United States Department of State

Agency Financial Report

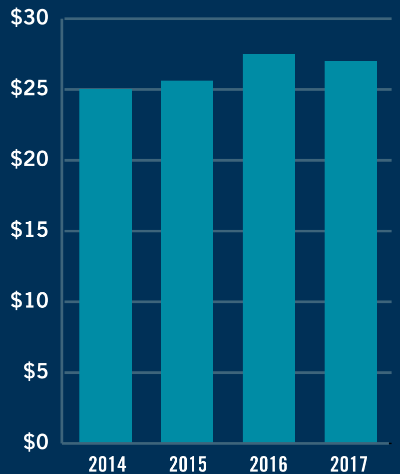
Fiscal Year 2017

Promoting Peace *through* Strength

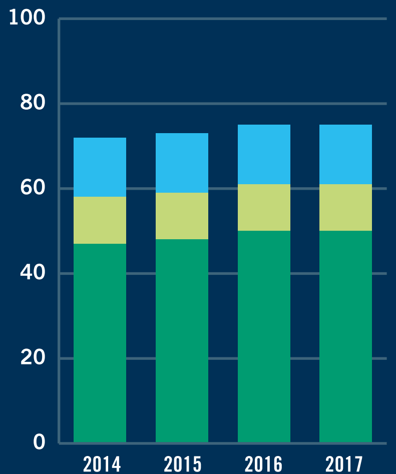
2017* Highlights *(dollars in billions)*	Percent Change 2017 over 2016	2017	2016	2015	2014
Balance Sheet Totals as of September 30					
Total Assets	+7%	$ 100.6	$ 93.8	$ 90.6	$ 86.8
Total Liabilities	+4%	26.8	25.7	25.4	25.1
Total Net Position	+8%	73.8	68.1	65.2	61.7
Results of Operations for the Year Ended September 30					
Total Net Cost of Operations	-3%	$ 26.5	$ 27.4	$ 25.6	$ 25.0
Budgetary Resources for the Year Ended September 30					
Total Budgetary Resources	+2%	$ 71.0	$ 69.3	$ 65.9	$ 64.5
Visas Issued at Foreign Posts		9.7 million	10.4 million	10.9 million	9.9 million

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

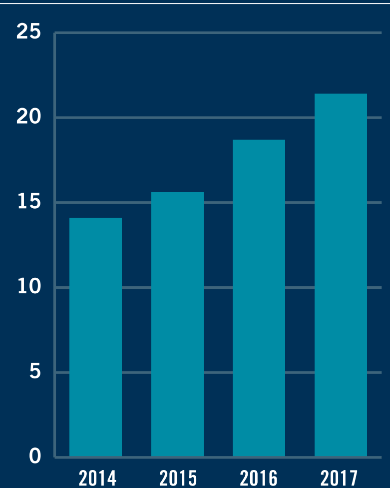
Total Net Cost of Operations
(dollars in billions)



State Department Employees
(in thousands)



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



Foreign Service Civil Service Locally Employed Staff*

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

ABOUT THE COVER

Since 1999, as part of the Department's Capital Security Construction Program, the Bureau of Overseas Buildings Operations has completed 138 new diplomatic facilities, with an additional 61 projects now in design or under construction. Highlighting recent completed projects and a future project, the cover is a photo montage that represents the Department's commitment to promoting peace through strength. The images include: (top left) the consulate in Surabaya, Indonesia is a 6.2-acre compound; (top right) the consulate in Dubai, United Arab Emirates consolidated offices scattered throughout the city into a 6-acre compound; (bottom right) the embassy in Libreville, Gabon was constructed with enhanced security on a 10-acre site; and (bottom left) the Athens, Greece Chancery designed by one of the great masters of 20th Century architecture, Walter Gropius, will be updated to meet modern standards and security.

Secretary Tillerson poses with the U.S. Marine Security Guard Detachment in Moscow, Russia, April 11, 2017. *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) 2017 provides an overview of the Department's financial and performance data to help Congress, the President, and the public assess our stewardship over the resources entrusted to us. This report is available at the Department's website (*www.state.gov/s/d/rm/rls/perfrpt/2017/index.htm*) and includes sidebars, links, and information that satisfies the reporting requirements contained in the following legislation:

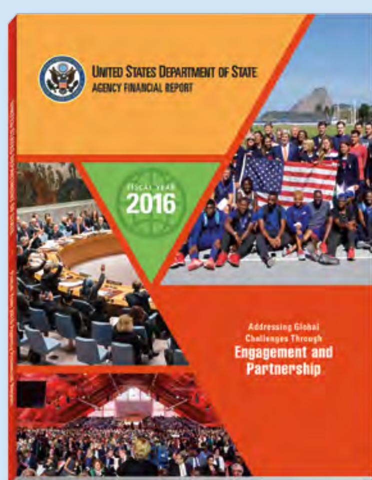
- Federal Managers' Financial Integrity Act of 1982,
- Chief Financial Officers Act of 1990,
- Government Performance and Results Act (GPRA) of 1993,
- Government Management Reform Act of 1994,
- Federal Financial Management Improvement Act of 1996,
- Reports Consolidation Act of 2000,
- Improper Payments Information Act of 2002,
- GPRA Modernization Act of 2010, and
- Grants Oversight and New Efficiency Act of 2016.

The AFR is the first of a series of two annual financial and performance reports the Department will issue. The reporting schedule includes: (1) an *Agency Financial Report* issued in November 2017; and (2) an agency *Annual Performance Plan and Annual Performance Report* scheduled for release in April 2018. These reports will be available online at *http://www.state.gov/s/d/rm/c6113.htm*.

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

Certificate of Excellence in Accountability Reporting

In May 2017, 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 2016 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 tenth time the Department has won the CEAR award. In addition, the Department's AFR was awarded the Platinum Award (1st Place) by the League of American Communications Professionals (LACP) for excellence within its industry. The LACP also ranked the AFR in their Top 50 Reports Worldwide (ranking at 16th overall from more than 6,000 entries). The LACP recognized our AFR for developing the Best In-House Report (Gold) worldwide.



How This Report is Organized

The State Department's Fiscal Year 2017 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2016, and ending on September 30, 2017, 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, Rex W. Tillerson. 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 includes a brief history of the Department and describes the agency's organizational structure. This section briefly highlights the Department's goal areas, its focus on developing priorities, and provides an overview of major program areas. The section also highlights the agency's financial results, and provides management's assurances on the Department's internal controls.

Secretary Tillerson delivers opening remarks at the Meeting of the Ministers of the Global Coalition on the Defeat of ISIS in Washington, D.C., March 22, 2017. ***Department of State***

Section II: Financial Section

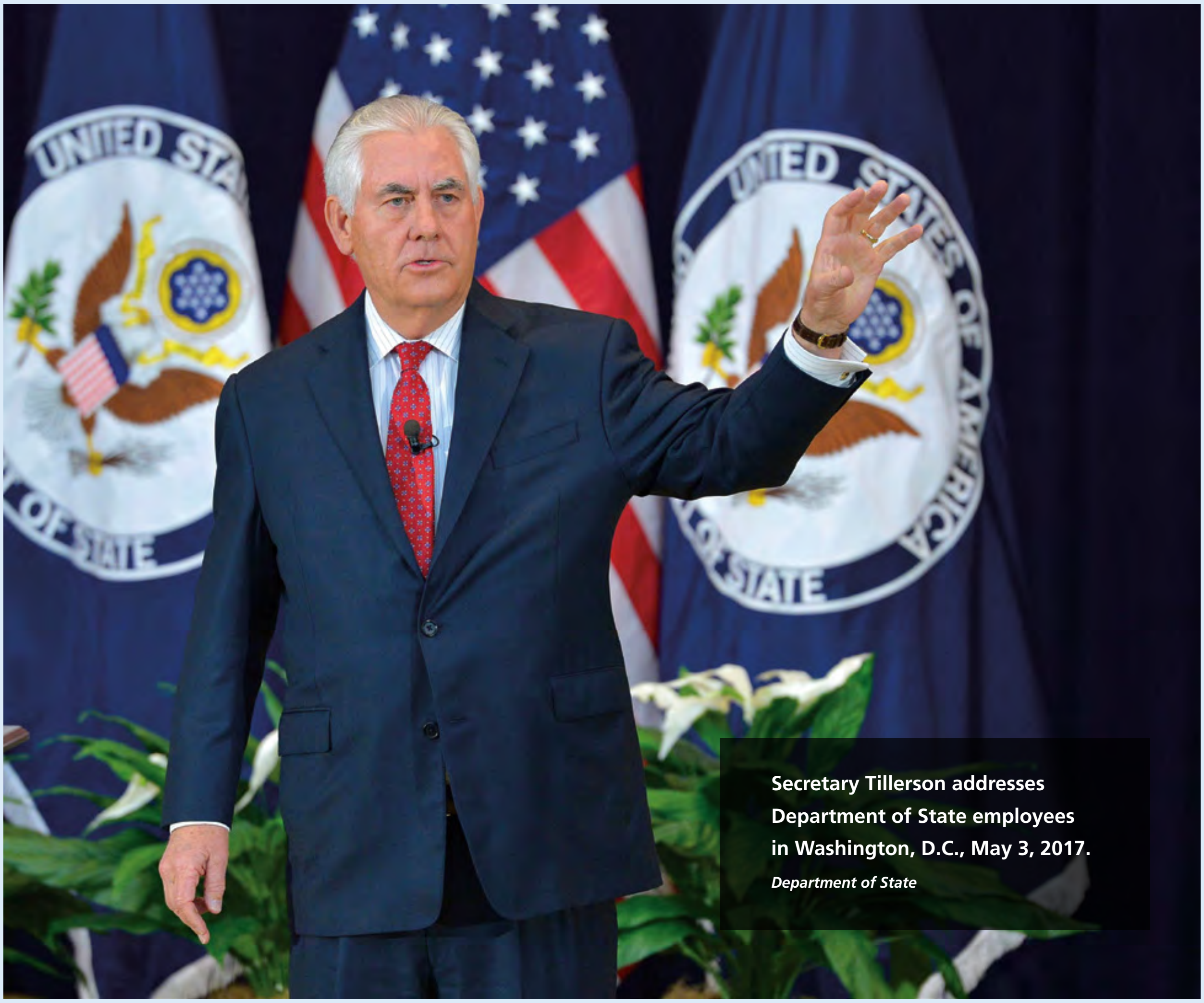
Section II begins with a message from the Comptroller. This section details the Department's financial status and includes the audit transmittal letter from the Inspector General, the independent auditor's reports, and the audited financial statements and notes. The Required Supplementary Information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

Section III: Other Information

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

Appendices

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



Secretary Tillerson addresses Department of State employees in Washington, D.C., May 3, 2017.
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) 2017. In this report, you will find financial and performance information that holds the Department of State accountable for how we use the resources entrusted to us. This report reflects our commitment to protect and advance America's interests and influence around the world and provide peace, security, and prosperity for the American people.

For generations, America has been indispensable in providing the stability that has prevented another world war, increased global prosperity, and encouraged the expansion of liberty. Through our ongoing commitment to global leadership, we will promote open and fair markets, ensure our energy independence and security, support the conditions to create international stability, and protect basic human freedoms.

We will continue to advance our values through our foreign policy. By reaffirming our principles and articulating the driving factors of our own national interests, we will lead from a position of strength and our unwavering commitment to freedom, democracy, personal liberty, and human dignity in executing our foreign policy. By renewing the spirit of America's exceptional ingenuity, values, and sense of fairness, we will remain a positive force to advance peace, security, and economic opportunity for our nation and for all peoples around the world.

America benefits from sustained engagement with the rest of the world. We stand committed to protecting and promoting our nation's vital interests with our partners and allies, while also leveraging our strength to deter conflict with our adversaries. We will strengthen our relationships and alliances around the world and foster cooperation to align our global commitments to meet America's priorities.

Where our interests align with others, we will work together to explore mutually beneficial opportunities, and take collective action to resolve global issues. Our efforts have created international unity around our peaceful pressure campaign against North Korea, including influencing China to exert unprecedented influence on North Korea. We have rallied Muslim-majority nations to assume new responsibilities for countering terrorism financing and violent extremism. NATO members are now contributing more to shared security. Our approach to South Asia, and specifically Afghanistan, means new approaches with India and Pakistan to deny safe havens to terrorist organizations while creating the conditions for reconciliation with the Taliban and a process that supports the Afghan government in providing security for their own people. ISIS's fraudulent caliphate in Iraq and Syria is virtually extinct thanks to an aggressive new strategy executed in tandem with our coalition partners. We will maintain our efforts to strengthen Iraq to remain independent of Iranian influence and to support solutions to Syria's long term stability. We will continue to build on these efforts and seek out common cause to further our mutual interests.

While Americans welcome this rededication to liberty, security, and prosperity, this new leadership is incomplete without accountability. If accountability does not start with ourselves, we cannot achieve the aims of our foreign policy nor credibly extend it to our friends or our adversaries. We are clear-eyed in our analysis of how we manage our own organization. Every day, we dedicate ourselves to being effective and accountable to the American taxpayer. Guided by our mission, we will continuously pursue efficiencies at all levels, streamline our processes and structures to reinforce their effectiveness, and strategically manage our people, information, and capital assets. We will equally consider the benefits and risks of our actions, as well as our inactions, to achieve the greatest value and opportunity of success for our mission-driven policies and programs.

Our employees are the best asset and greatest strength of the Department of State. I am dedicated to addressing their needs and providing the necessary support to all our employees around the world. We will adopt the principles of mutual respect and understanding as we work together to achieve our objectives and advance our nation's interests. Most importantly, the safety and security of our citizens takes highest priority. I start each day by asking the question: "are our people safe?" The Department of State's primary focus will always be the protection and safety of our citizens and personnel at home and abroad.

This AFR, a key accountability document, is our principal publication and report to the President, Congress, and the American people on our leadership in financial management and our stewardship of the public funds to which we have been entrusted. To ensure this AFR is complete and reliable, we worked with an Independent Auditor on the financial data and with our bureaus and missions on the summary performance data. The Message from the Comptroller in this AFR underscores our improvements in FY 2017 and includes the results of the independent audit of our FY 2017 Financial Statements.

The Department of State will continue to exercise proper stewardship of its resources as we work to provide economic opportunity, freedom, and peace for the United States of America.

Rex W. Tillerson

Rex W. Tillerson
Secretary of State
November 17, 2017

Secretary Tillerson meets with Foreign Minister Wang Yi during a bilateral meeting in Beijing, China, March 18, 2017. ***Department of State***

SECTION I:
Management's Discussion and Analysis

> "Providing for the security of the United States must be the number-one goal of our American foreign policy."
>
> *– Secretary of State, Rex Tillerson*

About the Department

Our History

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

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

LEARN MORE More information on the duties of the Secretary can be found at: *https://www.state.gov/secretary/2017/index.htm*

Did You Know?

Rex Wayne Tillerson has visited 20 countries, traveling over 110,000 miles during his 8 months as Secretary of State. He travels to all corners of the world to do his job. His duties as Secretary include acting as the President's representative at all international forums, negotiating treaties and other international agreements, and conducting everyday, face-to-face diplomacy.

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

Our Organization and People

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

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

The Foreign Service officers and Civil Service employees in the Department and U.S. missions abroad represent the American people. They work together to achieve the goals and implement the initiatives of American foreign policy. The Foreign Service is dedicated to representing America and to responding to the needs of American citizens living and traveling around the world. They are also America's first line of defense in a complex and often dangerous world. The Department's Civil Service corps, most of whom are headquartered in Washington, D.C., is involved in virtually every policy and management area – from democracy and human rights, to narcotics control, trade, and environmental issues. Civil Service employees also serve as the domestic counterpart to Foreign Service consular officers who issue passports and assist U.S. citizens overseas.

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 2017, the Department was comprised of nearly 75,000 employees.

Secretary Tillerson shakes hands with a State Department employee in Washington, D.C., May 3, 2017. *Department of State*

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 international adoptions and work on child abduction cases. In 2016, there were 5,372 adoptions to the United States, and 89 adoptions from the United States to other countries. In calendar year 2016, we worked on parental child abduction cases involving more than 1,600 children – resulting in the return of 230 American children.
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.

Deputy Secretary Sullivan poses with Secretary Tillerson, Chief Justice Roberts, and new Foreign Service Officers during his swearing-in ceremony in Washington, D.C., June 9, 2017. ***Department of State***

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 2017, we issued 21.4 million passports and passport cards for Americans to travel abroad. We facilitate the lawful travel of international students, tourists, and business people to the United States, adding greatly to our economy. We also keep Americans apprised of dangers or difficulties abroad through our travel warnings.

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

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

Secretary Tillerson and Ambassador Nikki Haley, U.S. Permanent Representative to the United Nations, meet with Korean Foreign Minister and Japanese Foreign Minister in New York City, New York, April 28, 2017. ***Department of State***

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

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

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

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*

Our Work at Home and Overseas

At home, the passport process is often the primary contact most U.S. citizens have with the Department of State. There are 29 domestic passport agencies and centers, and approximately 8,100 passport acceptance facilities worldwide, of which 7,600 are domestic. 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.

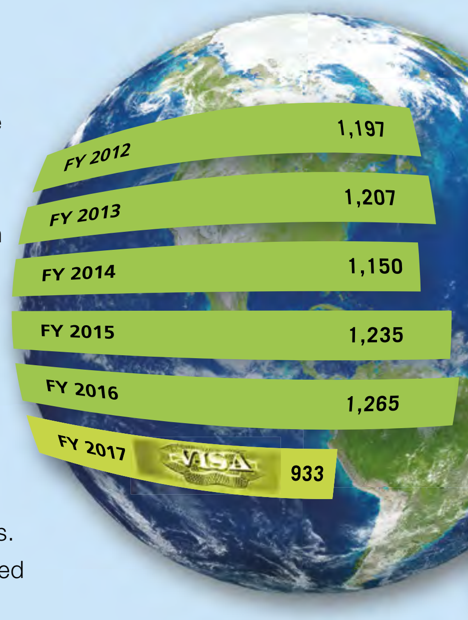
Every diplomatic mission in the world operates under a security program designed and maintained by the Department's Bureau of Diplomatic Security (DS). In the United States, DS investigates passport and visa fraud, conducts personnel security investigations, and protects the Secretary of State and high-ranking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

IN 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 2017, 1,134 cases were closed and DS made 37 arrests.



