2020, 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 $3.8 million to Treasury for cross-servicing in 2020. Of the current and past debts referred to Treasury, $1.9 million was collected in 2020.

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

	2020	2019	2018
Number of Accounts	2,512	2,823	1,377
Amounts Referred *(dollars in millions)*	$3.8	$2.7	$4.3
Amounts Collected *(dollars in millions)*	$1.9	$1.6	$1.6

Electronic Payments

For 2020, the Department disbursed over 4 million payments and 99.3 percent of them were processed through Electronic Funds Transfer (EFT). For overseas operations, the EFT percentage increased from a 2019 percentage of 99.01 percent to a 2020 percentage of 99.36 which is a major accomplishment given the complexities of banking operations in some foreign countries. Domestic operations EFT percentage remained constant at 99.3 percent from 2019 to 2020.

Secretary Pompeo meets with the Taliban Delegation in Doha, Qatar, September 12, 2020. *Department of State*

Grants Programs

The Department understands the importance of timely closeout of grants and cooperative agreements to promote the financial accountability of grants programs. The Department continues to strengthen enforcement of the closeout requirements across domestic bureaus and overseas posts. Use of a standardized Federal assistance management system (State Assistance Management System (SAMS)), coupled with updates to Department Federal assistance policies, has enabled the Department to better monitor, analyze, and report on the closeout of awards.

However, the Department still faces challenges in efficiently closing awards in a timely manner. While data passes electronically between SAMS, the Department's financial systems, and the Health and Human Services Payment Management System (PMS), some critical closeout tasks remain a manual process in the payment system. The manual steps required to reconcile differences between systems can be labor-intensive, especially in PMS, and the Department has taken numerous steps to mitigate and resolve these issues. SAMS requires the use of a standardized closeout checklist and offers reporting capabilities to help identify awards awaiting closeout. Additionally, the Department utilizes the Department of the Interior to negotiate indirect cost rates, which facilitates timelier award closeout. The Department's publication of a Federal assistance Human Capital Plan has resulted in increased training and guidance on Federal assistance management, including closeout requirements and procedures.

In March 2020, the Office of Inspector General (OIG) conducted the risk assessment of the agency's grant closeout process and concluded the risk associated with the Department's grant closeout process is "low" in the OIG's Information Report: Risk Assessment of the Department of State Grant and Cooperative Agreement Closeout Process (AUD-CGI-20-25).

The "Expired Federal Grants and Cooperative Agreements Summary" table shows the 878 awards totaling $45,073,045 for which closeout has not yet occurred, but for which the period of performance has elapsed by two years or more prior to September 30, 2020.

EXPIRED FEDERAL GRANTS AND COOPERATIVE AGREEMENTS SUMMARY			
Category	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	154	209	22
Number of Grants/Cooperative Agreements with Undisbursed Balances	264	200	29
Total Amount of Undisbursed Balances	$19,937,926	$22,641,474	$2,493,645

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 2020, the Department assessed $11 million in penalties against two companies, and collected $7.8 million of outstanding penalties from five companies. The balance outstanding as of September 30, 2020 was $12.3 million. The "Federal Civil Penalties Inflation Adjustments" table lists the current penalty level for infractions governed by the Department.

FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENTS

Statutory Authority	Penalty	Year Enacted	Latest Year of Adjustment	Current Penalty Level ($ Amount or Range)	Location for Penalty Update Details
Arms Export Control Act of 1976, 22 U.S.C. 2778(e)	International Traffic in Arms Regulations Violations – Export of Defense Articles and Defense Service	1985	2020	$1,183,736	85 FR 2020-2022 (January 14, 2020)
Arms Export Control Act of 1976, 22 U.S.C. 2779a	International Traffic in Arms Regulations Violations – Prohibition on Incentive Payments	1994	2020	$860,683	85 FR 2020-2022 (January 14, 2020)
Arms Export Control Act of 1976, 22 U.S.C. 2780	International Traffic in Arms Regulations Violations – Transactions with Countries Supporting Acts of International Terrorism	1989	2020	$1,024,457	85 FR 2020-2022 (January 14, 2020)
False Claims Act of 1986, 31 U.S.C. 3729-3733	Penalty imposed on persons and companies who defraud governmental programs	1986	2020	$11,665 – $349,969	85 FR 2020-2022 (January 14, 2020)
Chemical Weapons Convention Act of 1998, 22 U.S.C. 6761(a)(1)(A)	Prohibited acts relating to inspections	1998	2020	$39,229	85 FR 2020-2022 (January 14, 2020)
Chemical Weapons Convention Act of 1998, 22 U.S.C. 6761(a)(1)(B)	Recordkeeping violations	1998	2020	$7,846	85 FR 2020-2022 (January 14, 2020)
31 U.S.C. 1352 – Limitation on use of appropriated funds	Penalties for both improper expenditures and failure to disclose. First time offenders	1989	2020	$20,158	85 FR 2020-2022 (January 14, 2020)
31 U.S.C. 1352 – Limitation on use of appropriated funds	Penalties for both improper expenditures and failure to disclose. Other offenders	1989	2020	$20,489 – $204,892	85 FR 2020-2022 (January 14, 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 financial 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 interagency 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 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, several 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), RFMS Overseas Acquisition Integration, 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. GFMS supports the Department's domestic offices and serves as the agency's repository of corporate data. GFMS was upgraded from Momentum 7.0.1 to 7.6.0.1 this year.

During 2020, 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 2020, implementation was completed in 24 Department bureaus and implementation activities were underway in all remaining bureaus. Over 13,000 orders have been converted to the IPP and nearly 20,000 vendor payments have been processed in IPP to date. Full deployment will be completed in 2021.

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 2020, 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 in 2019. Subsequently in 2020, all bureaus were required to use the new process, and bureaus processed over 2,100 transactions. The Department completed the development and system configuration of a new accounting model for the buyer-side IAA Advance Pay process. In 2020, the Department implemented the Advance Pay process across all bureaus. This IAA implementation in GFMS introduces critical business process changes that will facilitate adoption of the Government-wide G-Invoicing platform by 2023.

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. There are 103 posts that are currently live on PrOPP. An analysis on integrating the Real Property Application and RFMS was conducted as stated in 2019, and this analysis continues as the Department is exploring options.