Bart and Cabrera operated an unregistered business called "Labor Listo," which they used to recruit employers like Svihel, who ran Svihel Vegetable Farm, to hire seasonal workers from the Dominican Republic on temporary work visas. The visa programs require employers to pay for workers' housing and travel expenses to and from their home country, and forbid employers from collecting recruitment fees or wage kickbacks. Bart, Cabrera, and Svihel violated all of these rules. More information on the case can be found at: https://www.justice.gov/usao-mn/pr/ohio-woman-sentenced-five-years-prison-conspiring-exploit-foreign-workers-minnesota-farm.

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

Attendees pose at the 2017 AGOA Forum in Lome, Togo, February 8, 2017. ***Department of State***

FOCUS

AGOA: Helping Women Entrepreneurs Succeed

Even now in the 21st Century, many women still lack access to capital, credit, markets, and training to enter the economic lives of countries across the globe. In sub-Saharan Africa, for example, women traders outnumber male traders where cross-border trade is a source of income for 43 percent of the African population. However, African women's limited representation among trade regulators and customs officials, as well as other gender-based barriers, hinder their ability to engage in trade on an equal footing with their male counterparts.

In May of 2000, the United States enacted the African Growth and Opportunity Act (AGOA), a trade preference program available to the countries of Sub-Saharan Africa, to spur trade and investment opportunities in Africa, while advancing development goals and increasing U.S.-Africa economic ties. To explicitly support greater economic enfranchisement for women, the 2015 AGOA reauthorization included a bipartisan amendment that strengthens the trade capacity of smallholder women farmers and entrepreneurs. Supporting economic growth in sub-Saharan Africa is both a domestic and foreign policy priority for the United States, and studies show that investing in women is one of the greatest ways to achieve positive economic, financial, and social impact.

In the 16th annual AGOA Forum on August 8-10, 2017, cohosted by the U.S. Government and the Government of Togo, women entrepreneurs were featured in a panel discussion called "The Power of Micro, Small and Medium-Sized Enterprises: Inclusive and Sustainable Economic Growth through Textiles and Agribusiness." The discussion, which included panelists from one of America's healthiest grocery stores and women business leaders from Togo and Benin, highlighted the impact and success women entrepreneurs have had under AGOA, while also addressing the continued need to reduce and eliminate barriers. The panel also centered around an American-Togolese company that creates women cooperatives to alleviate poverty and empower communities in West Africa through the fair trade of shea butter and other indigenous resources from Togo. These entrepreneurs have used their success to not only enable other entrepreneurial women to gain income to support their families, but also to create opportunities within their communities.

From the Unites States perspective, the case for advancing women's full participation in the global economy is clear. Advancing women in the labor force is good for companies' bottom lines, good for countries' economic growth, and good for global security, prosperity, and stability. AGOA provides the United States a tool to support these goals. Engaging women to foster economic growth will create mutual opportunities and benefits for the United States and sub-Saharan Africa for years to come.

Strategic Goals and Government-wide Management Initiatives

MANAGING FOR RESULTS: PLANNING, BUDGETING, MANAGING, AND LEARNING

The Department has an enterprise-wide framework that elevates and improves strategic planning, aligns budgets to plans, and creates better monitoring and evaluation systems. State remains committed to providing employees with training, technical assistance, and tools for planning and management as part of the Department's Managing for Results (MfR) Framework. The MfR Framework is a step-by-step integrated process, managed by State and coordinated with USAID, by which State links strategy to resources, supports program activity with strengthened program and project management guidelines, and uses performance data for decision making.

The Framework also integrates strategic planning, budgeting, program management, and learning to improve the effectiveness of how the Department carries out its business. These integrated processes inform and facilitate one another. As part of the 2017 Redesign, the Department is proposing to further strengthen our strategic alignment by leveraging the Managing for Results framework to develop, deconflict, and prioritize foreign policy priorities with a more rigorous use of implementation plans and strategic reviews. The Redesign also aims to improve knowledge management practices, expand the use of enterprise-wide data analytics, incorporate enterprise risk management, streamline governance structures, and more explicitly tie accountability for achieving results to employee performance reviews. The Department is also completing program management guidance that will require bureaus to align their programs and projects to higher-level strategies.

These efforts aim to improve the quality and utility of the Department's and USAID's major strategic planning documents, which include:

Managing for Results Framework

- The Joint Strategic Plan (JSP) – Four-year strategic plan that outlines State and USAID overarching goals and objectives, and guides bureau and mission planning.
- The Joint Regional Strategy – Four-year strategic plan for each region that sets joint State and USAID priorities and guides key partner bureau and mission level planning.
- The Functional Bureau Strategy – Four-year strategic plan that sets priorities for each State functional bureau and guides key partner bureau and mission level planning.
- The Integrated Country Strategy (ICS) – Four-year strategic plan that articulates whole-of-government priorities in a given country and incorporates higher-level planning priorities. As a whole-of-government document, each ICS includes the relevant USAID mission's Country Development Cooperation Strategy and the official U.S. Government strategy for all Security Sector Assistance in the respective country.

Joint State-USAID Strategic Goals

Secretary Tillerson has outlined that the Department's priorities are to rebalance our diplomatic efforts to the needs of a competitive globalized era and to adapt how the Department delivers on mission. In conjunction with the employee-led Redesign effort and as directed by OMB, the Department of State and USAID are developing a new FY 2018-2022 JSP. The JSP will lay out the strategic direction of U.S. diplomacy and development efforts over the next four years.

Through an expansive and consultative process spanning the Department, USAID, and relevant interagency stakeholders, working groups are developing Strategic Goals, Strategic Objectives, Performance Goals, and Agency Priority Goals (APG). These working groups are organized around four goal areas informed by policy guidance from the Secretary of State, Congressional requirements, and dialogue with the National Security Council. The Department is currently working through the following goal areas to develop the JSP:

1. Protecting America's Security at Home and Abroad
2. Renewing America's Competitive Advantage for Sustained Economic Growth and Job Creation
3. Promoting American Leadership Through Balanced Engagement
4. Ensuring Effectiveness and Accountability to the U.S. Taxpayer

The Department intends to publish the JSP as part of the President's next Budget submission to Congress. With improved strategic review and performance management capabilities stemming from the Redesign effort, the Department expects the FY 2018-2022 JSP will improve transparency and accountability to the American public through a more useful and coherent review and reporting process.

Agency Priority Goals

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

With the Redesign effort and revision of the JSP, the Department is focused on establishing priorities and operations that are balanced to meet the challenges of the twenty-first century. As part of this effort, the Department will develop APGs that reflect the updated goals and objectives in the FY 2018-2022 JSP. The latest Department performance reporting can be found in the FY 2016 *Annual Performance Report* at *https://www.state.gov/s/d/rm/rls/perfplan*. The Department's official reporting on APGs can be found at *https://www.performance.gov*.

Cross-Agency Priority Goals

Established by the GPRA Modernization Act of 2010, Cross-Agency Priority (CAP) goals accelerate progress on a limited number of Presidential priority areas where implementation requires active collaboration between multiple agencies. CAP goals address horizontal problems across vertical agency silos. Each goal has a named senior leader both within the Executive Office of the President and within key delivery agencies to ensure effective leadership and accountability across Federal Government. Where applicable, the Department contributes to these goals. Progress updates are published on *https://www.performance.gov*. At the time of this report, OMB is actively working to establish the new set of CAP goals.

Ivanka Trump speaks during a session on action to end forced labor, modern slavery, and human trafficking during the United Nations General Assembly in New York City, New York, September 19, 2017. *©AP Image*

FOCUS (IN)

United States Awards $25 Million to the Global Fund to End Modern Slavery

On September 14, 2017, the State Department announced a groundbreaking $25 million award to the Global Fund to End Modern Slavery for transformational programs around the world to reduce the prevalence of modern slavery – also known as human trafficking.

This initiative reflects the United States' broad and bipartisan commitment to increase U.S. and global funding to reduce the prevalence of modern slavery in specific countries and regions, leverage U.S. funds to build a significant resource base with contributions from other governments and private donors, and develop a global platform of data, analysis, and lessons learned to inform and improve global efforts to combat modern slavery.

Reducing the prevalence of human trafficking globally should be a shared effort. That is why this initiative seeks to raise commitments of $1.5 billion in support from other donors. With this Department of State funding, the Global Fund to End Modern Slavery will invest, over the next three years, in projects to combat all forms of modern slavery that align with the global anti-trafficking framework, which addresses prosecution, protection, and prevention. The Program also seeks to ensure that survivor voices are integrated throughout project design and implementation.

The Global Fund to End Modern Slavery is a nonprofit § 501(c)(3) organization with a mission to create a public-private partnership to dramatically expand resources and develop focused, coherent strategies across countries and industries to reduce the prevalence of modern slavery. The Global Fund was awarded the grant after a rigorous and competitive process by the Office to Monitor and Combat Trafficking in Persons, which will also manage the award.

LEARN MORE

More information about the Office to Monitor and Combat Trafficking in Persons can be found at: ***https://www.state.gov/j/tip/***

Performance Summary and Highlights

In FY 2017, the Department of State continued to focus on the analytical rigor built into strategic planning and performance management activities within the Department. The latest reporting on the previous JSP and the associated major program areas can be found in the joint State/USAID FY 2016 *Annual Performance Report* at *https://www.state.gov/s/d/rm/rls/perfplan*. The following section provides an overview of the seven major program areas.

MAJOR PROGRAM AREAS

Peace and Security

The United States faces ever-evolving and multi-dimensional security challenges. Weapons of mass destruction, narcotics, transnational crime, pandemic diseases, trafficking-in-persons, and the underlying conditions for these threats all threaten America's security at home and abroad. 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 sustaining our long-term competitive advantage, defeating capable transnational terrorists, deterring Russian aggression, promoting rule of law in the Americas, addressing nuclear threats, and strengthening government and civil society institutions in fragile states. The Department is focusing its efforts on strategically vital regions to prevent crises and foster resilience in ways that align to our broader commitments and that secure our borders.

Democracy, Human Rights and Governance

Accountable governments contribute to a freer, more prosperous, and peaceful world. Democracies are our strongest partners on security, trade, and energy, in peace and in conflict. Our support is a lifeline for nations and individuals striving for change, and is our greatest strength in combating violent extremism. Democratic governments work with the United States to build consensus and solve problems on the global stage. Their respect for the pluralism of ideas, inclusiveness, and vibrant civil societies leads to innovation and entrepreneurship that benefit all.

The State Department and USAID will continue to champion U.S. democratic values and liberty. This includes working to strengthen institutions and processes to improve electoral administration, enhance citizen oversight and civic participation, strengthen legislative frameworks that protect fundamental freedoms, and other efforts that promote political liberty. Because there is no democracy without the inclusion of women and underrepresented groups, the U.S. Government also works to ensure their full participation in every aspect of these processes. Consistent and balanced U.S. engagement is necessary to contribute to sustainable progress. However, only a nation itself – its people – can truly bring about sustainable democracy within its borders, and this can take decades.

Health, Education and Social Services

U.S. efforts to improve specific challenges in global health and education advance our broader national security interests by addressing underlying drivers of terrorism and constraints to inclusive economic growth that open markets and reduce fragility. The State Department and USAID use diplomacy and foreign assistance programs to create an AIDS-free generation, end preventable child and maternal deaths, reduce the threat of infectious diseases, and fight pandemic diseases. The U.S. Government partners with multilateral institutions, donor nations, and other organizations to encourage and empower developing countries to build strong, sustainable health care systems. Expanding health care capacity abroad is essential to long-term development. U.S. investments that result in healthier people make for stronger, more prosperous, and more stable countries; they enhance international security and trade; and in turn ensure a safer, more resilient America. Despite successes in recent decades, much remains to be done to strengthen health systems in developing countries so that they can address emerging threats and long-term challenges, such as HIV/AIDS, tuberculosis, malaria, and maternal and child mortality. Infectious disease outbreaks remain among the foremost dangers to human health and the global economy, as many countries have limited capacity to prevent, detect, and rapidly respond to these threats. Health is the largest component of U.S. development assistance.

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

Secretary Tillerson chairs a United Nations Security Council meeting on denuclearization of the Democratic People's Republic of Korea in New York City, New York, April 28, 2017.
Department of State

Humanitarian, Economic Development and Environment

As one of the world's most competitive and innovative economies, the United States benefits from trading in a fair, open, and stable international economy. Fair bilateral trade and investments are the crux to maximizing opportunities for American business abroad. To make trade work for American workers, the Department addresses unfair commercial practices through bilateral trade negotiations aimed at opening markets and locking in trade and investment rules that protect American intellectual property, level the playing field, and spur innovation. However, trade agreements are only part of the story. Around the world, State and USAID work hard to establish fair, transparent, and open markets outside of formal negotiations. U.S. firms succeed abroad when government and private sector procurement decisions are based on commercial and technical merits, when rules and regulations are transparent and enforceable, when intellectual property rights are respected, and when foreign competitors, including state-owned enterprises, do not benefit from unfair advantages or unsustainable labor and environmental practices.

State and USAID also help create new markets and customers for American products through the smart use of foreign assistance and targeted diplomatic efforts to drive inclusive economic growth that underpin open markets. Through the economic development of our partners, the Department is also addressing many of the underlying drivers of threats to our national security.

International Organizations and Commissions

The United States benefits from a disciplined, purposeful, and deep engagement with the rest of the world. American interests are protected by an international system that allows for cooperation with like-minded partners without compromising our independence. The Department continues to strengthen American leadership both in our partnerships and with multilateral institutions, such as the host of United Nations agencies and organizations. U.S. leadership in these venues is often instrumental to fostering cooperation, sharing the costs of taking action, and protecting the rule of law, human rights, dignity, and democratic values. In the absence of a sustainable and business-like U.S. presence across the international system,

First Lady Melania Trump and Under Secretary Shannon pose with the 2017 International Women of Courage Awardees in Washington, D.C., March 29, 2017. *Department of State*

including at the United Nations, U.S. national interests would not be protected. U.S. leadership ensures that these partnerships remain healthy bidirectional relationships.

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

Diplomatic and Consular Programs

Twenty-first century diplomatic and development challenges demand new approaches to meet our goals. As information can be globally disseminated instantly, our ability to engage quickly and effectively with the multitude of stakeholders, customers, and audiences is a core competency for our high-performing, motivated professionals. Meeting these challenges requires a flexible and efficient support platform for our global staff. As the Department adapts how it delivers on mission, our ability to keep personnel safe from physical and virtual threats is a top priority. By ensuring that only the right people are allowed on systems with a sophisticated cybersecurity infrastructure, the Department and USAID can carry out the mission while maintaining security. State and USAID are also striving to ensure that all personnel, whether they are diplomats, development professionals, security agents, or family members, receive the right training at the right time so that everyone is a contributor to overall security in both the real and digital worlds.

A significant component of the Department's work is directly tied to defending our borders. We help to prevent the abuse of the U.S. immigration system by continually improving the visa system. Our work ensures that the United States remains the destination of those "yearning to breathe free" and that the *American Dream* can be more than just a dream.

Administration of Foreign Affairs

In the 21st Century, effective engagement with international partners, stakeholders, customers, and audiences requires data-informed decision making and risk-based investments that apply new technologies and innovative approaches for strengthening collaboration, ensuring coordinated and integrated strategic planning linked to budget priorities, and expanding our internal and external networks. In an era when information is disseminated instantaneously worldwide, our ability to engage quickly and effectively is a core competency for our high-performing, motivated professionals. To meet these challenges also requires a nimble and efficient support platform for our professionals representing the United States around the world.

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

Maximizing America's Investment Through Innovation and Evaluation While Meeting Management Challenges

Evidence and Evaluation

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

The Department's evaluation policy was updated in 2015, to require that all bureaus and independent offices, at a minimum, undertake at least one evaluation per fiscal year. The policy further specifies that those bureaus that receive and directly manage program funds must conduct evaluations of their large programs once in their programs' lifetime. Additionally, pilot programs should be evaluated before being replicated. In 2017, the Department began the process of modifying the Foreign Affairs Manual to add design and performance monitoring requirements. These new policies will improve performance management and the evaluability of Department efforts.

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

The Department's Evaluation Community of Practice, with over 400 members, meets monthly to discuss policy issues, share best practices, and host presentations. The Department also hosts evaluation events that bring together the Department's evaluation community and serve as a venue where evaluation leaders can share how they have used the results of evaluations to validate current plans or inform future decisions. These events range from large, multi-day sessions to shorter, topical seminars and workshops.

LEARN MORE

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

Spokesperson Heather Nauert addresses reporters at the Department Press Briefing, in Washington, D.C., June 6, 2017.
Department of State

Overview of Department Progress and Plans

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

Train staff in planning, project management, and evaluation process. As part of the ongoing effort to solidify the Managing for Results framework, the Department supports activities aimed to equip personnel with the skills needed to develop strategic plans, measure bureau and office performance, and link performance goals to strategic goals and objectives. This includes coursework on strategic planning and performance management. Through the Teamwork@State initiative, the Department advanced the skills of project managers and staff by providing three simple toolkits that help teams develop office-level plans, better manage projects, and improve processes. In the last year, the initiative provided training or hands-on facilitation support to more than 440 staff. Additionally, through the initiative, the Department developed an eLearning course for each of the three toolkits, enabling our globally dispersed workforce to access Teamwork@State training on-demand to improve their management skills regardless of location. Over the past year, the Department's Foreign Service Institute also trained 540 more people on foundational and advanced skills of project management. Finally, the Department continued to prepare personnel to conduct evaluations by providing formal training on managing evaluations to 73 people and providing formal training on evaluation methods and designs to another 42. This training is yielding a growing base of professionals with the tools to commission and use the evaluation findings.

Provide staff with management data and a process improvement methodology through the Collaborative Management Initiative. Drawing on the Teamwork@State tools, the Collaborative Management Initiative (CMI) promoted a continuous process improvement methodology that encourages International Cooperative Administrative Support Services (ICASS) service providers overseas to draw on stakeholder feedback and service performance data to analyze management operations and to make data-driven decisions about allocating resources. Interactive, in-person training on CMI was provided to management personnel and CMI Quality Coordinators overseas. Additionally, CMI provided hands-on facilitation support to assist missions with applying the continuous process improvement methodology to pertinent challenges, and developed a nine-module course enabling overseas staff to access CMI training on-demand.

Produce evaluations of projects, processes, and programs. In the prior year, the Department completed 19 evaluations of Diplomatic Engagement-funded work, completed 27 evaluations of Foreign Assistance-funded work, and continued an effort to expand the use of evidence in the internal budget development process with senior leadership. To ensure easy access to high-quality evaluation expertise, State partnered with the Department of the Interior to put in place a new indefinite delivery indefinite quantity (IDIQ) contract for the provision of technical expertise in support of our evaluation policy and Managing for Results framework. Contract holders under the IDIQ can provide a range of services to bureaus and offices to include: establishing monitoring systems, logic modeling, performance management plans, and conducting evaluations.

Implement a comprehensive knowledge management strategy. In 2015, Department internal reviews identified the need to apply thoughtful knowledge management to increase the use of evidence in decision making. Significant progress has been made across the Department in gathering data and structuring it to inform and support critical decision making. The Bureau of Information Resource Management (IRM), Enterprise Data Quality Initiative, and related governance boards have developed consistent, repeatable processes to set policies and establish standards that support knowledge management, records management, and Open Data goals. Each quarter, the Department disseminates a Department Data Catalog as part of an Inventory Data Collection submission to Data.gov and OMB. This is the Department's catalog of the collection of public datasets which are owned and maintained by the respective data owners and stewards.

Advance the use of data in decision making. As part of the Department's Redesign effort stemming from the Executive Order on a Comprehensive Plan for Reorganizing the Executive Branch, the Department prioritized the access and extensive use of data from across the organization. This data was compiled and analyzed by the Redesign's Analytics Team to provide the Redesign Team with data products and valuable insights to inform the recommendations in the Redesign report. Through a separate grassroots effort, the Department established a data community of practice (Data Community) with the mission of networking data champions to advance the use of data across the Department. Last year, the Data Community hosted an event dedicated to the integration of data into foreign policy. Over 200 employees attended the event, where twelve teams across the Department presented their bureau's cutting edge approach to data-driven foreign policy.

Management Challenges: Providing an Independent Statement of the Agency

In the 2017 annual statement, the Department's Office of Inspector General (OIG) identified the most serious management and performance challenges for the Department. These challenges were identified in the areas of: protection of people and facilities; oversight of contracts, grants, and foreign assistance; information security and management; financial and property management; operating in contingency and critical environments; workforce management; and promoting accountability through internal coordination and clear lines of authority.

The OIG statement may be found in the Other Information (OI) section of this report (see pages 103-120). 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.

Deputy Secretary Sullivan pays tribute at the Diplomatic Security Memorial in Arlington, Virginia, August 9, 2017.
Department of State

IN FOCUS

HURRICANE ASSISTANCE

U.S. Department of State | Bureau of Consular Affairs

The safety and security of U.S. citizens overseas is one of our highest priorities. During Hurricanes Irma, Jose, Maria, and their aftermath, we provided emergency consular services to U.S. citizens in need and updated information to U.S. citizens in the area through security and emergency messages on TravelGov's social media sites, *travel.state.gov*, and Embassy websites.

More than **2,600** people evacuated

Responded to over **2,800** inquiries on the welfare and whereabouts of American citizens

Posted 175 Facebook messages reaching people **2.1 MILLION** times

663 messages tweeted reaching people **11.95 MILLION** times

Deployed **67** consular employees to support hurricane response efforts in the Caribbean

58,568 views on *travel.state.gov* hurricane crisis page

travel.state.gov TravelGov @TravelGov *Updated September 29, 2017*

Financial Summary and Highlights

The financial summary and highlights that follow provide an overview of the 2017 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, 2017 and 2016, 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 2017 and 2016 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	2017	2016	Change	% Change
Fund Balance with Treasury	$ 55.3	$ 50.7	$ 4.6	9%
Investments, Net	18.9	18.4	0.5	3%
Property and Equipment, Net	23.5	21.8	1.7	8%
Cash, Receivables, and Other Assets	2.9	2.9	—	0%
Total Assets	**$ 100.6**	**$ 93.8**	**$ 6.8**	**7%**
Accounts Payable	$ 2.3	$ 2.3	$ —	0%
After-Employment Benefit Liability	20.6	20.0	0.6	3%
International Organizations Liability	1.9	1.6	0.3	19%
Other Liabilities	2.0	1.8	0.2	11%
Total Liabilities	**$ 26.8**	**$ 25.7**	**$ 1.1**	**4%**
Unexpended Appropriations	45.1	40.8	4.3	11%
Cumulative Results of Operations	28.7	27.3	1.4	5%
Total Net Position	**$ 73.8**	**$ 68.1**	**$ 5.7**	**8%**
Total Liabilities and Net Position	**$ 100.6**	**$ 93.8**	**$ 6.8**	**7%**
Summary Consolidated Statement of Net Cost Data				
Total Cost and Loss/Gain on Assumption Changes	$ 35.3	$ 36.0	$ (0.7)	(2)%
Less Total Revenue	8.8	8.6	0.2	2%
Total Net Cost	**$ 26.5**	**$ 27.4**	**$ (0.9)**	**(3)%**
Summary Combined Statement of Budgetary Resources Data				
Unobligated Balance Brought Forward	$ 23.7	$ 23.2	$ 0.5	2%
Appropriations	34.0	31.8	2.2	7%
Spending Authority from Offsetting Collections	11.8	12.5	(0.7)	(6)%
Other Resources (Adjustments)	1.5	1.8	(0.3)	(17)%
Total Budgetary Resources	**$ 71.0**	**$ 69.3**	**$ 1.7**	**2%**

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

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

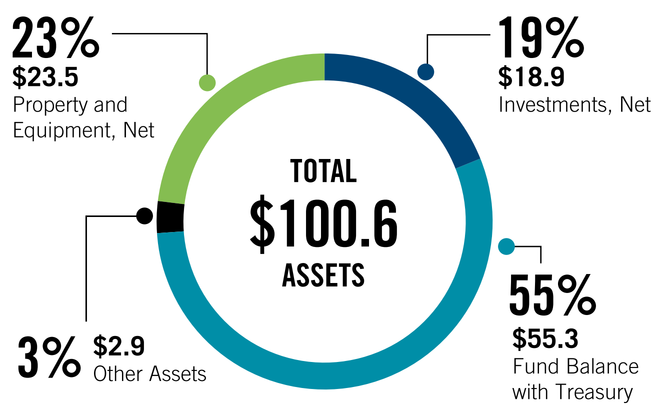
- Balance Sheet: Overview of Financial Position,
- Statement of Net Cost: Yearly Results of Operations,
- Statement of Changes in Net Position: Cumulative Overview,
- Combined Statement of Budgetary Resources: Promoting Peace Through Strength,
- The Department's Budgetary Position,
- Resource Management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

BALANCE SHEET: OVERVIEW OF FINANCIAL POSITION

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

Assets. The Department's total assets were $100.6 billion at September 30, 2017, an increase of $6.8 billion (7 percent) over the 2016 total. Fund Balance with Treasury increased $4.6 billion (9 percent) as a result of increased appropriations for International Peacekeeping Activities; Embassy Security, Construction, and Maintenance; Diplomatic and Consular Programs; and Global Health and Child Survival. Property and Equipment increased by $1.7 billion (8 percent) from September 30, 2016. New buildings, structures and improvements accounted for $1.4 billion of this increase

ASSETS BY TYPE 2017 ***(dollars in billions)***



with the top eight New Embassy Compound projects and two annex/chancery projects accounting for $947 million of the increase (see "Real Property Projects – 2017 Cost Activity"). Additionally, as part of the Property and Equipment increase, land increased by $64 million due to an acquisition in Guadalajara, Mexico for $51 million.

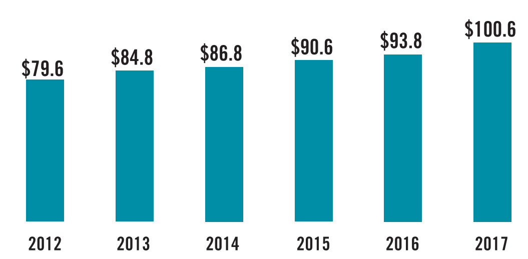
Real Property Projects – 2017 Cost Activity
(dollars in millions)

Project Name	Amount
Islamabad, Pakistan	$ 162
London, United Kingdom	148
Kabul, Afghanistan (New Annex Facility and Housing)	138
Jakarta, Indonesia	116
Harare, Zimbabwe	95
Pristina, Kosovo	63
Matamoros, Mexico	58
Amman, Jordan	58
Niamey, Niger	55
Baghdad, Iraq (Office Building Chancery)	54
Total	$ 947

Other assets decreased $124 million (12 percent) as a result of a decrease in reimbursable agreements with USAID and the United States Postal Service. The decrease in Other Assets was offset by slight increases in reimbursable agreements with the Department of Energy and other Federal agencies; as well as, voluntary contributions for relief of refugees, real property rent, and advances on behalf of USAID. Investments increased $470 million (3 percent) because contributions and appropriations received to support the Foreign Service Retirement and Disability Fund (FSRDF) were greater than benefit payments. There was also an increase due to an investment in the International Center.

Fund Balance with Treasury, Investments, and Property and Equipment comprise 97 percent of total assets for 2017 and 2016.

TREND IN TOTAL ASSETS (2012 – 2017)
(dollars in billions)

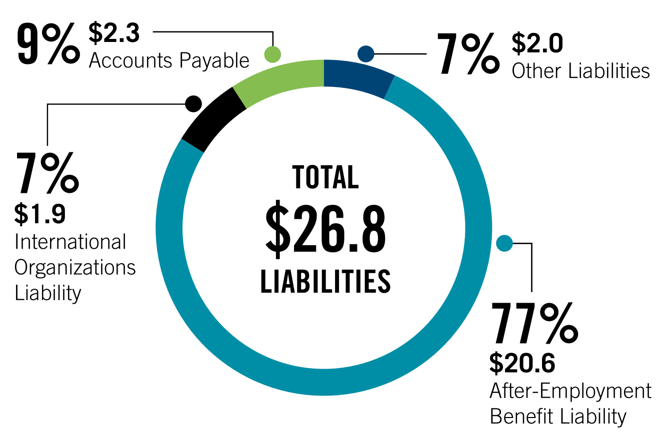


The six-year trend in the Department's total assets is presented in the "Trend in Total Assets" bar chart. Total assets have increased an overall $21 billion (21 percent) since 2012. This upward trend resulted primarily from an $11.1 billion increase in Fund Balance with Treasury, a $7.4 billion increase in Property and Equipment, and a $2 billion increase in Investments.

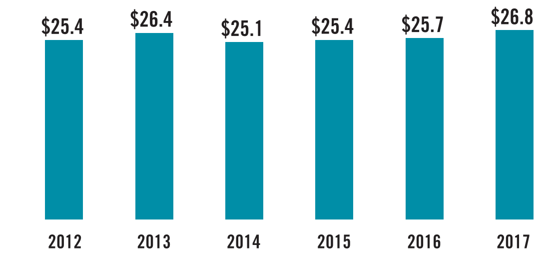
Many Heritage Assets, including art, historic American furnishings, rare books and cultural objects, are not reflected as assets on the Department's Balance Sheet. Federal accounting standards attempt to match costs to accomplishments in operating performance, and have deemed that the allocation of historical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

Liabilities. The Department's total liabilities were $26.8 billion at September 30, 2017, an increase of $1.1 billion (4 percent) between 2016 and 2017. Other liabilities increased by $154 million (8 percent) primarily due to increases in Federal assistance liabilities offset by decreases in funds previously held in trust and deposit accounts for the International Center.

LIABILITIES BY TYPE 2017 ***(dollars in billions)***



TREND IN TOTAL LIABILITIES (2012 – 2017)
(dollars in billions)



After-Employment Benefit Liability comprises 77 percent of total liabilities and increased $551 million (3 percent) from 2016.

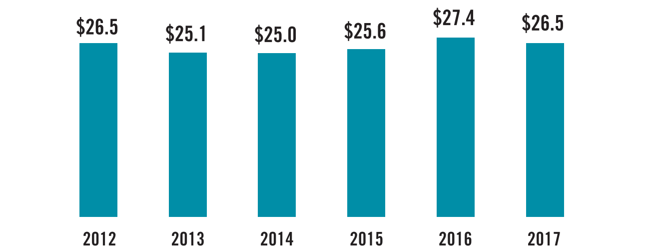
The six-year trend in the Department's total liabilities is presented in the "Trend in Total Liabilities" bar chart. Over this period, total liabilities increased by $1.4 billion (5 percent). This change is principally due to the increase in the After-Employment Benefit Liability, a $1.4 billion increase. The increase is due to a higher number of Foreign Service employees enrolled in the plan and changes in the key economic indicators underlying the actuarial computation over time.

Ending Net Position. The Department's net position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, increased $5.7 billion (8 percent) between 2016 and 2017. Cumulative Results of Operations increased $1.4 billion and Unexpended Appropriations were up $4.3 billion due in part to the budgetary financing sources used to purchase property and equipment.

STATEMENT OF NET COST: YEARLY RESULTS OF OPERATIONS

The Statement of Net Cost presents the Department's net cost of operations by major program instead of strategic goal. The Department believes this is more consistent and transparent with its Congressional Budget submissions. Net cost is the total program cost incurred less any exchange (i.e., earned) revenue. The presentation of program results is based on the Department's major programs related to the major goals established pursuant to the Government Performance and Results Act (GPRA) of 1993 and the GPRA Modernization Act of 2010. The total net cost of operations in 2017 equaled $26.5 billion, a decrease of $835 million (3 percent) from 2016. This decrease of net costs was mainly due to decreases in spending for International Organizations and Commissions as a result of timing differences in assessments received from the international organizations and decreases in spending for global health programs. This decrease is offset by an increase in pension expense in the FSRDF due to actuarial assumption changes.

TREND IN NET COST OF OPERATIONS (2012 – 2017)
(dollars in billions)



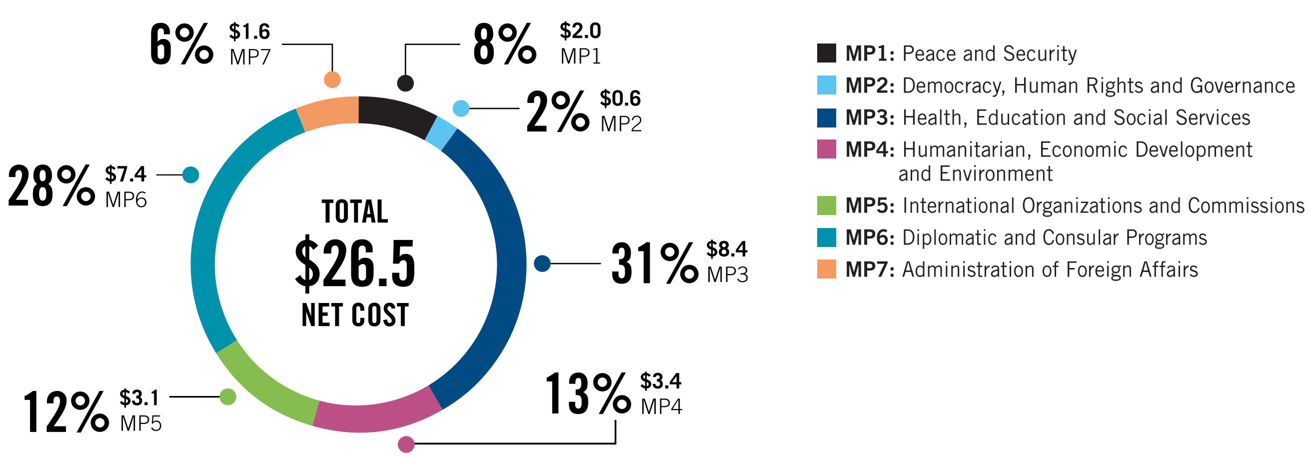
The six-year trend in the Department's net cost of operations is presented in the "Trend in Net Cost of Operations" bar chart. There is a decrease from 2012 with a return to 2012 levels by 2017. Increases from 2014 generally reflect costs associated with new program areas related to countering security threats and sustaining stable states, as well as the higher cost of day-to-day operations such as inflation and increased global presence.

The "Net Cost of Operations by Major Program" pie chart illustrates the results of operations by major program, as reported on the Statement of Net Cost. As shown, net costs associated with two of the major programs (Health, Education and Social Services) and (Diplomatic and Consular Programs) represents the largest net costs in 2017 – a combined $15.8 billion (60 percent). The largest decrease was in the International Organizations and Commissions program. This program decreased by $927 million as a result of timing differences in assessments received from the international organizations. There were fewer assessments received in 2017. In the Administration of Foreign Affairs program, net costs increased by $574 million as a result of increases in the actuarial loss on pension assumption changes for the FSRDF. There was a decrease in the ten year rolling inflation rate used to calculate the pension assumption changes.