RFMS Overseas Acquisition Integration. During 2020, in an effort to improve government efficiency, the Department selected Momentum to be the Department-wide solution for contract writing purposes. Momentum is already in use domestically and the overseas user community will adopt the same model for its usage. The current method of procuring goods and services overseas is unable to meet legislative reporting requirements for procurement data whereas domestic procurement meets its necessary mandates. DOS was unable to certify their overseas procurement data as specified by the Digital Accountability and Transparency (DATA) Act, a major deficiency in their quarterly submissions to Treasury. OMB memorandum M-19-16 requires agencies to centralize mission support functions. Aligning domestic and overseas procurement models allows DOS to comply with this directive and meet its necessary DATA Act reporting requirements for overseas procurement data. The Department is required to certify its overseas procurement data and failing to meet this requirement represents an audit finding. Inability to resolve this major deficiency could result in lower funding and/or full-time equivalent levels for the agency. At the end of this project, a single, unified procurement approach eliminates the need to support two different applications for domestic and overseas use. It places DOS on a defined path to standardize procurement procedures and overall policy globally while increasing data accuracy, auditability and transparency for data reporting compliance (DATA Act, Federal Procurement Data System-Next Generation, OIG). Simultaneously, it prepares the Department to implement future Foreign Assistance Data Review (FADR) and Technology Business Management reporting requirements. A cohesive procurement model also streamlines the DOS training footprint for procurement staff and the overall user support network while also consolidating procurement data within a single data warehousing solution over the long term.

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 2020, the Department deployed COAST release 3.5.0.1 to update reports to comply with the Transport Layer Security 1.2 configuration. The implementation of COAST 3.5.0.1 started in April and is expected to be completed in November 2020. In 2020, 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. With RFMS/C, transactions will be able to integrate with RFMS/M in real time. This will replace the existing COAST Cashiering process of sending transactions to RFMS/M through a batch file. RFMS/C was successfully implemented for Thailand in February 2020 as the initial pilot. Belgium has been identified as the second pilot location for December 2020, with additional pilots being planned for rollout in 2021. In addition to pilot implementations, RFMS/C version 1.0.1.0 was implemented in September 2020 and added functional enhancements to the software. The RFMS/C 1.0.2.0 release to support FADR was successfully implemented in October 2020. Version 1.0.2.1T is scheduled for December 2020 to support the upgrade of the RFMS/C database to Oracle 19. COAST Reporting and COAST Payroll Reporting capabilities will be discussed in more detail under the Business Intelligence Program.

Planning and Budget Systems Program

In 2020, the Budget System Modernization (BSM) project completed the fourth significant milestone to standardize, consolidate, and simplify the budgeting systems within the Department with completion of the new releases of the Integrated Budget Intelligence System (IBIS) and Global Business Intelligence (BI) features to provide foreign currency projections and proposed adjustments to manage overseas budget impacts for the current year. This completes the transition of all functions of the legacy Central Resource Management System (CRMS) to IBIS. In addition, IBIS

budgetary data has been made available within the Global BI reporting platform to support an expanded planned versus actual and other budgetary reporting previously unavailable to the agency in a central location.

In 2020, the BSM project also completed three of the six major milestones of the IBIS overseas initiative, which when completed, will produce a unified budgeting system, encompassing domestic and overseas budgeting processes. The first milestone introduced regional bureau capabilities to communicate and report budget targets with posts as well as standardize the post target reports. The second IBIS overseas milestone introduced a layered global security platform to allow for all posts, overseas organization support divisions, and domestic users to utilize one centralized system. The third milestone completed in 2020 allows for submission and approval of unfunded priority requests, and other data calls by posts to regional bureaus. The latter functionality was introduced into the platform late in the fiscal year and will be rolled out to the user community in 2021.

In 2021, the BSM project will work towards completing the final three milestones of the IBIS overseas rollout as well as incorporating other budgetary functionality from existing legacy systems such as Web Resource Allocation and Budget Integration Tool (WebRABIT). WebRABIT is an application used by regional and some functional bureaus for tracking modifications of execution year budgets to their posts. WebRABIT is currently in an operations and maintenance mode, with resources being aligned at a lower level of activity. The BSM project is part of the long-term strategy to provide a unified budgetary Department-wide solution for the Department.

Web International Cooperative Administrative Support Services (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

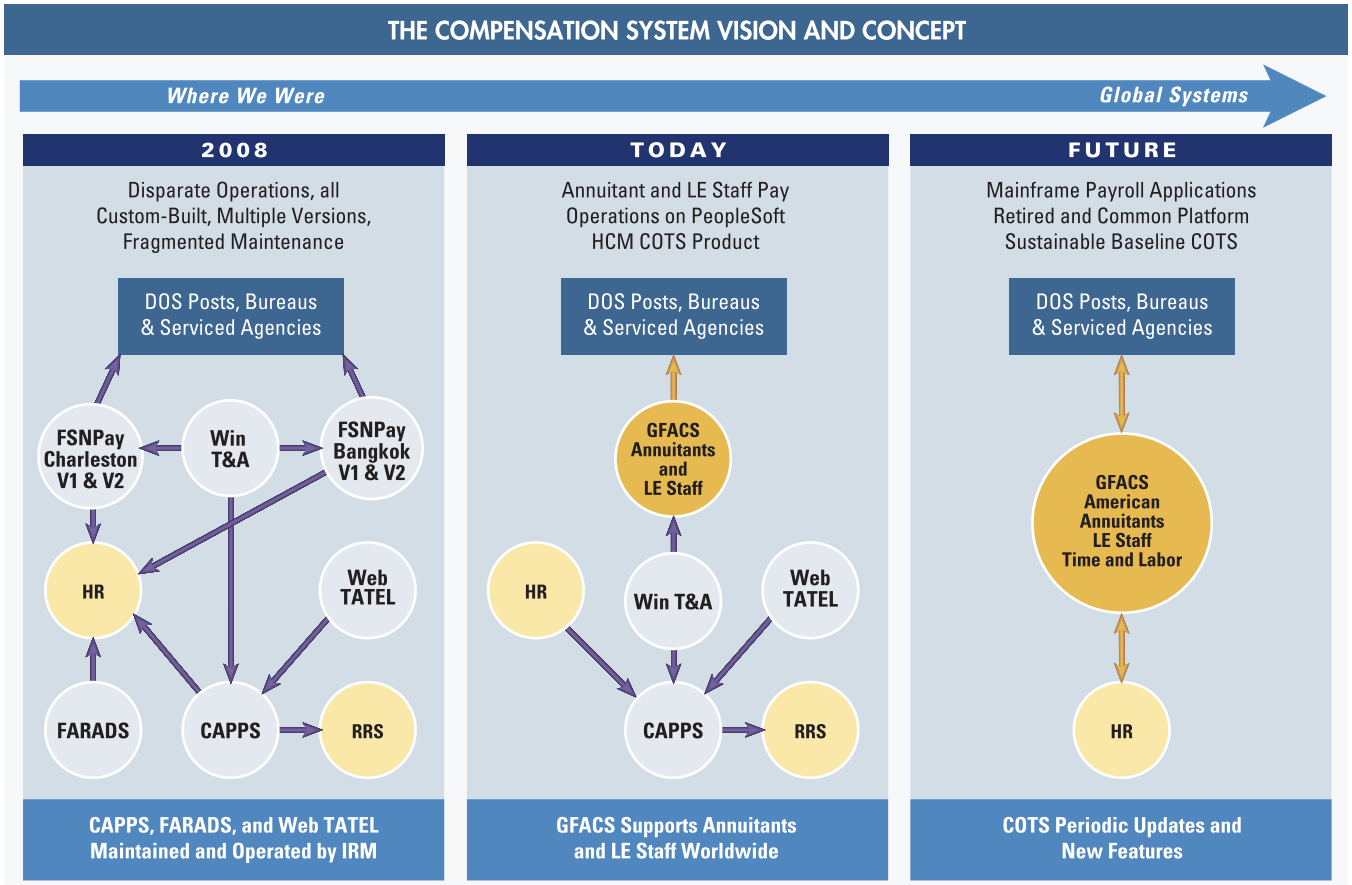
In 2016, the Department successfully transitioned to the next generation of the E-Government Travel Services (ETS2) contract with Carlson Wagonlit Travel. In 2016, the Department also implemented the Local Travel module allowing for the submission of local travel claims for expenses incurred in and around 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 180 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 for reservation retrievals within amendments to reflect updated ticket costs more accurately without manual manipulation. The Department continues to work with Carlson Wagonlit Travel on enhancements to support integration improvements with our financial systems. The Department also continues to work with Carlson Wagonlit Travel on enhancements to support the implementation of split disbursements for direct payments of individually billed account charges, the Local Payments module domestically, and initiated work to implement an integrated reporting solution to identify cost savings associated with travel.

Compensation Systems Program

The Department serves as one of five payroll shared service providers on behalf of Federal agencies. Shared service providers process payroll annually for some 2.3 million employees worldwide, or about 99 percent of the Federal civilian workforce.

The Department continued to execute a phased deployment strategy, replacing six legacy payroll systems with a single, COTS-based solution to address the widely diverse payroll requirements of the Foreign Service, Civil Service, LE staff, and retirees of the Department and the other 45 civilian agencies serviced. The "Compensation System Vision and Concept" diagram highlights how past and future changes involve simplifying and consolidating



our systems. The Global Foreign Affairs Compensation System (GFACS) will leverage a rules-based, table-driven architecture to promote compliance with the complex statutes found across the Foreign and Civil Service Acts and local laws and practices applicable to all the countries in which civilian agencies operate.

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 remote accessibility, electronic routing and approval, 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 COAST Reporting, COAST Payroll Reporting, and the Global BI Reporting. Global BI 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 2020, the GFMS data warehouse (DW) was retired and a migration of all reporting content into the Global BI reporting tool was completed. The GFMS DW was officially retired on October 1, 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 and FADR. 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. For the suite of Overseas Analytics, training has been formally conducted for about 80 posts in all regions. Several domestic bureaus have also been trained. In 2020, improvements and new functionality was added to Global BI's external reporting module to improve the Department's foreign assistance reporting process, support the tracking and reporting of CARES Act and COVID supplemental funding, as well as reporting for the DATA Act to meet new Treasury requirements. In 2020, new reports were added to support and improve year-end financial reporting for the Department.

In 2021, the Global BI application will be updated to include versions of the Payroll reports from COAST. Engaging with the overseas user community, new reports and functionality will be added to the overseas analytics suite as well as releasing required updates for the RFMS Update, E-Invoicing, and Overseas Acquisitions programs. Global BI's Business Objects infrastructure will also be updated in 2021 to support the implementation of a new Lumira reporting tool which will provide the Global BI user community with a new dash boarding and data exploration toolkit. Data loading frequency to Global BI will continue to be a focus with the goal of loading data four times a day for the overseas community and twice a day for the domestic community. Lastly, new GFMS and RFMS combined reporting and dashboards will be a focus as Global BI will look to provide combined global financial reporting to assist bureaus in reaching a more detailed comprehensive view of their spending.

Did You Know?

Cordell Hull, the 47th Secretary of State, served 4,289 days (11 years and 271 days) from 1933 to 1944. He was the longest serving Secretary in U.S. history.

LEARN MORE

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

Secretary Pompeo meets with Chinese dissidents and members of the diaspora in Yorba Linda, California, July 23, 2020. *Department of State*

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 National Museum of American Diplomacy, the Art in Embassies Program, the International Boundary and Water Commission, and the Blair House. Items in the Register of Culturally Significant Property category are classified as multi-use heritage assets due to their use in general government operations.

Diplomatic Reception Rooms Collection

In 1961, the State Department's Office of Fine Arts began the privately-funded Americana Project to remodel and redecorate the 42 Diplomatic Reception Rooms – including the offices of the Secretary of State – on the seventh and eighth floors of the Harry S Truman Building. The Secretary of State, the President, and Senior Government Officials use the rooms for official functions promoting American values through diplomacy. The rooms reflect American art and architecture from the time of our country's founding and its formative years, 1740 – 1840. The rooms also contain one of the most important collections of early Americana in the nation, with over 5,000 objects, including museum-quality furniture, rugs, paintings, and silver. These items have been acquired through donations or purchases funded through gifts from private citizens, foundations, and corporations. No tax dollars have been used to acquire or maintain the collection. There are three public tours each day.