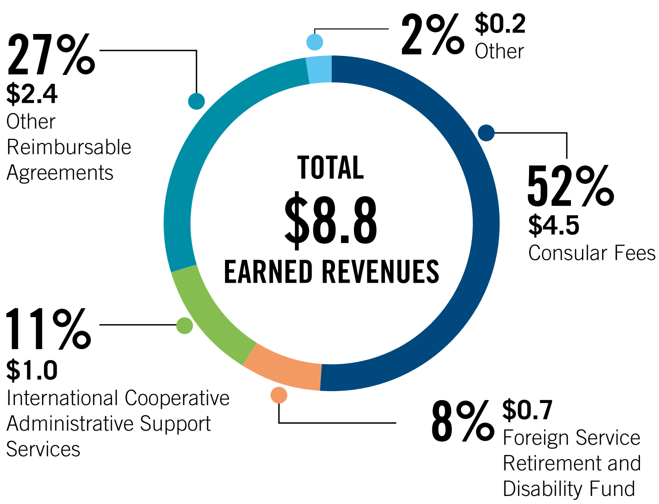
Earned Revenues

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

NET COST OF OPERATIONS BY MAJOR PROGRAM 2017
(dollars in billions)



EARNED REVENUES BY PROGRAM SOURCE 2017
(dollars in billions)



Cards, are determined statutorily. Revenue from reimbursable agreements is received to perform services overseas for other Federal agencies. The FSRDF receives revenue from employee/employer contributions, a U.S. Government contribution, and investment interest. Other revenues come from ICASS billings and Working Capital Fund earnings.

Earned revenues totaled $8.8 billion for the fiscal year ending September 30, 2017, and are depicted, by program source, in the "Earned Revenues by Program Source" pie chart. The major sources of revenue were from consular fees ($4.5 billion or 52 percent), reimbursable agreements ($2.4 billion or 27 percent), and ICASS earnings ($1.0 billion or 11 percent). These revenue sources totaled $7.9 billion (90 percent). Overall, revenue increased by two percent – $201 million from 2016 to 2017. This increase is primarily a result of an increase in surcharges from passports and an increase in reimbursable activity with other Federal agencies.

STATEMENT OF CHANGES IN NET POSITION: CUMULATIVE OVERVIEW

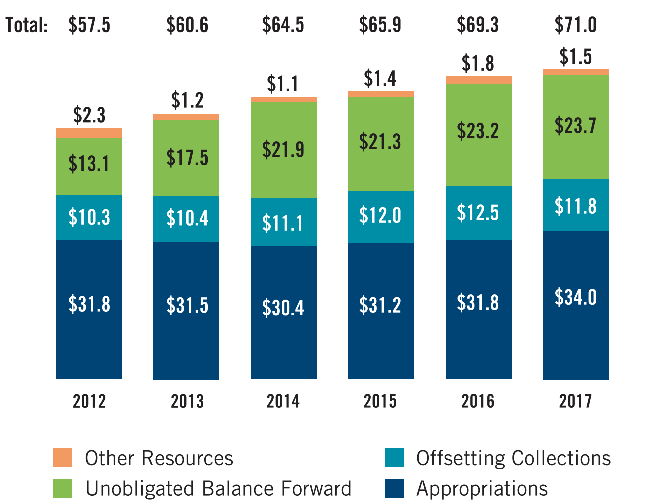
The Statement of Changes in Net Position identifies all financing sources available to, or used by, the Department to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals the Net Position at year-end. The Department's net position at the end of 2017 was $73.8 billion, a $5.7 billion (8 percent) increase from the prior fiscal year. This change resulted from the $4.3 billion increase in Unexpended Appropriations and a $1.4 billion increase in Cumulative Results of Operations.

COMBINED STATEMENT OF BUDGETARY RESOURCES: PROMOTING PEACE THROUGH STRENGTH

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

The Department's budgetary resources consist primarily of appropriations, spending authority from offsetting collections, unobligated balances brought forward from prior years, and other resources. The "Trend in Total Budgetary Resources" bar chart highlights the budgetary trend over the fiscal years 2012 through 2017. A comparison of the two most recent years shows a $1.7 billion (2 percent) increase in total resources since 2016. This change resulted from increases in appropriations ($2.2 billion) and unobligated balances ($0.5 billion) and decreases in other resources ($0.3 billion) and offsetting collections ($0.7 billion).

TREND IN TOTAL BUDGETARY RESOURCES (2012 – 2017)
(dollars in billions)



The Department's Budgetary Position

The FY 2017 budget for the Department was funded by three appropriations bills: the Zika Response and Preparedness Act (Public Law No. 114-223) enacted on September 29, 2016; the Further Continuing and Security Assistance Appropriations Act (Public Law No. 114-254 (SAAA)) enacted on December 10, 2016; and the FY 2017 Consolidated Appropriations Act (Public Law No. 115-31) enacted on May 5, 2017. The Department's budget is comprised of two funding components: Enduring resources under Titles I-VII, and Overseas Contingency Operations (OCO) under Title VIII. Public Law No. 115-31 continued the prior-year practice of increasing OCO above the Presidents' Budget request, while reducing Enduring, in order to comply with the spending limits set by the Bipartisan Budget Agreement of 2015. The Bureau of Budget and Planning manages the Diplomatic Engagement portion of the budget, and the Office of U.S. Foreign Assistance Resources manages Foreign Assistance funds.

Budgetary Position for Diplomatic Engagement

The FY 2017 appropriated Diplomatic Engagement budget totaled $17.2 billion. This includes $10.3 billion in Enduring funds, $5.2 billion in OCO funds and an additional $1.7 billion in SAAA funds. The funding provided in FY 2017 supported the people and programs which carried out U.S. foreign policy and advanced U.S. national security, political, and economic interests at 276 posts in 195 countries around the world. These funds also built, maintained and secured the infrastructure of the U.S. diplomatic platform, from which most U.S. Government agencies operated overseas. The SAAA funds provided in FY 2017 for Diplomatic Engagement activities related specifically to defeating the Islamic State in Iraq and Syria (ISIS) and other terrorist organizations, countering violent extremism in Africa, Europe and Eurasia, the Middle East, and South Central Asia, and countering Russian influence.

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

In FY 2017, Diplomatic and Consular Programs (D&CP), the Department's principal operating appropriation, totaled $8.6 billion, including Enduring and OCO funds. Within the total, $4.9 billion supported ongoing program operations and $3.7 billion went toward the Worldwide Security Protection (WSP) program to strengthen security for diplomatic personnel and facilities and to sustain investments in response to the Accountability Review Board report on Benghazi, Libya. Major elements of this funding included $1.2 billion to support operations of the U.S. Mission in Iraq; $914 million for activities in Afghanistan; $145 million for key programs and activities in Pakistan; $490 million, all OCO, for supporting operations in other areas of unrest including high threat, high risk posts; and $595 million for public diplomacy programs to counter misinformation and secure support for U.S. policies abroad.

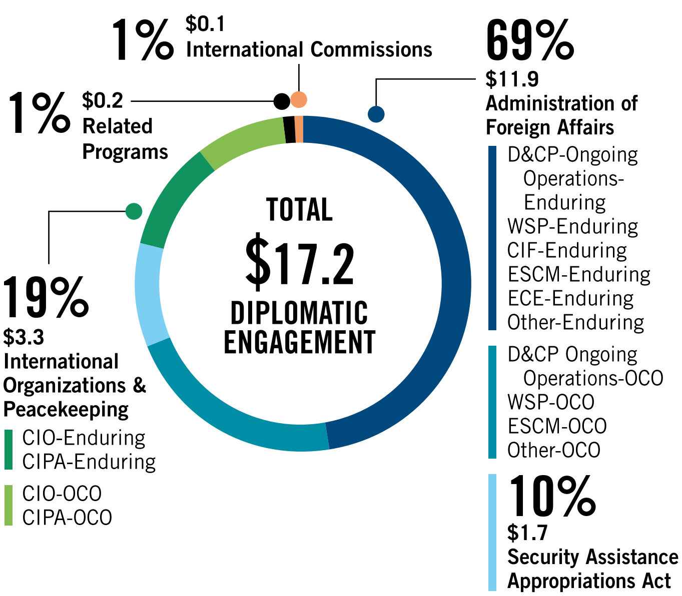
The Department's Information Technology (IT) Central Fund for FY 2017 investments in IT was a total of $271 million. This included $13 million from the Capital Investment Fund appropriation and $258 million in revenue from Expedited Passport fees. Investment priorities included modernization of the Department's global IT infrastructure to assure reliable access to foreign affairs applications, systems, and projects to facilitate collaboration, knowledge management, and data sharing internally and with other agencies.

The Embassy Security Construction and Maintenance (ESCM) appropriation was a total of $2.4 billion, including $1.2 billion in OCO, which provides U.S. missions overseas with secure, safe, and functional facilities. This supported maintenance and repairs of the Department's real estate portfolio, which exceeds $87 billion in replacement value and includes approximately 24,000 properties.

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at $634 million. Elements of the Department's public diplomacy strategy include Educational and Cultural Exchange programs that engage both domestic and foreign audiences to develop mutual understanding and build foundations for international cooperation. Major highlights of FY 2017 funding included: $320 million for Academic Programs, such as the J. William Fulbright Scholarship Program, $215 million for Professional and Cultural Exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program, and $29 million for the Young Leaders Initiatives. This appropriation also funds over 400 employees of the Bureau of Educational and Cultural Affairs.

The FY 2017 appropriation provides a total of $1.4 billion for the Contributions to International Organizations (CIO) account, including $96.2 million for Overseas Contingency Operations/Global War on Terrorism, and $1.3 billion in Enduring funds for assessed contributions to international organizations including the United Nations and its specialized agencies, regional and Inter-American organizations, and other international organizations. The FY 2017 appropriation provides $1.9 billion for the Contributions for International Peacekeeping Activities (CIPA) account, including $1.4 billion in OCO, and $552.9 million in Enduring funds for assessed contributions to international peacekeeping activities directed to the maintenance or restoration of international peace

DIPLOMATIC ENGAGEMENT BUDGET FY 2017
(dollars in billions)



and security. The remainder of the Diplomatic Engagement enduring operations budget is comprised of Related Programs ($204 million) and International Commissions ($127 million) appropriations.

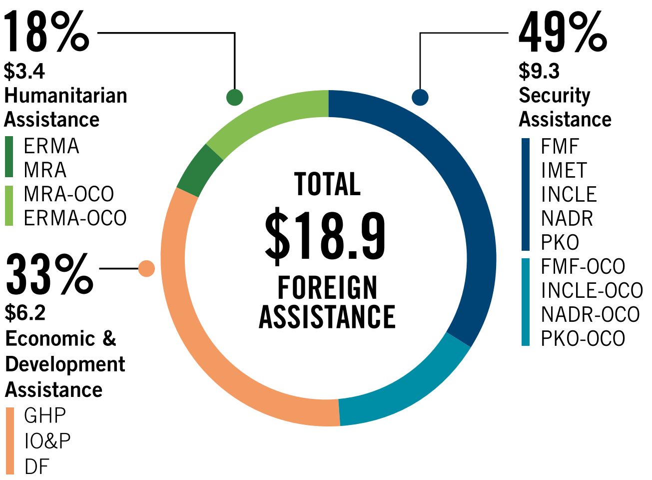
Looking ahead, the Department's FY 2018 Diplomatic Engagement budget request totals $12.3 billion, including $4 billion in OCO, and reflects the President's "America First" agenda that prioritizes the well-being of Americans, bolsters U.S. national security, secures the nation's borders, and advances U.S. economic interests. The President's request reflects a commitment to rebuild the nation's military within fiscal constraints, while working to advance national security objectives and foreign policy goals such as defeating ISIS and other transnational terrorist groups, combat illegal migration and trafficking, and level the playing field for American workers and businesses.

The FY 2018 Diplomatic Engagement Enduring request of $8.3 billion represents the Department's ongoing investment necessary to advance the U.S.'s security and economic interests around the world. The FY 2018 OCO request includes $2.98 billion for D&CP and WSP, $1.02 billion for CIO and CIPA, and $54.9 million for the Special Inspector General for Afghanistan Reconstruction. The majority of the D&CP OCO request continues to support the unique operating environment in Iraq, and the Kabul-centric presence in Afghanistan. The FY 2018 request will allow the Department to advance the nation's most important foreign policy goals and national security interests while ensuring that U.S. taxpayer dollars are used as effectively and efficiently as possible.

Budgetary Position for Foreign Assistance

The FY 2017 Department of State Foreign Assistance budget totaled $18.9 billion, including $0.7 billion from the FY 2017 Security Assistance Appropriations Act. Foreign Assistance programs support the President's "America First" vision with a commitment to four key national priorities: Defending U.S. national security, asserting U.S. leadership and influence, fostering opportunities for U.S. economic interests, and ensuring effectiveness and accountability to the U.S. taxpayer.

FOREIGN ASSISTANCE BUDGET FY 2017
(dollars in billions)



Foreign Assistance programs under the purview of the Department of State are the Democracy Fund (DF); Foreign Military Financing (FMF); Global Health Programs (GHP); International Military Education and Training (IMET); International Narcotics Control and Law Enforcement (INCLE); International Organizations and Programs (IO&P); Migration and Refugee Assistance (MRA); U.S. Emergency Refugee and Migration Assistance (ERMA); Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR); and Peacekeeping Operations (PKO). The Department also implements funds from the Assistance for Europe, Eurasia, and Central Asia account and the Economic Support Fund account.

An important aspect of the Department's FY 2017 budget is the Overseas Contingency Operations (OCO) component. OCO funds enable us to prevent, address, and help countries recover from manmade-caused crises and natural disasters, particularly in Africa, the Middle East and South Central Asia. The Department's Foreign Assistance portion of the FY 2017 budget for OCO totaled $5.4 billion in ERMA, FMF, INCLE, MRA, NADR, and PKO.

The Democracy Fund appropriation totaled $210.5 million in FY 2017; the funds were split, however, between the Department and USAID. The Department was allocated $145.4 million to promote democracy in priority countries where egregious human rights violations occur, democracy and human rights advocates are under pressure, governments are not democratic or are in transition, where there is growing demand for human rights and democracy, and for programs promoting Internet Freedom.

The FY 2017 FMF appropriation totaled $6.3 billion, of which $1.5 billion is designated as OCO and $4.8 billion supports core programs. FMF promotes U.S. national security by contributing to regional and global stability, strengthening military support for key U.S. allies and regional partner governments, and countering transnational threats, including terrorism and trafficking in narcotics, weapons, and persons. The provision of FMF assistance to partner militaries establishes and facilitates strong military-to-military cooperation, promotes U.S. trade and economic interests, and enables friends and allies to be interoperable with U.S., regional, and international military forces. The majority of FMF is allocated to Israel, Egypt, Jordan, Pakistan, and Iraq, and OCO funds are concentrated in Eastern Europe (Georgia, Ukraine, and Moldova) and the Near East and South Asia (Egypt, Iraq, Jordan, Lebanon, Tunisia, and Pakistan).

In FY 2017, the portion of the Global Health Programs appropriation managed by the Department totaled $5.7 billion. This is the primary source of funding for the President's Emergency Plan for AIDS Relief. These funds are used to control the epidemic through data-driven investments that strategically target geographic areas and population where the initiative can achieve the most impact for its investments. The majority of the funds ($3.2 billion) continued to be allocated to the Africa region where the HIV/AIDS epidemic is the most widespread. There was also a $1.35 billion contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

The FY 2017 International Military Education and Training (IMET) appropriation totaled $110.3 million. IMET is a key component of U.S. security assistance that promotes regional stability and defense capabilities through professional military training and education. IMET students from allied and friendly nations receive valuable training and education on U.S. military practices and standards. IMET is an effective mechanism for strengthening military alliances and international coalitions critical to the global fight against terrorism.

The INCLE appropriation for FY 2017 totaled $1.3 billion, of which $377.1 million is OCO and $878.5 million is for core programs. INCLE supports the safety and security of the United States through bilateral, regional, and global programs that address and mitigate security threats posed by illicit trafficking in narcotics, persons, and wildlife, among other pernicious forms of transnational crime. INCLE programs assist U.S. partners in developing their criminal justice systems and capabilities in order to protect the national security and economic interests of the United States from the impact of crime and instability overseas. In FY 2017, many INCLE resources were focused where security situations are most dire, and where U.S. resources were used in tandem with host-country government strategies to maximize impact.

The FY 2017 International Organizations and Programs appropriation totaled $339 million. It provided international organizations voluntary contributions that advanced U.S. strategic goals by supporting and enhancing international consultation and coordination. This approach is required in transnational areas where solutions to problems are best addressed globally, such as protecting the ozone layer or safeguarding international air traffic. In other areas, the United States can multiply its influence and effectiveness through support for international programs.

In FY 2017, the MRA appropriation totaled $3.4 billion, of which $2.5 billion was OCO and $912.8 million was for core programs. These funds provided humanitarian assistance and resettlement opportunities for refugees and conflict victims around the globe. In FY 2017, MRA contributed to key multilateral organizations such as the UN High Commissioner for Refugees and the International Committee of the Red Cross, and to non-governmental organizations that address pressing humanitarian needs overseas and resettle refugees in the United States.

The FY 2017 U.S. Emergency Refugee and Migration Assistance (ERMA) appropriation totaled $50.0 million, including $40.0 million of OCO. ERMA serves as a contingency fund from which the President can draw in order to respond effectively to humanitarian crises in an ever-changing international environment.

Did You Know?

Abel Parker Upshur, the 15th Secretary of State, served both as the Secretary of the Navy (1841-1843) and the Secretary of State (1843-1844).

LEARN MORE

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

The NADR appropriation in FY 2017 totaled $970.5 million, of which $469.8 million is OCO and $500.7 million supported core programs. NADR funding is used to support U.S. national interests through critical, security-related programs, especially in the areas of nonproliferation and disarmament, export control, and other border security assistance; global threat-reduction programs, antiterrorism programs; and conventional weapons destruction.