The Seoul Old American Legation, built in 1883 and now used as a guest house, is an exceptionally well-preserved example of traditional Korean residential architecture that illustrates the long history of Korean-American friendship. ***Department of State/OBO***

Art Bank Program

The Art Bank Program was established in 1984 to acquire artworks that could be displayed throughout the Department's offices and annexes. The works of art are displayed in staff offices, reception areas, conference rooms, the cafeteria, and related public areas. The collection consists of original works on paper (watercolors and pastels) as well as limited edition prints, such as lithographs, woodcuts, intaglios, and silk-screens. These items are acquired through purchases funded by contributions from each participating bureau.

Rare & Special Book Collection

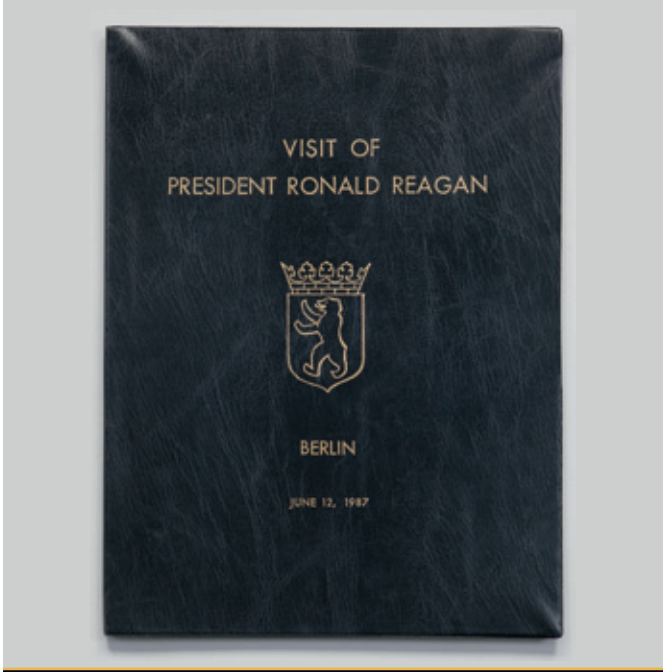
In recent years, the Ralph J. Bunche Library has identified books that require special care or preservation. Many of these publications have been placed in the Rare Books and Special Collections Room, which is located adjacent to the Reading Room. Among the treasures is a copy of the Nuremberg Chronicles, which was printed in 1493; volumes signed by Thomas Jefferson; and books written by Foreign Service authors.

Cultural Heritage Collection

The Cultural Heritage Collection, which is managed by the Bureau of Overseas Buildings Operations, Office of Residential Design and Cultural Heritage, is responsible for identifying and maintaining cultural objects owned by the Department in its properties abroad. The collections are identified based upon their historic importance, antiquity, or intrinsic value.

Secretary of State's Register of Culturally Significant Property

The Secretary of State's Register of Culturally Significant Property was established in January 2001 to recognize the Department's owned properties overseas that have historical, architectural, or cultural significance. Properties in this category include chanceries, consulates, and residences. All of these properties are used predominantly in general government operations and are thus classified as multi-use heritage assets. Financial information for multi-use heritage assets is presented in the principal statements. The register is managed by the Bureau of Overseas Buildings Operations, Office of Residential Design and Cultural Heritage.



Program folder from President Ronald Reagan's June 1987 visit to Berlin. ***Department of State***

National Museum of American Diplomacy

The National Museum of American Diplomacy is a unique education and exhibition venue at the Department of State that tells the story of the history, practice, and challenges of American diplomacy. It is a place that fosters a greater understanding of the role of American 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 National Museum of American Diplomacy 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.

Under Secretary of State Keith J. Krach participates in the U.S. International Development Finance Corporation board meeting in Washington, D.C., March 11, 2020. ***Department of State***

Real Property

The Department of State maintains a real estate portfolio domestically to support its global mission. This mission is multi-facetted and includes such responsibilities as: the issuance of passports to American citizens, the protection of embassies and American personnel, the development of technological solutions to convey and protect information domestically and overseas, and the management of logistical services to provide supplies and goods to overseas posts. As this mission evolves, the domestic real estate portfolio must evolve with it.

In 2019, the last year for which data is available, Performance.gov reports that the Department's real estate portfolio had grown by 3.15 percent. The link to view that information can be found at: *https://www.performance.gov/real-property-metrics/*. The factors described below have influenced the reported growth.