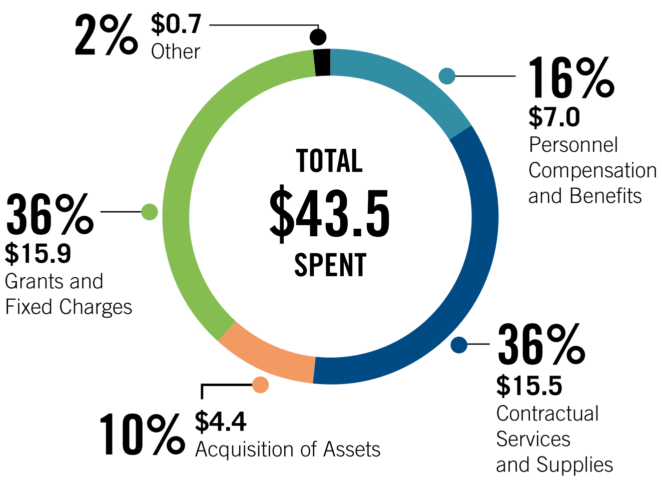
The PKO appropriation totaled $659.0 million, of which $524.0 million was OCO and $135.0 million supported core programs. PKO is used to support programs that bolster the capacity of partner nations to conduct critical peacekeeping and counterterrorism operations, support stabilization in countries grappling with violent conflict, enhance maritime security, and promote security sector reform. In FY 2017, the PKO program supported ongoing requirements for the Global Peace Operations Initiative, security sector reform in Liberia, South Sudan, and the Democratic Republic of the Congo, as well as multinational peacekeeping and regional stability operations, particularly in Somalia.

The Department of State's FY 2018 budget request for Foreign Assistance is currently under congressional consideration. The request is for $14.8 billion, of which $11.6 billion supports core programs and another $3.2 billion is for OCO funding.

Budgetary Spending

The "How was the Agency's Money Spent" pie chart presents the use of budgetary funds representing 2017 total obligations incurred, as reflected on the SBR. It shows how resources were spent in 2017, by category. As illustrated, the categories contractual services $15.5 billion (36 percent), grants and fixed charges $15.9 billion (36 percent), and personnel compensation and benefits $7.0 billion (16 percent) represent 88 percent of the agency's spending.

HOW WAS THE AGENCY'S MONEY SPENT 2017
(dollars in billions)



RESOURCE MANAGEMENT SYSTEMS SUMMARY

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

LIMITATION OF FINANCIAL STATEMENTS

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

Management Assurances and Other Financial Compliances

Management Assurances

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

Federal Managers' Financial Integrity Act

The Department of State's (the Department's) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. The Department conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2017.

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

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

Rex W. Tillerson
Secretary of State
November 17, 2017

DEPARTMENTAL GOVERNANCE

Management Control Program

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

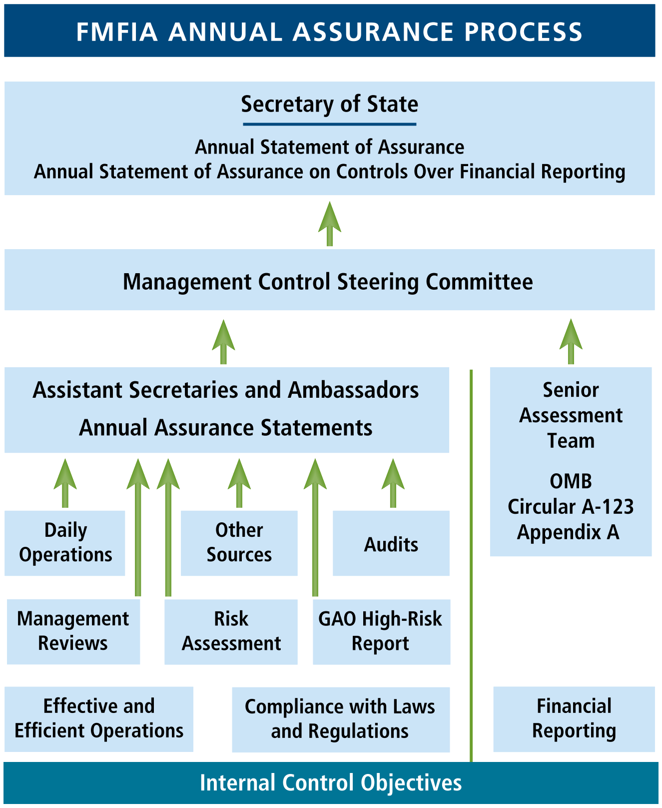
The FMFIA requires the GAO to prescribe standards of internal control in the Federal Government. Commonly known as the Green Book, these standards provide the internal control framework and criteria Federal managers must use in designing, implementing, and operating an effective system of internal control.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

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

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

The Secretary of State's 2017 Statement of Assurance for FMFIA is provided on the previous page. We have also provided a Summary of Financial Statement Audits and Management Assurances as required by OMB Circular A-136, *Financial Reporting Requirements*, revised, in the Other Information section of this report. In addition, there are no individual areas for the Department on GAO's bi-annual High-Risk List issued in February 2017.

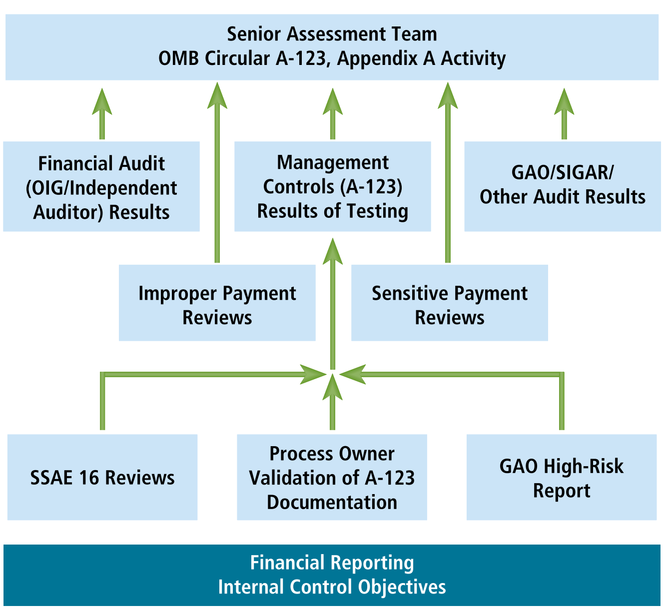
The Department's Management Control Steering Committee (MCSC) oversees the Department's management control program. The MCSC is chaired by the Comptroller, and is comprised of eight Assistant Secretaries, in addition to the Chief Information Officer, the Deputy Comptroller, the Deputy Legal Adviser,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



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

The Senior Assessment Team (SAT) provided oversight during 2017 for the internal controls over financial reporting program in place to meet Appendix A to OMB Circular A-123 requirements. The SAT reports to the MCSC and is comprised of 16 senior executives from bureaus that have significant responsibilities relative to the Department's financial resources, processes, and reporting. The SAT also includes executives from the Office of the Legal Adviser and the Office of Inspector General (non-voting). In addition, the Department's Office of Management Controls employs an integrated process to perform the work necessary to meet the requirements of Appendix A, Appendix C (regarding the Improper Payments Information Act, as amended), and the FMFIA. The Department employs a risk-based approach in evaluating internal controls over financial reporting on a multi-year rotating basis, which has proven to be efficient. Due to the broad knowledge of management involved with the Appendix A assessment, along with the extensive work performed by the Office of Management Controls, the Department evaluated issues on a detailed level. The 2017 Appendix A assessment did not identify any material weaknesses in the design or operation of the internal control over financial reporting. The assessment did identify several significant deficiencies in internal control over financial reporting that management is closely monitoring.

A-123, APPENDIX A PROCESS



The Department's management controls program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and various Federal laws and regulations. To that end, the Department has dedicated considerable resources to administer a successful management control program. The Department complied with the requirements in OMB Circular A-123 during FY 2017 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. Actions were taken during FY 2017 to expand our work on the Green Book requirements that are directly related to testing entity-level controls, which is a primary step in operating an effective system of internal control. Entity-level controls are mostly within the control environment, risk assessment, control activities, information and communication, and monitoring components of internal control in the Green Book, which are further required to be analyzed by 17 underlying principles of internal control. For the Department, all five components and 17 principles were operating effectively and supported the Department's unmodified Statement of Assurance.

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

During FY 2017, the Department continued to take important steps to transform how the Department will implement an Enterprise Risk Management (ERM) System. A principal element will be to integrate better risk management into our everyday work across all of our operations. The Department's Office of Policy, Rightsizing, and Innovation (M/PRI) leads the Department's ERM implementation. M/PRI, in collaboration with the Office of Budget and Planning and the Office of the Comptroller, worked closely with offices throughout the Department to establish the Department's risk profile. Additionally, M/PRI is working on an implementation plan with tools, training, and communication components that will establish a more structured approach to Risk Management.

Federal Financial Management Improvement Act

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

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

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

Federal Information Security Modernization Act

The Federal Information Security Modernization Act of 2014 (FISMA) requires Federal agencies to develop, document, and implement an agency-wide program to protect government information and information systems that support the operations and assets of the agency. The 2014 Act superseded the original Federal Information Security Management Act of 2002. The 2014 Act provided a leadership role for the Department of Homeland Security, created new cyber breach notification requirements, and modified the scope of reportable information from primarily policies and financial information to specific information about threats, security incidents, and compliance with security requirements. FISMA was reinforced by an Executive Order 13800, *Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure* (EO 13800), dated May 11, 2017.

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

Identify

- The Department procured a Governance, Risk Management, and Compliance application to improve Authority to Operate and Plans of Action and Milestones management and began deployment and implementation in 2017.
- The Department established the Cloud Computer Governance Board to ensure appropriate and authorized use of cloud services.
- The Department identified the needed resources to move towards standing up an Enterprise Risk Management Office within the Bureau of Information Resource Management.

- The Enterprise Risk Officer for Cybersecurity coordinated the response to EO 13800 Section 1 which was submitted in accordance with OMB Memorandum-17-25, *Reporting Guidance for Executive Order on Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*.
- The Department reduced the backlog of pending security assessments by assessing and authorizing 28 percent of that backlog of systems during 2017.

Protect

- The Department significantly reduced the number of stale accounts (accounts not logged into in the last 90 days) and misconfigured accounts (i.e., shared mailboxes not configured to use SmartCards) on the Department's network in order to improve access controls.
- The Department deployed a phishing awareness tool and quarterly exercises that test and train employees how to recognize and correctly respond to phishing attacks to provide enterprise-wide awareness on how to identify and avoid phishing threats.

Detect

- The Department continues to leverage the Department of Homeland Security's Continuous Diagnostics and Mitigation (CDM) Program. The CDM Program enhances our existing tools to ensure all hosts, regardless of operating system, are identified and monitored for vulnerabilities.
- The Department implemented the first phase of CDM including hardware and software identification.
- The Department deployed cyber detection dashboards to aggregate server logs in an effort to quickly identify anomalies on the network.
- The Department conducted penetration tests by both internal and external partners.

Response

- The Department established the Cybersecurity Integrity Center, under the Joint Security Operation Center concept, to further enhance cyber monitoring activities and the Department's ability to detect anomalous behavior on the network.
- The Department is updating the Joint Security Operation Center's Incident Response Plan with clear roles and responsibilities.

Recover

- The Department established High Availability/Disaster Recovery for critical functions.
- The Department updated and tested the annual Contingency Plan (CP) tests following the recent changes to the accredited cybersecurity posture. The Department's CP assessments will continue to be reviewed as needed.

In its FY 2017 FISMA Report, the OIG cites significant weaknesses to information systems security. The Department acknowledges the weaknesses identified by the OIG in its FISMA review but does not believe that any of the FISMA findings, either individually or collectively, rise to the level that requires reporting of a material weakness under FMFIA. The Department of State remains committed to adopting the best cybersecurity practices and embedding them into the Department's culture. As a result, we continue to improve our cybersecurity posture and provide transparency across the Department and with external partners.

Other Regulatory Requirements

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

Secretary Tillerson speaks with President Trump during a meeting with leaders at the Gulf Cooperation Council Summit, at the King Abdulaziz Conference Center in Riyadh, Saudi Arabia, May 21, 2017. *©AP Image*

SECTION II:
Financial Section

Message from the Comptroller

The Department of State is committed to delivering the highest standard of financial accountability. As noted in the Secretary's Message, "if accountability does not start with ourselves, we cannot achieve the aims of our foreign policy nor credibly extend it to our friends or our adversaries." To this end, it is my sincere privilege to present the Department's Fiscal Year (FY) 2017 Agency Financial Report (AFR), including this year's audited Financial Statements. The AFR is the cornerstone of our efforts to disclose our financial status and reflect the dedicated stewardship over the assets and resources entrusted to us. It speaks to our commitment to the American public to transparently demonstrate effective management and accountability. It also represents and portrays the challenging work and diligence performed on a daily basis by dedicated professionals around the world, in some of the most difficult operating environments. 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 scale and complexity of the Department's global mission and operations, and corresponding financial activities, is the central setting and context for our financial performance and challenges. Despite these complexities, the Department pursues a commitment to integrity, transparency and accountability. The Department operates in over 270 embassies and consulates, located in more than 180 countries around the world. We conduct business on a 24/7 basis in over 135 currencies; account for more than $100 billion in assets in over 500 separate fiscal accounts; maintain 227 bank accounts around the world; and manage real and personal property assets with historical costs of more than $34 billion. We provide the shared administrative operating platform for more than 45 other U.S. Government entities overseas; and pay more than 100,000 Foreign and Civil Service, overseas local employees, and Foreign Service annuitants. These financial activities support our ability to advance America's interests on a broad range of foreign policy challenges and engagements that demand our attention.

In delivering our financial programs, the Bureau of the Comptroller and Global Financial Services (CGFS), the Department's corporate finance bureau, is committed to providing world-class financial services. Our strong commitment to quality financial services is backed by our ISO-9001 certified operations and Capability Maturity Model Integration (CMMI) standard for financial systems development. In addition, we continue to prioritize, manage, and implement vital investments in modern, transformative financial systems and operations. These investments facilitate standardized and economical enterprise-wide financial business processes, and meeting the large scope of audit and compliance requirements. They also facilitate accurate and timely financial data and improving the reporting to the American public on how the Department spends their tax dollars. To that end, the Digital Accountability and Transparency Act of 2014 (DATA Act) requires agency financial and payment information to be reported to the public using USASpending.gov, and as required under the Act, on April 30, 2017, the Department made its first submission of the requisite data on Department spending for the second quarter of FY 2017.

Our strong commitment to effective internal controls is fundamental to our business. The Department maintains a robust system of internal controls that are validated by senior leadership. For FY 2017, no material weaknesses in internal controls were identified by senior leadership and no material weaknesses in internal controls over financial reporting were identified by the Senior Assessment Team or the Management Control Steering Committee. As a result, the Secretary was able to provide reasonable assurance on the effectiveness of the Department's overall internal controls and the internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act. As highlighted in the AFR, the Department does not have any programs at risk for making significant improper payments. This past year we implemented new initiatives for conducting payment risk assessments and recapture audits, as well as verifications against Treasury's Do Not Pay databases. In their annual assessment, the OIG found the Department's improper payments program to be in compliance with Improper Payments Information Act (IPIA), as amended.

The external annual audit process is another essential part of our commitment to strong corporate governance and effective internal controls. The audited Financial Statements in the AFR represent the culmination of a year-round rigorous process with our partners, the Office of the Inspector General (OIG) and the Independent Auditor, Kearney & Company. While we may not always agree on all points with our audit partners, we fully recognize and appreciate the importance of this annual practice. I would like to thank all parties for their collaborative and professional efforts throughout the audit process. I am pleased to report that the Department has received an unmodified ("clean") audit opinion on its FY 2017 Financial Statements, with no material weaknesses in internal controls over financial reporting identified by the Independent Auditor. I am also pleased to report that, working collaboratively with the OIG and Kearney, we were able to implement corrective actions and downgrade the previously reported significant deficiency in internal control for financial reporting.

Going forward, we will continue our transformation efforts that allow us to more effectively and efficiently deliver financial programs that support the Department's vital mission. Over the next several years, there is no doubt that the use of data as a resource will be central to the Department's transformation efforts and our ability to measure performance and enhance data-informed decision making. Our support of these efforts, together with the continuous assessment and enhancement of the cybersecurity for our financial systems and data, will be key tasks.

While we are pleased with what has been accomplished this year, we fully recognize and appreciate that there are a number of items noted in the AFR and the Independent Auditor's Report that will require our continued attention. Having been a part of the Department's financial management team and financial audit process for more than two decades, I know there are new requirements, initiatives, issues, and opportunities for improvement right around the corner. This is particularly true given the global and complex nature of our financial operations and the daily uncertainty of the world in which we operate. I also know that the outstanding team of financial professionals around the world and in CGFS is up to the task of meeting these challenges. In closing, I would like to extend my sincere appreciation and call attention to the Department's financial professionals, globally, who form the foundation for our success and strong financial stewardship. It is my honor and privilege to serve this great Nation and Department with you.

Sincerely,

Christopher H. Flaggs

Christopher H. Flaggs
Comptroller
November 17, 2017

OIG Office of Inspector General
U.S. Department of State • Broadcasting Board of Governors

UNCLASSIFIED November 15, 2017

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Steve A. Linick

SUBJECT: Independent Auditor's Report on the U.S. Department of State 2017 and 2016 Financial Statements (AUD-FM-18-05)

An independent external auditor, Kearney & Company, P.C., was engaged to audit the consolidated financial statements of the U.S. Department of State (Department) as of September 30, 2017 and 2016, and for the years then ended; to provide a report on internal control over financial reporting; to report on whether the Department's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements it tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance.

In its audit of the Department's 2017 and 2016 financial statements, Kearney & Company found

- the consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2017 and 2016, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America;
- no material weaknesses[1] in internal control over financial reporting;
- four significant deficiencies[2] in internal control, specifically in the areas of property and equipment, budgetary accounting, validity and accuracy of unliquidated obligations, and information technology; and
- three instances of reportable noncompliance with laws, regulations, contracts, and grant agreements tested, specifically the Antideficiency Act, the Prompt Payment Act, and FFMIA.

[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.

U.S. Department of State, Office of Inspector General, Washington, DC 20520-0308
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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 15, 2017, and the conclusions expressed in the report. The Office of Inspector General (OIG) does not express an opinion on the Department's financial statements or conclusions on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements, including whether the Department's financial management systems substantially complied with FFMIA.