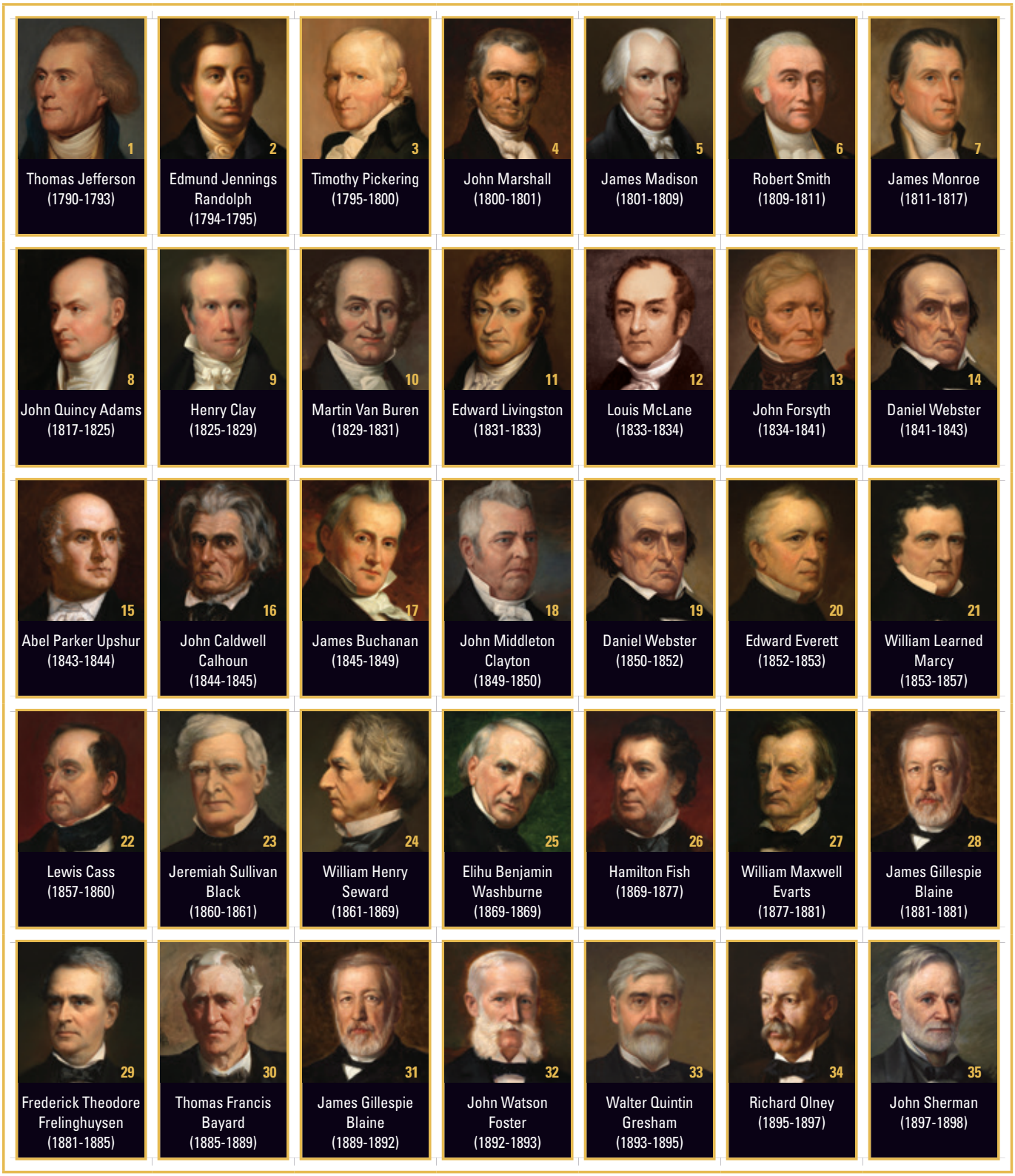
The Department and the GSA omitted inclusion of a roughly 300,000 square foot D.C. campus in the 2015 baseline but reported it every subsequent year in the Department's portfolio. This artificially inflates the Department's growth by approximately 2.5 percent. GSA has committed to correcting this inaccuracy in the 2020 Reduce the Footprint publication, by increasing the Department's 2015 baseline to include this campus. However, this disparity remained in effect for 2019 reporting.

The Department's footprint has grown due to the evolving nature of its mission. The increasing percentage of Americans traveling abroad from 2009 to 2019 required additional mission space to support passport issuance. Similarly, as security and protection of information and people faces greater challenges at home and overseas, additional laboratory, office, and storage space has been acquired. For example, supplementary passport agency space was added in Houston, Atlanta, and Boston, in response to municipal government requests to reduce crowding outside of agencies. Additionally, the childcare center at the National Foreign Affairs Training Center was expanded to increase the maximum number of employees served by the facility. Also, a Bureau of Medical Services outpost was added in Rosslyn, Virginia to provide front line services to employees, which was a critical asset in light of COVID-19. In all three examples, these locations previously did not have space that could be utilized for each project's specific needs. Overall, these examples and the other additions represent about one percent portfolio growth.

The Department continuously looks for methods of improving the utilization of its real estate portfolio while meeting mission needs. In the COVID-19 environment, the Department is further re-evaluating its requirement for space to support a more mobile, agile workforce while also maintaining social distancing protocols for public-facing spaces. In October 2020, the Department launched a real property capital planning initiative, parallel to the implementation of an integrated workplace management system which will work together to track the overall usage of the Department's portfolio and plan for the optimization of the portfolio over the next ten years.

Secretary Pompeo departs Warsaw, Poland, August 15, 2020.
Department of State

U.S. Secretaries of State Past and Present



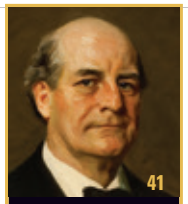
36
William Rufus Day
(1898-1898)

37
John Milton Hay
(1898-1905)

38
Elihu Root
(1905-1909)

39
Robert Bacon
(1909-1909)

40
Philander Chase Knox
(1909-1913)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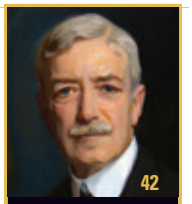
William Jennings Bryan
(1913-1915)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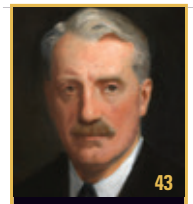
Robert Lansing
(1915-1920)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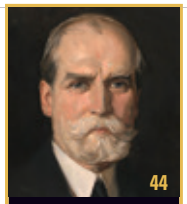
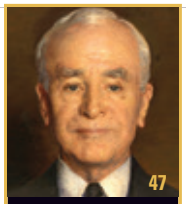
Bainbridge Colby
(1920-1921)


44
Charles Evans Hughes
(1921-1925)

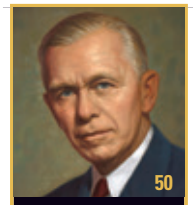
45
Frank Billings Kellogg
(1925-1929)

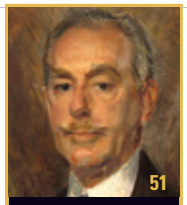
46
Henry Lewis Stimson
(1929-1933)


47
Cordell Hull
(1933-1944)

48
Edward Reilly Stettinius Jr.
(1944-1945)

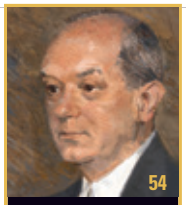
49
James Francis Byrnes
(1945-1947)


50
George Catlett Marshall
(1947-1949)


51
Dean Gooderham Acheson
(1949-1953)

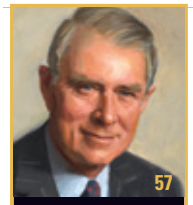
52
John Foster Dulles
(1953-1959)

53
Christian Archibald Herter
(1959-1961)

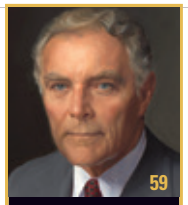

54
David Dean Rusk
(1961-1969)

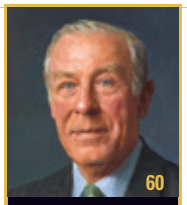
55
William Pierce Rogers
(1969-1973)

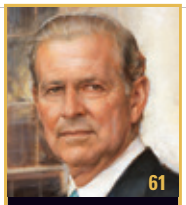
56
Henry A. Kissinger
(1973-1977)


57
Cyrus Roberts Vance
(1977-1980)

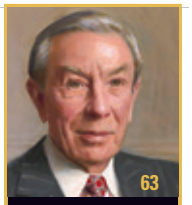
58
Edmund Sixtus Muskie
(1980-1981)

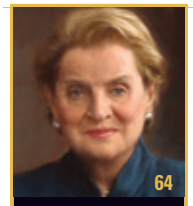

59
Alexander Meigs Haig
(1981-1982)


60
George Pratt Shultz
(1982-1989)


61
James Addison Baker
(1989-1992)

62
Lawrence Sidney Eagleburger
(1992-1993)


63
Warren Minor Christopher
(1993-1997)

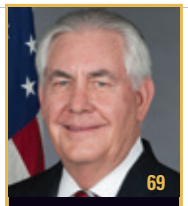

64
Madeleine Korbel Albright
(1997-2001)

65
Colin Luther Powell
(2001-2005)

66
Condoleezza Rice
(2005-2009)

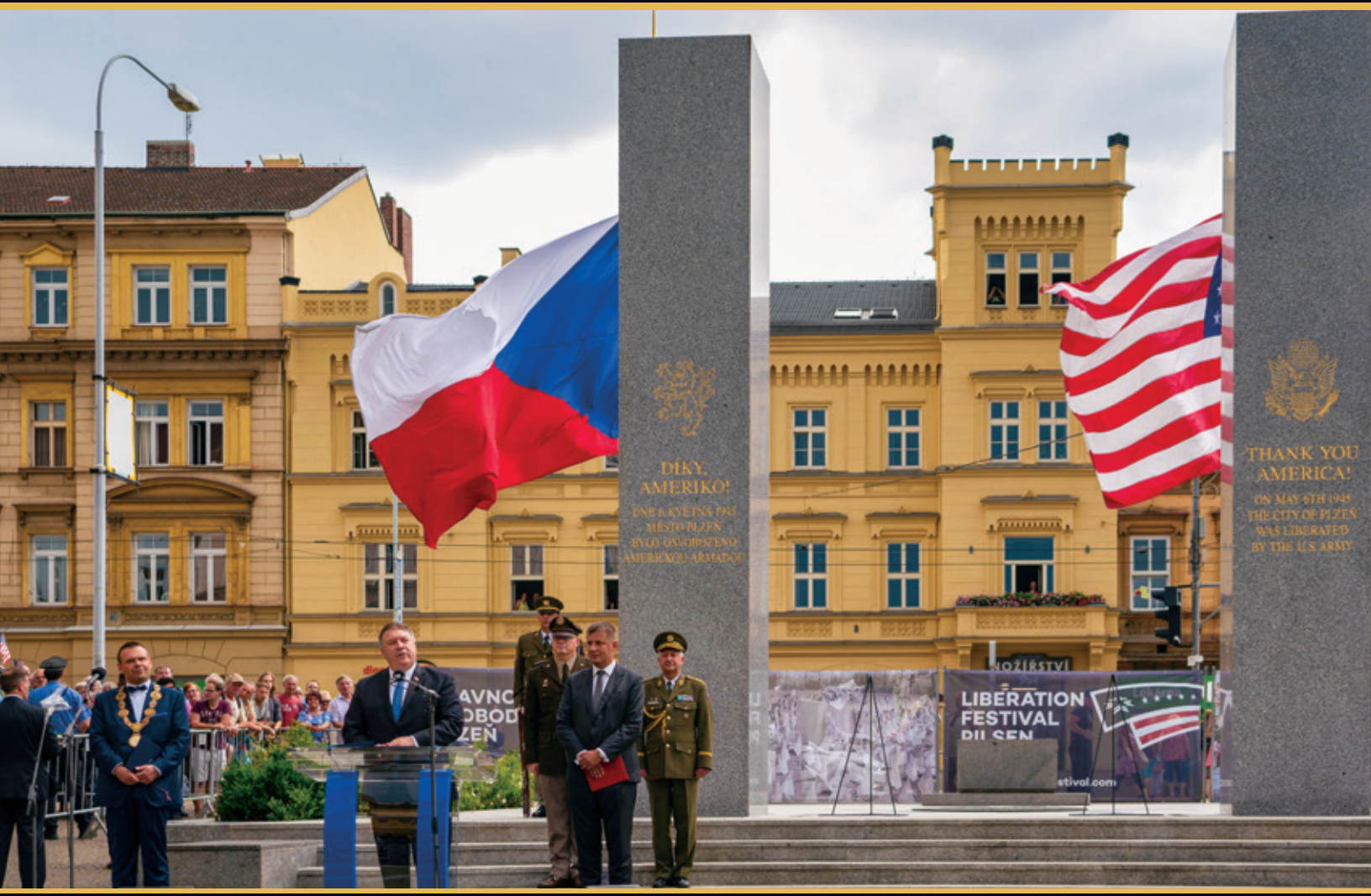
67
Hillary Rodham Clinton
(2009-2013)

68
John Forbes Kerry
(2013-2017)


69
Rex Wayne Tillerson
(2017-2018)

70
Michael R. Pompeo
(2018-Present)

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



Secretary Pompeo delivers remarks at the "Thank You America" memorial in Pilsen, Czech Republic, August 11, 2020. ***Department of State***