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

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

Attachment:
As stated

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INDEPENDENT AUDITOR'S REPORT
AUD-FM-18-05

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of State (Department), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2017 and 2016, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

As of November 15, 2017, the Department did not include Management Assurances in the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require be presented to supplement the consolidated financial statements. Such missing information, although not part of the consolidated financial statements, is required by OMB Circular A-136 and the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the consolidated financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the Introduction, the Message from the Comptroller, the Other Information Section, and Appendices as listed in the Table of Contents of the

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Department's Agency Financial Report, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03, we have also issued reports, dated November 15, 2017, on our consideration of the Department's internal control over financial reporting and on our tests of the Department's compliance with provisions of applicable laws, regulations, contracts, and grant agreements for the year ended September 30, 2017. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 17-03 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 15, 2017

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2017, and have issued our report thereon dated November 15, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, "Audit Requirements for Federal Financial Statements."

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 17-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

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

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

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

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Significant Deficiencies

I. Property and Equipment

The Department reported over $23 billion in net property and equipment on its FY 2017 balance sheet. Real and leased property consisted primarily of facilities used for U.S. diplomatic missions abroad and capital improvements to these facilities. Personal property consisted of several asset categories, including aircraft, vehicles, security equipment, communication equipment, and software. Weaknesses in property and equipment were initially reported in the audit of the Department's FY 2005 consolidated financial statements and subsequent audits. In FY 2017, 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:

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

- Real Property Acquisitions – 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 that real property transactions were not always recorded by the Department in a timely manner. Although the Department has a process to identify real property transactions that should be recorded in its accounting records, certain transactions were unrecorded because of the timing of key process activities and human error. The untimely processing of property transactions resulted in misstatements in the Department's property balances.

- Accounting for Leases – The Department manages approximately 17,000 real property leases throughout the world. The majority of the Department's leases are short-term operating leases. The Department must disclose the future minimum lease payments (FMLP) related to the Department's operating lease obligations in the footnotes to the

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consolidated financial statements. We found numerous recorded lease terms that did not agree with supporting documentation. We also found errors in the Department's FMLP calculations despite using accurate lease data. In addition, we tested leases that were scheduled to expire and found multiple leases that had been renewed; however, the renewed lease terms were not included in the Department's FMLP calculations. The Department's processes to record lease information and to ensure the accuracy of FMLP calculations were not always effective. As a result of errors identified by our audit, the Department adjusted its financial statement footnote disclosure.

- <u>Incomplete and Inaccurate Reporting of Software</u> – Federal agencies use various types of software applications, called "internal use software" (IUS), to conduct business. Applications in the development phase are considered software in development (SID). Agencies are required to report software as general property in their financial statements. We identified numerous instances in which the data recorded for SID and IUS were inaccurate and additional instances where software projects were inaccurately classified as SID rather than IUS. We also identified software spending that was not reported as SID or IUS. Although the Department performs a quarterly data call to obtain software costs from bureau project managers, this process was not sufficient because it relied on the responsiveness and understanding of individual project managers, not all of whom provided necessary information. Additionally, the Department did not have an effective process to confirm that information provided by project managers was complete or accurate or a process to confirm the status of SID projects. Without an effective process to obtain information pertaining to software projects, the Department may continue to understate its property balances and overstate its expenses.

- <u>Accounting for Significant Improvements to Overseas Properties</u> – The Department occupies some facilities overseas using varying types of unique, non-lease, non-ownership agreements. For example, the Department occupies space in facilities owned by other Federal agencies and facilities owned by international organizations. We identified instances in which the Department funded significant improvements to these types of facilities that met the criteria to be recorded as capitalized amounts; the Department, however, treated them as expenses. Although Department officials were generally aware of the accounting requirements relating to capital improvements, the Department had not considered applying the criteria to overseas properties that it occupied but did not own or formally lease. Without a process to capitalize the costs of significant improvements to overseas property that is occupied by but not owned or formally leased by the Department, capital assets will be understated and operating expenses will be overstated on the Department's financial statements.

II. Budgetary Accounting

The Department lacked sufficient reliable funds control over its accounting and business processes to ensure budgetary transactions were properly recorded, monitored, and reported. Beginning in our report on the Department's FY 2010 consolidated financial statements, we identified budgetary accounting as a significant deficiency. During FY 2017, the audit continued to identify control limitations, and we concluded that the combination of control deficiencies

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

- Support of Obligations – Obligations are definite commitments that create a legal liability of the Government for payment. The Department should record only legitimate obligations, which include a reasonable estimate of potential future outlays. We identified a large number of low-value obligations for which the Department could not provide evidence of a binding agreement. The Department's financial system was designed to reject payments for invoices without established obligations. Because allotment holders did not always record valid and accurate obligations prior to the receipt of goods and services, the Department established low-value obligations, which allowed invoices to be paid in compliance with the Prompt Payment Act, however this effectively bypassed the controls in the financial system. The continued use of this practice could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

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

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

- Effectiveness of Allotment Controls – Federal agencies use allotments to allocate funds in accordance with statutory authority. Allotments provide authority to agency officials to incur obligations as long as those obligations are within the scope and terms of the allotment authority. We identified systemic issues in the Department's use of allotment overrides that allowed officials to exceed allotments. Certain Department systems 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 there are instances in which an allotment may need to be exceeded; however, the Department has not formally identified, documented, and communicated the circumstances under which an allotment override is acceptable. The Department has a process to review instances in which an obligation exceeded an allotment; however, this

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process does not include overseas allotments, transactions related to employee and annuitant compensation, and transactions under a certain dollar threshold. The Department has not formally established justification for excluding certain allotment overrides from its review process. Additionally, for the overrides that were reviewed, the Department did not adequately confirm whether the override was consistent with Department policy, including whether the allotment holder determined if sufficient funds were available and obtained approval from authorized officials. Overriding allotment controls could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

III. Validity and Accuracy of Unliquidated Obligations

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

IV. Information Technology

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

In accordance with the Federal Information Security Modernization Act of 2014 (FISMA), the Office of Inspector General (OIG) is responsible for the audit of the Department's information security program. In the FY 2017 FISMA report,[1] OIG reported security weaknesses that significantly impacted the Department's information security program. Specifically, OIG reported weaknesses in all seven FY 2017 Inspector General FISMA metric domains, which

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

consist of risk management, configuration management, identity and access management, security training, information security continuous monitoring, incident response, and contingency planning. OIG reported, "The primary reason the Department has not implemented an effective information security program is because the [Chief Information Officer] does not have sufficient authority to manage IT activities, as provided for in law. Furthermore, the [Chief Information Officer] is not properly positioned within the Department to ensure that the Department's information security program is effective."

Without an effective information security program, the Department is vulnerable to IT-centered attacks and threats. Information security program weaknesses can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered, either accidentally or intentionally. Information security program weaknesses increase the risk that the Department will be unable to report financial data accurately.

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

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

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control Over Financial Reporting included in the audit report on the Department's FY 2016 financial statements,[2] we noted several issues that were related to internal control over financial reporting. The status of the FY 2016 internal control findings is summarized in Table 1.

[2] OIG, *Independent Auditor's Report on the U.S. Department of State 2016 and 2015 Financial Statements* (AUD-FM-17-09, November 2016).

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Table 1. Status of Prior Year Findings

Control Deficiency	FY 2016 Status	FY 2017 Status
Financial Reporting	Significant Deficiency	Management Letter
Property and Equipment	Significant Deficiency	Significant Deficiency
Budgetary Accounting	Significant Deficiency	Significant Deficiency
Validity and Accuracy of Unliquidated Obligations	Significant Deficiency	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

Department's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of the Department's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 17-03 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2017

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

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

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2017, and have issued our report thereon dated November 15, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, "Audit Requirements for Federal Financial Statements."

Compliance

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

The results of our tests, exclusive of those related to FFMIA, disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 17-03 and which are summarized as follows:

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

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Consular Services.[1] As explained in that report, the Bureau of Consular Affairs risks noncompliance with the Antideficiency Act by expending funds collected in excess of the cost of providing certain services (amounts available for expenditure in that case). Conditions impacting the Department's compliance with the Antideficiency Act have been reported annually since our FY 2009 audit.

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

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

Federal Financial Management Systems Requirements

- The Department has long-standing weaknesses in its financial management systems regarding its capacity to account for and record financial information. For instance, the Department has significant deficiencies relating to property and equipment, budgetary accounting, and unliquidated obligations.
- During its annual evaluation of the Department's information security program, as required by the Federal Information Security Modernization Act (FISMA), the Department's Office of Inspector General reported control weaknesses in all seven Inspector General FISMA metric domains.[2]
- The Department did not maintain effective administrative control of funds. Specifically, obligations were not created in a timely manner or were recorded in advance of an executed obligating document. We identified systemic issues in the Department's use of allotment overrides that allowed officials to exceed allotments.
- The Department did not always minimize waste, loss, unauthorized use, or misappropriation of Federal funds. For example, the Office of Inspector General

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[1] OIG, *Audit of the Bureau of Consular Affairs Fee-Setting Methodology for Selected Consular Services* (AUD-FM-17-53, September 2017).
[2] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-18-12, October 2017).

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reported a significant amount of questioned costs and funds that could be put to better use during FY 2017.

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

Standard General Ledger at the Transaction Level

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

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

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

Department's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 17-03 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2017

United States Department of State

Comptroller

Washington, D.C. 20520

November 15, 2017

UNCLASSIFIED

MEMORANDUM

TO: OIG – Steve A. Linick

FROM: CGFS – Christopher H. Flaggs

SUBJECT: Draft Report on the Department of State's Fiscal Years 2017 and 2016 Financial Statements

This memo responds 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.

The Department operates in over 270 locations, 180 countries, and 135 currencies in some of the most challenging environments. The scale and complexity of Department activities and corresponding financial management operations and requirements are immense. We take this dynamic into account as we pursue an efficient, accountable, and transparent financial management platform that supports the Department's and broader U.S. Government's foreign affairs mission. An important element of our accountability is the fundamental discipline of the annual external audit process and the issuance of the Department's annual audited financial statements. Few outside the financial community likely realize or appreciate the time and effort that go into producing the audit and the Agency Financial Report. It is a rigorous and exhaustive process, and this year was no exception. It has been a concerted and dedicated effort by all stakeholders involved.

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

As expressed in the Independent Auditor's Report, we are pleased that the Department has received an unmodified ("clean") audit opinion on its FY 2017 and FY 2016 principal financial statements and with no material weaknesses in internal controls over financial reporting. We remain committed to strong corporate governance and internal controls as demonstrated by our dedicated system of internal controls overseen by our Management Control Steering Committee (MCSC), Senior Assessment Team (SAT), and supported by senior leadership. We appreciate the OIG participation and contributions in both the MCSC and SAT. We fully recognize that there is more to be done and that the items identified in the Draft Report will require our continued attention, action, and improvement. We look forward to working with you, Kearney & Company, and other stakeholders on addressing these issues.

Introducing the Principal Financial Statements

The Principal Financial Statements (Statements) have been prepared to report the financial position and results of operations of the U.S. Department of State (Department). The Statements have been prepared from the books and records of the Department in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, *Financial Reporting Requirements,* revised. The Statements are in addition to financial reports prepared by the Department in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Department has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for 2016 are included.

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

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

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

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

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

CONSOLIDATED BALANCE SHEET

(dollars in millions)

As of September 30,	Notes	2017	2016
ASSETS	2		
Intragovernmental Assets:			
Fund Balance with Treasury	3	$ 55,305	$ 50,655
Investments, Net	4	18,867	18,397
Interest Receivable	4	136	141
Accounts Receivable, Net	5	110	94
Other Assets	8	1,316	1,452
Total Intragovernmental Assets		75,734	70,739
Accounts and Loans Receivable, Net	5	93	59
Cash and Other Monetary Assets	6	222	194
Property and Equipment, Net	7	23,517	21,797
Other Assets	8	1,038	1,026
Total Assets		**$ 100,604**	**$ 93,815**
Stewardship Property and Equipment; Heritage Assets	7		
LIABILITIES	9		
Intragovernmental Liabilities:			
Accounts Payable		$ 164	$ 202
Other Liabilities		283	193
Total Intragovernmental Liabilities		447	395
Accounts Payable		2,102	2,052
After-Employment Benefit Liability	10	20,603	20,052
International Organizations Liability	11	1,933	1,599
Other Liabilities	9,12	1,696	1,632
Total Liabilities		**26,781**	**25,730**
Contingencies and Commitments	13		
NET POSITION			
Unexpended Appropriations – Funds From Dedicated Collections		—	—
Unexpended Appropriations – Other Funds		45,102	40,816
Cumulative Results of Operations – Funds From Dedicated Collections	14	322	316
Cumulative Results of Operations – Other Funds		28,399	26,953
Total Net Position		**73,823**	**68,085**
Total Liabilities and Net Position		**$ 100,604**	**$ 93,815**

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

CONSOLIDATED STATEMENT OF NET COST (NOTE 15)

(dollars in millions)

For the Year Ended September 30,	2017	2016
Peace and Security		
Total Cost	$ 2,092	$ 2,072
Earned Revenue	(64)	(60)
Net Program Costs	2,028	2,012
Democracy, Human Rights and Governance		
Total Cost	591	585
Earned Revenue	(10)	—
Net Program Costs	581	585
Health, Education and Social Services		
Total Cost	8,370	8,702
Earned Revenue	—	—
Net Program Costs	8,370	8,702
Humanitarian, Economic Development and Environment		
Total Cost	3,358	3,482
Earned Revenue	—	—
Net Program Costs	3,358	3,482
International Organizations and Commissions		
Total Cost	3,099	4,020
Earned Revenue	(12)	(6)
Net Program Costs	3,087	4,014
Diplomatic and Consular Programs		
Total Cost	14,214	14,071
Earned Revenue	(6,814)	(6,633)
Net Program Costs	7,400	7,438
Administration of Foreign Affairs		
Total Cost	3,258	3,166
Earned Revenue	(1,892)	(1,895)
Net Program Costs Before Assumption Changes	1,366	1,271
Actuarial Loss/(Gain) on Pension Assumption Changes (Notes 1 and 10)	326	(153)
Net Program Costs	1,692	1,118
Total Cost and Loss/Gain on Assumption Changes	**35,308**	**35,945**
Total Revenue	**(8,792)**	**(8,594)**
Total Net Cost	**$ 26,516**	**$ 27,351**

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,	2017			2016
	Funds From Dedicated Collections	All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ 316	$ 26,953	$ 27,269	$ 25,387
Budgetary Financing Sources:				
Appropriations Used	—	28,432	28,432	29,675
Donations	14	—	14	19
Transfers in(out) without Reimbursement	46	—	46	46
Other Financing Sources:				
Transfers in(out) without Reimbursement	—	(7)	(7)	—
Imputed Financing from Costs Absorbed by Others	—	137	137	168
Non-entity Collections	—	(654)	(654)	(675)
Total Financing Sources	**60**	**27,908**	**27,968**	**29,233**
Net Cost of Operations	(54)	(26,462)	(26,516)	(27,351)
Net Change	6	1,446	1,452	1,882
Total Cumulative Results of Operations	**322**	**28,399**	**28,721**	**27,269**
Unexpended Appropriations				
Beginning Balances	$ —	$ 40,816	$ 40,816	$ 39,827
Budgetary Financing Sources:				
Appropriations Received	—	33,032	33,032	30,828
Appropriations Transferred in(out)	—	(64)	(64)	44
Rescissions and Canceling Funds	—	(250)	(250)	(208)
Appropriations Used	—	(28,432)	(28,432)	(29,675)
Total Budgetary Financing Sources	—	4,286	4,286	989
Total Unexpended Appropriations	**—**	**45,102**	**45,102**	**40,816**
Net Position	**$ 322**	**$ 73,501**	**$ 73,823**	**$ 68,085**

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

COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 16)

(dollars in millions)

For the Year Ended September 30,	2017	2016
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 23,662	$ 23,226
Adjustment to unobligated balance brought forward, October 1 (+ or -)	—	—
Unobligated balance brought forward, October 1, as adjusted	23,662	23,226
Recoveries of unpaid prior year obligations	1,564	1,703
Other changes in unobligated balance (+ or -)	(117)	3
Unobligated balance from prior year budget authority, net	25,109	24,932
Appropriations (discretionary and mandatory)	34,023	31,829
Borrowing authority (discretionary and mandatory)	1	1
Spending authority from offsetting collections (discretionary and mandatory)	11,838	12,520
Total Budgetary Resources	**$ 70,971**	**$ 69,282**
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 43,538	$ 45,620
Unobligated balance, end of year:		
Apportioned, unexpired accounts	26,103	21,605
Exempt from apportionment, unexpired accounts	165	326
Unapportioned, unexpired accounts	160	516
Unexpired unobligated balance, end of year	26,428	22,447
Expired unobligated balance, end of year	1,005	1,215
Unobligated balance, end of year (total)	27,433	23,662
Total Budgetary Resources	**$ 70,971**	**$ 69,282**
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, October 1	$ 27,372	$ 27,344
Adjustments to unpaid obligations, start of year (+ or -)	—	—
New obligations and upward adjustments	43,538	45,620
Outlays (gross) (-)	(41,195)	(43,889)
Recoveries of prior year unpaid obligations (-)	(1,564)	(1,703)
Unpaid obligations, end of year	**$ 28,151**	**$ 27,372**
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, October 1 (-)	$ (289)	$ (488)
Adjustment to uncollected payments, Federal sources, start of year (+ or -)	—	—
Change in uncollected payments, Federal sources (+ or -)	53	199
Uncollected payments, Federal sources, end of year (-)	**$ (236)**	**$ (289)**
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -)	$ 27,083	$ 26,856
Obligated balance, end of year (+ or -)	$ 27,915	$ 27,083
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 45,862	$ 44,350
Actual offsetting collections (discretionary and mandatory) (-)	(12,018)	(12,840)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	53	199
Recoveries of prior year obligations (discretionary and mandatory)	126	122
Budget authority, net (total) (discretionary and mandatory)	**$ 34,023**	**$ 31,831**
Outlays, gross (discretionary and mandatory)	$ 41,195	$ 43,889
Actual offsetting collections (discretionary and mandatory) (-)	(12,018)	(12,840)
Outlays, net (total) (discretionary and mandatory)	29,177	31,049
Distributed offsetting receipts (-)	(557)	(232)
Agency outlays, net (discretionary and mandatory)	**$ 28,620**	**$ 30,817**

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

Notes to the Principal Financial Statements

Organization

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

1 Summary of Significant Accounting Policies

Fiscal Year

Unless otherwise designated all use of a year indicates fiscal year, e.g., 2017 equals Fiscal Year 2017.

Reporting Entity and Basis of Consolidation

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

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

Basis of Presentation and Accounting

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

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

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

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

Revenues and Other Financing Sources

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

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

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

Secretary Tillerson stands for a moment of silence to honor those who made the ultimate sacrifice while serving our country around the world at the U.S. Department of State's Foreign Affairs Day Memorial Plaque Ceremony in Washington, D.C., May 5, 2017. ***Department of State***

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

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

Allocation Transfers

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

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

Fund Balance with Treasury and Cash and Other Monetary Assets

The Fund Balance with Treasury is the unexpended balances of appropriation accounts, trust accounts, and revolving funds. It is available to finance authorized commitments relative to goods, services, and benefits. The Department does not maintain cash in commercial bank accounts for the funds reported in the Consolidated Balance Sheet, except for the Emergencies in the Diplomatic and Consular Services, Foreign Service National Defined Contributions Retirement Fund, and the Chancery Development Trust Account. In 2017, the Department transferred the Chancery Development Trust Account funds from a third party investment to Treasury invested non-marketable securities. This account is referred to as the International Center. See Note 4, *Investments*. Treasury processes domestic cash receipts and disbursements on behalf of the Department and the Department's accounting records are reconciled with those of Treasury on a monthly basis.

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

Accounts and Loans Receivable

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

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

Accounts and Loans Receivable from non-Federal entities are subject to the full debt collection cycle and mechanisms, e.g., salary offset, referral to collection agents, and Treasury offset. In addition, Accounts Receivable from non-Federal entities are assessed interest, penalties, and administrative fees if they become delinquent. Interest and penalties are assessed at the Current Value of Funds Rate established by Treasury. Accounts Receivable is reduced to net realizable value by an Allowance for Uncollectible Accounts. This allowance is recorded using aging methodologies based on an analysis of past collections and write-offs. See Note 5 for more information on Accounts and Loans Receivable, Net.

Interest Receivable

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

Advances and Prepayments

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

Investments

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

Investments by the Department's Gift, Israeli Arab Scholarship, Eisenhower Exchange Fellowship, Middle Eastern-Western Dialogue, and International Center accounts are in U.S. Treasury securities. Interest on these investments

Hôtel Rothschild, the official residence of the U.S. Ambassador to France and Monaco was constructed between 1852 and 1855. It measures over 7,000 square meters and occupies a 1.2-hectare site at 41 Rue du Faubourg Saint-Honoré in Paris, a short distance from the U.S. Embassy and the home and offices of the French President, the Elysée Palace. *Department of State/OBO*

is paid semi-annually at various rates. These investments are reported at acquisition cost, which equals the face value net of unamortized discounts or premiums. Discounts and premiums are amortized over the life of the security using the straight-line method for Gift Funds investments, and effective interest method for the other accounts. Additional information on Investments can be found in Note 4.

Property and Equipment

Real Property

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

The Department also owns several domestic real properties, including the National Foreign Affairs Training Center (Arlington, Va.); the International Center (Washington, D.C.); the Charleston Financial Services Center (S.C.); the Beltsville Information Management Center (Md.); the Florida Regional Center (Ft. Lauderdale); and consular centers in Charleston, S.C., Portsmouth, N.H., and Williamsburg, Ky. The Foreign Missions Act authorizes the Department to facilitate the secure and efficient operation in the United States of foreign missions. The Act established the Office of Foreign Missions to manage acquisitions, including leases, additions, and sales of real property by foreign missions. In certain cases, based on reciprocity, the Department owns real property in the United States that is used by foreign missions for diplomatic purposes. The IBWC owns buildings and structures related to its boundary preservation, flood control, and sanitation programs.

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

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

Personal Property

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

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

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

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

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

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

Capital Leases

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

Stewardship Property and Equipment

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

Grants

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

Accounts Payable

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

Accrued Annual, Sick, and Other Leave

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

Employee Benefit Plans

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

Employees covered under CSRS contribute 7 percent of their salary; the Department contributes 7 percent. Employees covered under CSRS also contribute 1.45 percent of their salary to Medicare insurance; the Department makes a matching contribution. On January 1, 1987, FERS went into effect pursuant to Public Law No. 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to join FERS or remain in CSRS. Employees participating in FERS contribute 0.8 percent or 3.1 percent (depending on date of hire) of their salary, with the Department making contributions of 13.7 percent or 11.9 percent. FERS employees also contribute 6.2 percent to Social Security and 1.45 percent to Medicare insurance. The Department makes matching contributions to both. A primary feature of FERS is that it offers a Thrift Savings Plan (TSP) into which the Department automatically contributes 1 percent of pay and matches employee contributions up to an additional 4 percent.

Foreign Service employees hired prior to January 1, 1984 participate in FSRDS, with certain exceptions. FSPS was established pursuant to Section 415 of Public Law No. 99-335, which became effective June 6, 1986. Foreign Service employees hired after December 31, 1983 participate in FSPS with certain exceptions. FSRDS employees contribute 7.25 percent of their salary; the Department contributes 7.25 percent. FSPS employees contribute 1.35 percent of their salary; the Department contributes 20.22 percent. FSRDS and FSPS employees contribute 1.45 percent of their salary to Medicare; the Department matches their contribution. FSPS employees also contribute 6.2 percent to Social Security; the Department makes a matching contribution. Similar to FERS, FSPS also offers the TSP.

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

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

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

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

Future Workers' Compensation Benefits

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

Foreign Service Retirement and Disability Fund

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

Foreign Service Nationals' After-Employment Benefits

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

Defined Benefit Plans – The Department has implemented various arrangements for defined benefit pension plans in other countries, for the benefit of some FSN employees. Some of these plans supplement the host country's equivalent to U.S. social security, others do not. While none of these supplemental plans are mandated by the host country, some are substitutes for optional tiers of a host country's social security system. The Department accounts for these plans under the provisions and guidance contained in International Accounting 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.

The new U.S. Embassy in N'Djamena, Chad, situated on a 12-acre site, includes supporting buildings for the Chancery, Marine Security Guard, and the Embassy community. ***Department of State/OBO***

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

International Organizations Liability

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

Contingent Liabilities

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

Net Position

The Department's net position contains the following components:

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

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

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

Foreign Currency

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

Fiduciary Activities

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

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.

2 Assets

The Department's assets are classified as entity or non-entity. Entity assets are those assets that the Department has authority to use for its operations. Non-entity assets are those held by the Department that are not available for use in its operations. Total non-entity assets at September 30, 2017 and 2016, were $15 million, for amounts in the Chancery Development Trust Account. In 2017, the Chancery Development Trust Account funds were invested by the Department directly into non-marketable Treasury securities. This account is referred to as the International Center. For further information on Investments, see Note 4. In prior years, the Department used a third party to purchase these investments. This information was included in Cash and Other Monetary Assets (See Note 6, *Cash and Other Monetary Assets*).

3 Fund Balance with Treasury

Fund Balance with Treasury at September 30, 2017 and 2016, is summarized below *(dollars in millions)*.

Fund Balances	**2017**	**2016**
Appropriated Funds	$ 51,846	$ 47,222
Revolving Funds	2,773	2,803
Trust Funds	381	397
Special Funds	189	173
Deposit and Receipt Funds	116	60
Total	$ 55,305	$ 50,655

Status of Fund Balance with Treasury	**2017**	**2016**
Unobligated Balances Available	$ 26,268	$ 21,931
Unobligated Balances Unavailable	1,165	1,731
Obligated Balances not yet Disbursed	27,756	26,933
Total Unobligated and Obligated	55,189	50,595
Deposit and Receipt Funds	116	60
Total	$ 55,305	$ 50,655

The John Quincy Adams State Drawing Room of the Diplomatic Reception Rooms, 8th Floor, Harry S Truman Building, Washington, D.C. ***Department of State***

4 INVESTMENTS

Investments at September 30, 2017 and 2016, are summarized below *(dollars in millions)*. All investments are classified as Intragovernmental Securities.

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

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

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

(continued on next page)

NOTE 4: Investments (continued)

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

5 Accounts and Loans Receivable, Net

The Department's Accounts Receivable and Loans Receivable, Net at September 30, 2017 and 2016, are summarized here *(dollars in millions)*. All are entity receivables.

	2017			2016		
	Entity Receivables	**Allowance for Uncollectible**	**Net Receivables**	**Entity Receivables**	**Allowance for Uncollectible**	**Net Receivables**
Intragovernmental Accounts Receivable	$ 111	$ (1)	$ 110	$ 118	$ (24)	$ 94
Non-Intragovernmental Accounts and Loans Receivable	130	(37)	93	95	(36)	59
Total Receivables	$ 241	$ (38)	$ 203	$ 213	$ (60)	$ 153

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

The total accounts and loans receivable for 2017, net of allowance for uncollectible accounts, is $203 million. This balance consists of $111 million in Federal intragovernmental reimbursable agreements for providing goods and services to other Federal agencies. The $130 million in Accounts and Loans Receivables due from non-Federal entities (see Accounts and Loans Receivable in Note 1) consists mainly of $127 million of civil monetary fines and penalties and Value Added Taxes. The remaining $3 million is repatriation loans and associated administration fees.

The Harry S Truman Building, headquarters for the State Department, is seen in Washington, D.C. *©AP Image*

6 Cash and Other Monetary Assets

The Cash and Other Monetary Assets at September 30, 2017 and 2016, are summarized below *(dollars in millions)*. There are no restrictions on entity cash. Non-entity cash is restricted as discussed below.

	2017			2016		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
After-Employment Benefit Assets	$ 186	$ —	$ 186	$ 174	$ —	$ 174
Emergencies in the Diplomatic and Consular Service	4	—	4	5	—	5
Chancery Development						
Trust Accounts:						
Treasury Bills, at par	—	—	—	—	15	15
Unamortized Discount	—	—	—	—	—	—
Other Cash	32	—	32	—	—	—
Total	$ 222	$ —	$ 222	$ 179	$ 15	$ 194

Foreign Service National After-Employment Benefit Assets

The Defined Contributions Fund (FSN DCF) provides retirement benefits for FSN employees in countries where the Department has made a public interest determination to discontinue participation in the Local Social Security System (LSSS). Title 22, Foreign Relations and Intercourse, Section 3968, Local Compensation Plans, provides the authority to the Department to establish such benefits and identifies as part of a total compensation plan for these employees. The FSN DCF is administered by a third party who invests excess funds in Treasury securities on behalf of the Department. The other monetary assets reported for the FSN DCF is $186 million and $174 million as of September 30, 2017 and 2016, respectively.

Chancery Development Trust Account

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

In 2017, the Department transferred the Chancery Development Trust Account funds from a third party investment to Treasury invested non-marketable securities. The Department no longer classifies these funds as Cash and Other Monetary Assets on Note 6. For further information on Investments, see Note 4.

Other Cash

In 2017, as a result of a unique overseas land purchase transaction at year end, other cash was on hand that was not transferred until the subsequent fiscal year.

7 PROPERTY AND EQUIPMENT, NET

Property and Equipment, Net balances at September 30, 2017 and 2016, are shown in the following table *(dollars in millions)*.

	2017			2016		
Major Classes	**Cost**	**Accumulated Depreciation**	**Net Value**	**Cost**	**Accumulated Depreciation**	**Net Value**
Real Property:						
Overseas –						
Land and Land Improvements	$ 2,716	$ (92)	$ 2,624	$ 2,651	$ (82)	$ 2,569
Buildings and Structures	20,887	(8,207)	12,680	19,872	(7,499)	12,373
Construction-in-Progress	4,942	—	4,942	3,820	—	3,820
Assets Under Capital Lease	179	(64)	115	175	(58)	117
Leasehold Improvements	628	(381)	247	573	(360)	213
Domestic –						
Structures, Facilities and Leaseholds	1,381	(526)	855	1,372	(489)	883
Construction-in-Progress	266	—	266	197	—	197
Assets Under Capital Lease	244	(6)	238	—	—	—
Land and Land Improvements	81	(8)	73	81	(8)	73
Total – Real Property	31,324	(9,284)	22,040	28,741	(8,496)	20,245
Personal Property:						
Aircraft	692	(405)	287	789	(432)	357
Vehicles	988	(643)	345	972	(585)	387
Communication Equipment	28	(21)	7	29	(20)	9
ADP Equipment	312	(160)	152	261	(126)	135
Reproduction Equipment	9	(7)	2	9	(6)	3
Security Equipment	285	(115)	170	268	(106)	162
Internal Use Software	288	(226)	62	265	(202)	63
Software-in-Development	229	—	229	205	—	205
Other Equipment	357	(134)	223	351	(120)	231
Total – Personal Property	3,188	(1,711)	1,477	3,149	(1,597)	1,552
Total Property and Equipment, Net	$ 34,512	$ (10,995)	$ 23,517	$ 31,890	$ (10,093)	$ 21,797

(continued on next page)

NOTE 7: Property and Equipment, Net (continued)

Stewardship Property and Equipment; Heritage Assets

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

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

HERITAGE ASSETS
For the Years Ended September 30, 2016 and 2017

	Diplomatic Reception Rooms Collection	Art Bank Program	Art in Embassies Program	Cultural Heritage Collection	Library Rare & Special Book Collection
Description	Collectibles – Art and furnishings from the period 1750 to 1825	Collection of American works of art on paper	Collectibles – American works of art	Collections include fine and decorative arts and other cultural objects	Collectibles – Rare books and other publications of historic value
Acquisition and Withdrawal	Acquired through donation or purchase using donated funds. Excess items are sold.	Acquired through purchase. Excess items are transferred.	Acquired through purchase or donation. Excess items are sold.	The program provides assessment, preservation, and restoration as needed.	Acquired through donation.
Condition	Good to excellent	Good to excellent	Good to excellent	Good to excellent	Poor to good
Number of Assets – 9/30/2015	1,824	2,554	1,069	18,409	1,130
Acquisitions	9	46	56	46	64
Adjustments	41		25	245	
Disposals	56		1	362	3
Number of Assets – 9/30/2016	1,818	2,600	1,149	18,338	1,191
Deferred Maintenance – 9/30/2016	N/A	N/A	N/A	N/A	N/A
Acquisitions	13	28	38	66	58
Adjustments	4			189	2
Disposals	7			171	1
Number of Assets – 9/30/2017	1,828	2,628	1,187	18,422	1,250
Deferred Maintenance – 9/30/2017	N/A	N/A	N/A	N/A	N/A

(continued on next page)

Palazzo Margherita, the U.S. Embassy office building in Rome, was designed by Gaetano Koch and built between 1886 and 1890 for Prince Boncompagni Ludovisi. The United States purchased the palazzo in 1946 using Italian lire war credits against U.S. surplus army property.

Department of State/OBO

HERITAGE ASSETS *(continued)*
For the Years Ended September 30, 2016 and 2017

	Secretary of State's Register of Culturally Significant Property	U.S. Diplomacy Center	Blair House	International Boundary and Water Commission
Description	**Noncollection – Buildings of historic, cultural, or architectural significance**	**Collectibles – Historic artifacts, art and other cultural objects**	**Collections of fine and decorative arts, furnishings, artifacts, other cultural objects, rare books and archival materials in national historic landmark buildings**	**Monuments that mark the international boundary between the United States and Mexico, Falcon International Dam and Power Plant**
Acquisition and Withdrawal	Acquired through purchase. Excess items are sold.	Acquired through donation or transfer. Excess items are transferred.	Acquired through purchase, donation or transfer. Excess items are transferred or disposed of via public sale.	The monuments were constructed to mark the international boundary. The dam and power plant were constructed by the United States and Mexico pursuant to Water Treaty of 1944.
Condition	Poor to excellent	Good to excellent	Good to excellent	Poor to good
Number of Assets – 9/30/2015	26	3,281	2,614	140
Acquisitions	7	575		
Adjustments		247	66	
Disposals		67	75	
Number of Assets – 9/30/2016	33	4,036	2,605	140
Deferred Maintenance – 9/30/2016	$2,996,000	N/A	N/A	$974,000
Acquisitions		344	1	
Adjustments		2	30	
Disposals		19	13	
Number of Assets – 9/30/2017	33	4,363	2,623	140
Deferred Maintenance – 9/30/2017	$6,038,000	N/A	N/A	$1,474,000

8 Other Assets

The Department's Other Assets are primarily comprised of advances and prepayments as described in Note 1. The majority of Intragovernmental Assets are prepayments to USAID in support of the Global Health and Child Survival program and the Defense Security Cooperation Agency in support of the Pakistan Counterinsurgency Capability program. The Non-Intragovernmental Advances are predominantly prepayments to grantees in support of the Global Health and Child Survival program. Other Non-Intragovernmental Advances include prepayments to the International Organization for Migration and United Nations Relief and Works Agency for humanitarian relief of refugees.

The Department's Other Assets as of September 30, 2017 and 2016, are summarized below *(dollars in millions)*.

Other Assets	2017	2016
Intragovernmental Assets:		
Other Advances and Prepayments	$ 1,316	$ 1,452
Non-Intragovernmental Advances:		
Salary Advances	8	8
Travel Advances	15	14
Other Advances and Prepayments	993	982
Inventory	22	22
Total Other Assets	$ 2,354	$ 2,478

9 Other Liabilities

The Department's Other Liabilities at September 30, 2017 and 2016, are summarized below *(dollars in millions)*.