Appendices

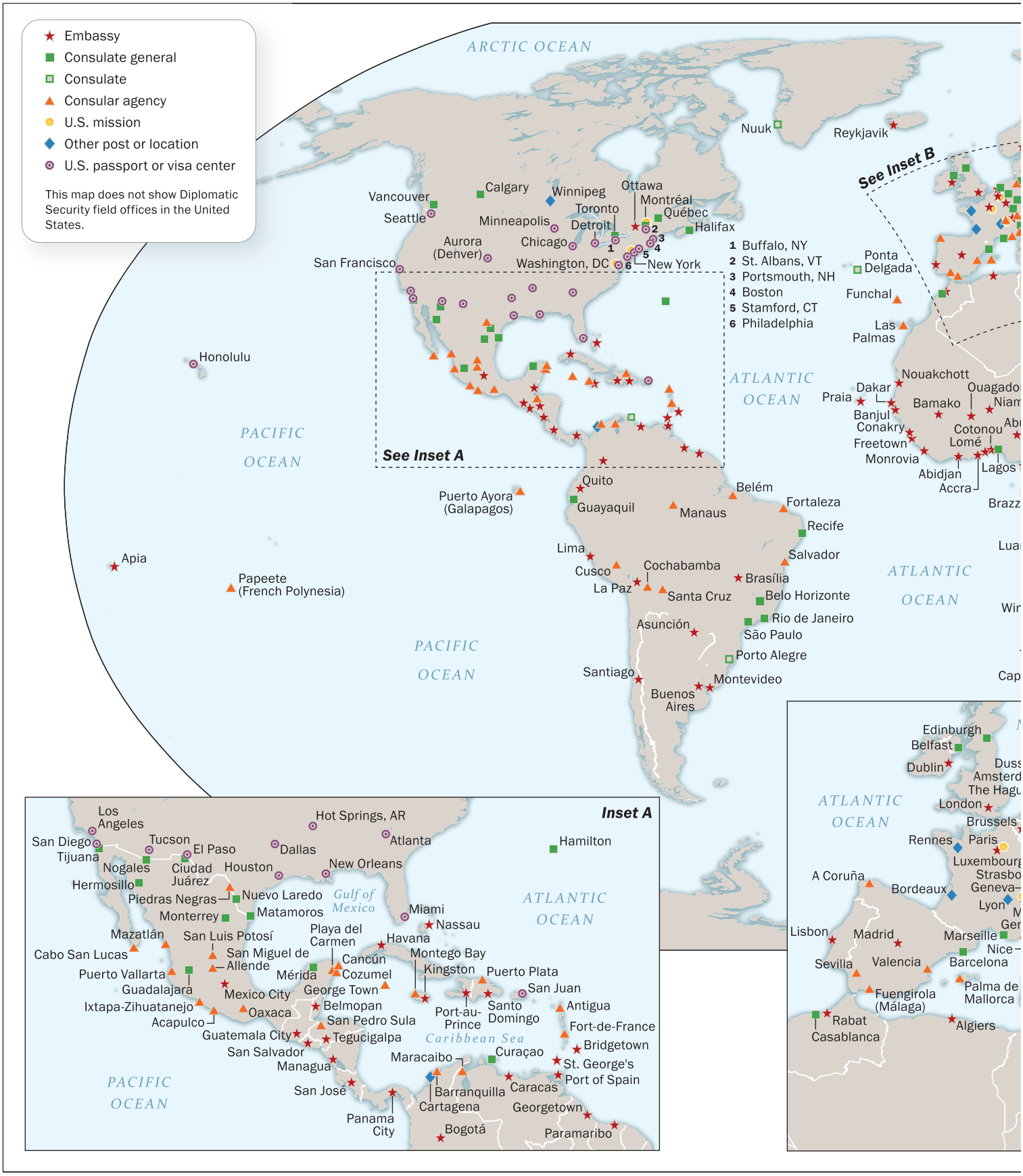
Appendix A: Abbreviations and Acronyms

A/OPE	Office of the Procurement Executive (DOS)
A/OPR	Office of Operations (DOS)
ADP	Automated Data Processing
AF	Bureau of African Affairs (DOS)
AFR	Agency Financial Report
AGA	Association of Government Accountants
AIDS	Acquired Immunodeficiency Syndrome
APG	Agency Priority Goal
APP	Annual Performance Plan
ASEAN	Association of Southeast Asian Nations
APR	Annual Performance Report
Appendix A	OMB Circular A-123, Appendix A
ATA	Antiterrorism Assistance
BI	Business Intelligence
BSM	Budget System Modernization
CA	Bureau of Consular Affairs (DOS)
CAP	Cross-Agency Priority
CAPPS	Consolidated American Payroll Processing System (DOS)
CARES Act	Coronavirus Preparedness and Response Supplemental Appropriations Act
CBSP	Consular and Border Security Programs (DOS)
CCP	Chinese Communist Party
CDAT	COVID-19 Data Analytics Team
CDM	Continuous Diagnostic Monitoring
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
CGFS	Bureau of the Comptroller and Global Financial Services (DOS)
CHP	Contractor-Held Property
CIO	Contributions to International Organizations
CIP	Construction-In-Progress
CIPA	Contributions for International Peacekeeping Activities
CMMI	Capability Maturity Model Integration
CO	Contracting Officer
COAST	Consolidated Overseas Accountability Support Toolbox
COR	Contracting Officer Representative
COTS	Commercial Off-the-Shelf
COVID-19	Coronavirus Disease 2019
CRMS	Central Resource Management System
CS	Civil Service
CSD	Conduct, Suitability, and Discipline
CSRS	Civil Service Retirement System
CT	Bureau of Counterterrorism and Countering Violent Extremism (DOS)
DATA Act	Digital Accountability and Transparency Act
D&I	Diversity and Inclusion
DCF	Defined Contributions Fund
DCP	Defined Contribution Plan
Department	U.S. Department of State
DHS	Department of Homeland Security
DM&R	Deferred Maintenance and Repairs
DOL	U.S. Department of Labor
DOS	U.S. Department of State
DRL	Bureau of Democracy, Human Rights, and Labor (DOS)
DS	Bureau of Diplomatic Security (DOS)
DW	Data Warehouse
EAP	Bureau of East Asian and Pacific Affairs (DOS)
EFT	Electronic Funds Transfer
EGB	Enterprise Governance Board
ERM	Enterprise Risk Management
ESP	Evaluations and Special Projects (DOS)

ETS2	E-Government Travel Services
EUR	Bureau of European and Eurasian Affairs (DOS)
EWC	East-West Center
FADR	Foreign Assistance Data Review
FAM	Foreign Affairs Manual
FAO	Food and Agriculture Organization (UN)
FARADS	Foreign Affairs Retirement and Disability System (DOS)
FASAB	Federal Accounting Standards Advisory Board
FAST	First- and Second-Tour
FCI	Facility Condition Index
FECA	Federal Employees Compensation Act
FEGLIP	Federal Employees Group Life Insurance Program
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FISMA	Federal Information Security Modernization Act of 2014
FMF	Foreign Military Financing
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMLP	Future Minimum Lease Payments
FPU	Fraud Prevention Unit
FR	Federal Register
FR	Financial Report of the U.S. Government
FRDAA	Fraud Reduction and Data Analytics Act
FRPP	Federal Real Property Portfolio
FS	Foreign Service
FSI	Foreign Service Institute (DOS)
FSN	Foreign Service National
FSN DCF	Foreign Service National Defined Contributions Fund
FSO	Foreign Service Officer
FSRDF	Foreign Service Retirement and Disability Fund
FSRDS	Foreign Service Retirement and Disability System
FSPS	Foreign Service Pension System
FWCB	Federal Workers' Compensation Benefits
FY	Fiscal Year
G20	The Group of Twenty
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEC	Global Engagement Center
GFACS	Global Foreign Affairs Compensation System
GFMS	Global Financial Management System
GOR	Grants Officer Representative
GPRA	Government Performance and Results Act
GSA	U.S. General Services Administration
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
GTM	Bureau of Global Talent Management (DOS)
HCM	Human Capital Management
HHS	U.S. Department of Health and Human Services
HIV	Human Immunodeficiency Virus
HR	Human Resources
IAA	Interagency Agreement
IAS	International Accounting Standards
IBIS	Integrated Budget Intelligence System
IBWC	International Boundary and Water Commission
ICAO	International Civil Aviation Organization (UN)
ICASS	International Cooperative Administrative Support Services (DOS)
ICS	Integrated Country Strategy
INL	Bureau of International Narcotics and Law Enforcement (DOS)
IO	Bureau of International Organization Affairs (DOS)
IO&P	International Organizations and Programs
IPIA	Improper Payments Information Act of 2002
IPP	Invoice Processing Platform
IRF	Office of International Religious Freedom (DOS)
IRM	Bureau of Information Resource Management (DOS)
ISIS	Islamic State in Iraq and Syria
ISP	Inspection (DOS)
ISSO	Information Systems Security Officer
IT	Information Technology
JSP	Joint Strategic Plan
LE Staff	Locally Employed Staff
LSSS	Local Social Security System
M	Under Secretary for Management (DOS)
M/SS	Office of Management Strategy and Solutions (DOS)
MCSC	Management Control Steering Committee (DOS)
MED	Bureau of Medical Services (DOS)
MfR	Managing for Results

MRA	Migration and Refugee Assistance
NATO	North Atlantic Treaty Organization
NEA	Bureau of Near Eastern Affairs (DOS)
NEC	New Embassy Compound
NGO	Non-Governmental Organization
NIST	National Institute of Standards and Technology
NSS	National Security Strategy
OAS	Organization of American States
OBO	Bureau of Overseas Buildings Operations (DOS)
OCO	Overseas Contingency Operations (DOS)
OCR	Office of Civil Rights (DOS)
OECD	Organization for Economic Cooperation and Development
OI	Other Information
OIG	Office of Inspector General (DOS)
OMB	U.S. Office of Management and Budget
OPM	U.S. Office of Personnel Management
OSCE	Organization for Security and Co-operation in Europe
OSI	Office of Special Investigations
PBO	Projected Benefit Obligation
PEPFAR	President's Emergency Plan for AIDS Relief
PIIA	Payment Integrity Information Act of 2019
PMS	Payment Management System (HHS)
POSHO	Post Occupational Safety and Health Officer
PP&E	Property, Plant, and Equipment
PrOPP	Property related Obligation and Payment
RFJ	Rewards for Justice
RFMS	Regional Financial Management System
RFMS/C	Regional Financial Management System/ Cashiering
RFMS/M	Regional Financial Management System/ Momentum
RRS	Retirement Records System
SAMS	State Assistance Management System
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SCA	Bureau of South and Central Asian Affairs (DOS)
SID	Software in Development
SIV	Special Immigrant Visa
SNEA	Special Needs Education Allowance
SFFAS	Statements of Federal Financial Accounting Standards
SoA	Statement of Assurance
SSAE	Statement on Standards for Attestation Engagements
T&A	Time and Attendance
TR	Technical Release
Treasury	U.S. Department of the Treasury
TSP	Thrift Savings Plan
U.S.C.	United States Code
UDO	Undelivered Orders
UDHR	Universal Declaration of Human Rights
UK	United Kingdom
ULO	Unliquidated Obligation
UN	United Nations
UNEP	United Nations Environment Programme (UN)
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNVIE	U.S. Mission to International Organizations in Vienna
USAID	U.S. Agency for International Development
USSGL	U.S. Standard General Ledger
VAT	Value Added Tax
VCP	Variable Contribution Plan
Web-Tatel	Web-based Time and Attendance Telecommunications Line
WebICASS	Web International Cooperative Administrative Support Services
WebRABIT	Web Resource Allocation and Budget Integration Tool
WHA	Bureau of Western Hemisphere Affairs (DOS)
WMD	Weapons of Mass Destruction

Appendix B: Department of State Locations



Locations shown based on latest available data. Boundary representation is not necessarily authoritative.

October 2020

Cities with multiple Department of State facilities

Addis Ababa:
Embassy Addis Ababa
U.S. Mission to the African Union

Brussels:
Embassy Brussels
U.S. Mission to European Union
U.S. Mission to NATO

Geneva:
U.S. Mission Geneva
Consular Agency Geneva

Paris:
Embassy Paris
U.S. Mission to OECD

Montréal:
Consulate General Montréal
U.S. Mission to ICAO

Jakarta:
Embassy Jakarta
U.S. Mission to ASEAN

Nairobi:
Embassy Nairobi
U.S. Mission to UNEP and Habitat

New York:
U.S. Mission to UN
New York Passport Center

Portsmouth, NH:
National Passport Center
National Visa Center

Rome:
Embassy Rome
Embassy Holy See
U.S. Mission to FAO

Vienna:
Embassy Vienna
U.S. Mission to OSCE
U.S. Mission to UNVIE

Washington, DC:
Department of State
U.S. Mission to OAS
Washington Passport Agency

2319 10-20 STATE (INR)

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:

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William Davisson, Deputy Comptroller (Charleston)
Carmen Castro, Associate Comptroller

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Joan Lugo, Managing Director of Global Financial Operations

Carole Clay, Director of Office of Management Controls

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