	2017			2016		
	Current	Non-Current	Total	Current	Non-Current	Total
Intragovernmental						
Deferred Revenue	$ 206	$ —	$ 206	$ 135	$ —	$ 135
Custodial Liability	10	—	10	10	—	10
Other Liabilities	67	—	67	48	—	48
Total Intragovernmental	283	—	283	193	—	193
Federal Employees Compensation Act Benefits	95	—	95	92	—	92
Capital Lease Liability	15	79	94	15	84	99
Accrued Salaries Payable	248	—	248	198	—	198
Contingent Liability	—	5	5	—	9	9
Pension Benefits Payable	61	—	61	61	—	61
Accrued Annual Leave	—	394	394	—	386	386
Funds Held in Trust and Deposit Accounts	—	—	—	—	15	15
Environmental Liability	—	100	100	—	97	97
Other Liabilities	670	—	670	642	—	642
Deferred Revenues	29	—	29	33	—	33
Subtotal	1,118	578	1,696	1,041	591	1,632
Total Other Liabilities	$ 1,401	$ 578	$ 1,979	$ 1,234	$ 591	$ 1,825

Environmental Liability associated with Asbestos Cleanup and Other

The Department has estimated both friable, $8 million, and nonfriable, $91 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, 2017, consistent with the current guidance in the Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*; SFFAS No. 6, *Accounting for Property, Plant, and Equipment, Chapter 4: Cleanup Costs*; and Technical Release (TR) 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*. The remaining $1 million in environmental liability is non-asbestos related cleanup costs for lead based paint.

NOTE 9: Other Liabilities (continued)

Liabilities Not Covered by Budgetary Resources

The Department's liabilities are classified as covered by budgetary resources or not covered by budgetary resources. Liabilities not covered by budgetary resources result from the receipt of goods and services, or occurrence of eligible events in the current or prior periods, for which revenue or other funds to pay the liabilities have not been made available through appropriations or current earnings of the Department. The liabilities in this category at September 30, 2017 and 2016 are summarized in the Schedule of Liabilities Not Covered by Budgetary Resources *(dollars in millions)*.

Liabilities Not Covered by Budgetary Resources	2017	2016
Intragovernmental Liabilities		
Unfunded FECA Liability	$ 22	$ 22
Custodial Liability	10	10
Total Intragovernmental Liabilities	32	32
International Organizations Liability	1,344	1,133
After-Employment Benefit Liability:		
Foreign Service Retirement Actuarial Liability	1,129	920
Foreign Service Nationals (FSN):		
Defined Contributions Fund	200	178
Defined Benefit Plans	61	68
Lump Sum Retirement and Voluntary Severance	348	326
Total After-Employment Benefit Liability	1,738	1,492
Accrued Annual Leave	394	386
Environmental Liability	100	97
Capital Lease Liability	94	99
Contingent Liability	5	9
Other Liabilities	398	463
Total Liabilities Not Covered by Budgetary Resources	4,105	3,711
Total Liabilities Covered by Budgetary Resources	22,676	22,019
Total Liabilities	$ 26,781	$ 25,730

10 AFTER-EMPLOYMENT BENEFIT LIABILITY

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

For the Year Ended September 30,	2017	2016
Foreign Service Officer		
Foreign Service Retirement and Disability Fund	$ 19,994	$ 19,480
Foreign Service Nationals		
Defined Contributions Fund	200	178
Defined Benefit Plans	61	68
Lump Sum Retirement and Voluntary Severance	348	326
Total FSN	609	572
Total After-Employment Benefit Liability	$ 20,603	$ 20,052

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 2017 and 2016.

Normal Cost:	2017	2016
FSRDS	34.50%	33.20%
FSPS	25.95%	25.97%

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

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

The assumption changes for interest rate, inflation and other items are not from the experience study. These changes arise in connection with the annual valuation and follow the guidelines of SFFAS No. 33. The changes from assumptions for 2017 and 2016 can be seen in the table on the following page.

Actuarial assumptions are based on the presumption that the Plan will continue. If the Plan terminates, different actuarial assumptions and other factors might be applicable for determining the actuarial present value of accumulated plan benefits. The following table presents the calculation of the combined FSRDS and FSPS Pension Actuarial Liability and the assumptions used in computing it for the year ended September 30, 2017 and 2016 *(dollars in millions)*.

For the Year Ended September 30,	2017	2016
Pension Actuarial Liability, Beginning of Year	$ 19,480	$ 19,501
Pension Expense:		
Normal Cost	474	466
Interest on Pension Liability	729	769
Actuarial (Gains) or Losses:		
From Experience	(67)	(160)
From Assumption Changes		
Interest Rate	513	495
Experience Study	—	—
Other	(187)	(648)
Prior Year Service Costs	—	—
Other	(1)	(2)
Total Pension Expense	1,461	920
Less Payments to Beneficiaries	947	941
Pension Actuarial Liability, End of Year	19,994	19,480
Less: Net Assets Available for Benefits	18,865	18,560
Actuarial Pension Liability – Unfunded	$ 1,129	$ 920

For the Year Ended September 30,	2017	2016
Actuarial Assumptions:		
Rate of Return on Investments	3.59%	3.79%
Rate of Inflation	1.59%	1.71%
Salary Increase	1.84%	1.96%

Net Assets Available for Benefits at September 30, 2017 and 2016, consist of the following *(dollars in millions).*

At September 30,	2017	2016
Fund Balance with Treasury	$ —	$ —
Accounts and Interest Receivable	151	292
Investments in U.S. Government Securities	18,792	18,346
Total Assets	18,943	18,638
Less: Liabilities Other Than Actuarial	78	78
Net Assets Available for Benefits	$ 18,865	$ 18,560

Foreign Service Nationals' After-Employment Benefit Liabilities

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

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

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

FSN Defined Contributions Fund (FSN DCF)

The Department's FSN Defined Contributions Fund provides after-employment benefits for FSN employees in countries where the Department has made a public interest determination to discontinue participation in the LSSS. Title 22, Foreign Relations and Intercourse, Section 3968, Local Compensation Plans, provides the authority to the Department to establish such benefits and identifies as part of a total compensation plan for these employees. The Department contributes 12 percent of each participant's base salary to the Fund. Participants are not allowed to make contributions to the Fund. The amount of after-employment benefit received by the employee is determined by the amount of the contributions made by the Department along with investment returns and administrative fees. The Department's obligation is determined by the contributions for the period, and no actuarial assumptions are required to measure the obligation or the expense. The FSN DCF is administered by a third party who invests contributions in U.S. Treasury securities on behalf of the Department. Payroll contributions are sent to the third party administrator, while separation benefits are processed by the Department upon receipt of funds from the third party. As of September 30, 2017, approximately 13,000 FSNs in 29 countries participate in the FSN DCF.

The Department records expense for contributions to the FSN DCF when the employee renders service to the Department, coinciding with the cash contributions to the FSN DCF. Total contributions by the Department in 2017 and 2016 were $27.8 million and $26.5 million, respectively. Total liability reported for the FSN DCF is $190 million and $175 million as of September 30, 2017 and 2016, respectively.

The Voluntary Contribution Plan administered by the FSN Defined Contributions Fund reported employee and employer contributions of $6.2 million and $3 million as of September 30, 2017 and 2016, respectively. The total liability reported for the Voluntary Contribution Plan is $10 million and $3 million as of September 30, 2017 and 2016, respectively.

Local Defined Contribution Plans

In 49 countries, the Department has implemented various local arrangements, primarily with third party providers, for defined contribution plans for the benefit of FSNs. Total contributions to these plans by the Department in 2017 and 2016 were $25 million and $23.8 million, respectively.

Defined Benefit Plans

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

As discussed in Note 1, the Department accounts for these plans under guidance contained in International Accounting Standards (IAS) No. 19, *Employee Benefits*. In accordance with IAS No. 19, the Department reported the net defined benefit liability of $61 million and $68 million as of September 30, 2017 and 2016, respectively. There was a decrease of $7 million in 2017 and no change in 2016.

The material FSN defined benefit plans include plans in Germany and the United Kingdom (UK) which represent 74 percent of total assets, 76 percent of total projected benefit obligations, and 92 percent of the net defined benefit liability as of September 30, 2017. The Germany Plan's most recent evaluation report, dated August 24, 2017, is as of July 1, 2017. The UK Plan's most recent evaluation, dated February 20, 2017, is as of February 1, 2017.

For the Germany Plan the change in the net defined benefit liability was an increase of $6 million in 2017 and an increase of $2 million in 2016, while for the UK plan the change was a decrease of $13 million in 2017 and a decrease of $1 million in 2016.

For Germany, the increases in the net defined benefit liability in 2016 and 2017 were primarily due to losses from a change in the financial assumption of the discount rate.

For the UK Plan in 2017, the decrease in the net defined benefit liability was primarily due to gains from investment earnings and currency exchange rates. The decrease in 2016 was primarily due to a combination of gains from changes in the financial assumptions, mainly the discount rate, as well as currency exchange rates.

The tables below show the changes in the projected benefit obligation and plan assets during 2017 and 2016 for the Germany and UK plans *(dollars in millions)*.

Change in Benefit Obligations:	**2017**	**2016**
Benefit obligations beginning of year	$ 329	$ 341
Service Cost	4	2
Interest Cost	8	4
Other	33	(18)
Benefit obligations end of year	$ 374	$ 329

Change in Plan Assets:	**2017**	**2016**
Fair value of plan assets beginning of year	$ 268	$ 282
Return on plan assets	22	(1)
Contributions less Benefits Paid	16	17
Other	12	(30)
Fair value of plan assets end of year	318	268
Net Defined Benefit Liability	$ 56	$ 61

The table below shows the allocation of the plan assets by category during 2017 and 2016 for the German and UK plans.

	2017	2016
Insurance Policies	38%	40%
Equity Securities	36%	35%
Money Market and Cash	2%	2%
Debt Securities	24%	23%
Total	100%	100%

The principal actuarial assumptions used for 2017 and 2016 for the Germany and UK plans are presented below:

Actuarial Assumptions:	2017	2016
Discount Rate	2.90% – 5.00%	3.20% – 5.50%
Salary Increase Rate	2.25% – 5.60%	2.25% – 4.60%
Pension Increase Rate	1.75% – 3.60%	1.75% – 3.30%

Retirement and Voluntary Severance Lump Sum Payments

In 73 countries, FSN employees are provided a lump-sum separation payment when they resign, retire, or otherwise separate through no fault of their own. The amount of the payment is generally based on length of service, rate of pay at the time of separation, and the type of separation. As of September 30, 2017, 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, 2017, 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, 2017 and 2016, are:

	2017	2016
Discount Rate	2.99%	3.24%
Rate of inflation	1.63%	1.74%
Salary Increase	3.19%	3.30%

Based upon the projection, the total liability reported for the Retirement and Voluntary Severance Lump Sum Payment is $348 million and $326 million as of September 30, 2017 and 2016, respectively, as shown below *(dollars in millions)*:

At September 30,	2017	2016
Retirement	$ 106	$ 101
Voluntary Severance	242	225
Total	$ 348	$ 326

The table below shows the changes in the projected benefit obligation during 2017 and 2016 *(dollars in millions)*:

Changes in Benefit Obligations:	2017	2016
Benefit obligations beginning of year	$ 326	$ 301
Normal Cost	25	22
Benefit Payments	(57)	(51)
Interest Cost	11	10
Actuarial (gain) loss on assumptions	2	4
Actuarial (gain) loss due to experience	40	39
Other	1	1
Benefit obligations end of year	$ 348	$ 326

11 International Organizations Liability

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

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

Amounts presented in 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, 2017 and 2016.

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,	2017	2016
Regular Membership Assessments Payable to UN	$ 865	$ 786
Dues Payable to UN Peacekeeping Missions	546	426
International Organizations Liability	1,204	1,073
	2,615	2,285
Less Amounts not Authorized to be Paid	682	686
International Organizations Liability	$ 1,933	$ 1,599
Funded Amounts	$ 589	$ 466
Unfunded Amounts	1,344	1,133
Total International Organizations Liability	$ 1,933	$ 1,599

12 Leases

The Department is committed to over 10,000 leases, which cover office and functional properties, and residential units for diplomatic missions. The majority of these leases are short-term operating leases. In most cases, management expects that the leases will be renewed or replaced by other leases. Personnel from other U.S. Government agencies occupy some of the leased facilities (both residential and non-residential). These agencies reimburse the Department for the use of the properties. Reimbursements are received for approximately $90 million of the lease costs.

Capital Leases

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

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

The following is a summary of Net Assets under Capital Lease and Future Minimum Lease payments as of September 30, 2017 and 2016 *(dollars in millions)*. Lease liabilities are not covered by budgetary resources.

	2017	2016
Net Assets under Capital Leases:		
Buildings	$ 423	$ 175
Accumulated Depreciation	(70)	(58)
Net Assets under Capital Leases	$ 353	$ 117

Future Minimum Lease Payments:

2017

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

2016

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

Operating Leases

The Department leases real property under operating leases. These leases expire in various years. Minimum future rental payments under operating leases have remaining terms in excess of one year as of September 30, 2017 and 2016 for each of the next 5 years and in aggregate are as follows *(dollars in millions)*:

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

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

13 CONTINGENCIES AND COMMITMENTS

Contingencies

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

Additionally, as part of our continuing evaluation of estimates required in the preparation of our financial statements, we evaluated the materiality of cases determined to have a reasonably possible chance of an adverse outcome. These cases involve contract disputes, claims related to embassy construction, Equal Employment Opportunity Commission claims, and international claims made against the United States being litigated by the Department. As a result of these reviews, the Department believes these claims could result in potential estimable losses of $7 million to $681 million if the outcomes were adverse to the Department; these amounts are considered by management to be immaterial to our financial statements taken as a whole.

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

None of the amounts paid under the Judgment Fund on behalf of the Department in 2017 and 2016 had a material effect on the financial position or results of operations of the Department.

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

Commitments

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

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

Pending reward offers under the four programs total $933 million. Under the programs, we have paid out $267 million since 2003. Reward payments are funded from Diplomatic and Consular Programs prior year expired, unobligated balances using available transfer authorities as necessary. Management and the Legal Adviser believe there is adequate funding for the amounts that may become due under the Rewards Program.

14 Funds from Dedicated Collections

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

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

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

The table below displays the dedicated collection amounts as of September 30, 2017 and 2016 *(dollars in millions)*.

	2017	2016
Balance Sheet as of September 30		
Assets:		
Fund Balance with Treasury	$ 177	$ 173
Investments	50	47
Other Assets	95	96
Total Assets	**$ 322**	**$ 316**
Net Position:		
Cumulative Results of Operations	$ 322	$ 316
Total Liabilities and Net Position	**$ 322**	**$ 316**
Statement of Net Cost for the Year Ended September 30		
Gross Program Costs	$ 54	$ 74
Less: Earned Revenues	—	—
Net Program Costs	54	74
Net Cost of Operations	**$ 54**	**$ 74**
Statement of Changes in Net Position for the Year Ended September 30		
Net Position Beginning of Period	$ 316	$ 323
Budgetary Financing Sources	60	67
Net Cost of Operations	(54)	(74)
Change in Net Position	6	(7)
Net Position End of Period	**$ 322**	**$ 316**

15 STATEMENT OF NET COST

The Consolidated Statement of Net Cost is presented by major program instead of strategic goal. The Department believes this is more consistent and transparent with its Congressional Budget submissions. The net cost of operations is the gross (i.e., total) cost incurred by the Department, less any exchange (i.e., earned) revenue.

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

CONSOLIDATING SCHEDULE OF NET COST

For the Year Ended September 30, 2017
(dollars in millions)

	Under Secretary for							
MAJOR PROGRAM	**Arms Control, Int'l Security**	**Economic Growth, Energy and Environment**	**Civilian Security, Democracy and Human Rights**	**Political Affairs**	**Public Diplomacy and Public Affairs**	**Management-Consular Affairs**	**Intra-Departmental Eliminations**	**Total**
Peace and Security								
Total Cost	$ 636	$ —	$ 951	$ 512	$ —	$ —	$ (7)	$ 2,092
Earned Revenue	(36)	—	(26)	(9)	—	—	7	(64)
Net Program Costs	600	—	925	503	—	—	—	2,028
Democracy, Human Rights and Governance								
Total Cost	—	—	574	20	—	—	(3)	591
Earned Revenue	—	—	(13)	—	—	—	3	(10)
Net Program Costs	—	—	561	20	—	—	—	581
Health, Education and Social Services								
Total Cost	—	—	7	8,363	—	—	—	8,370
Earned Revenue	—	—	—	—	—	—	—	—
Net Program Costs	—	—	7	8,363	—	—	—	8,370
Humanitarian, Economic Development and Environment								
Total Cost	—	—	3,219	139	—	—	—	3,358
Earned Revenue	—	—	—	—	—	—	—	—
Net Program Costs	—	—	3,219	139	—	—	—	3,358
International Organizations and Commissions								
Total Cost	1	37	—	3,061	—	—	—	3,099
Earned Revenue	—	—	—	(12)	—	—	—	(12)
Net Program Costs	1	37	—	3,049	—	—	—	3,087
Diplomatic and Consular Programs								
Total Cost	265	69	174	6,335	256	7,824	(709)	14,214
Earned Revenue	(55)	—	81	(704)	—	(6,786)	650	(6,814)
Net Program Costs	210	69	255	5,631	256	1,038	(59)	7,400
Administration of Foreign Affairs								
Total Cost	—	—	444	5,186	1,723	75	(4,170)	3,258
Earned Revenue	—	—	—	(440)	(1,878)	(3,735)	4,161	(1,892)
Net Program Costs Before Assumption Changes	—	—	444	4,746	(155)	(3,660)	(9)	1,366
Actuarial Loss on Pension Assumption Changes	—	—	19	228	76	3	—	326
Net Program Costs	—	—	463	4,974	(79)	(3,657)	(9)	1,692
Total Cost	**902**	**106**	**5,388**	**23,844**	**2,055**	**7,902**	**(4,889)**	**35,308**
Total Revenue	**(91)**	**—**	**42**	**(1,165)**	**(1,878)**	**(10,521)**	**4,821**	**(8,792)**
Total Net Cost	**$ 811**	**$ 106**	**$ 5,430**	**$22,679**	**$ 177**	**$ (2,619)**	**$ (68)**	**$26,516**

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

The Administration of Foreign Affairs program relates to high-level executive direction (e.g., Office of the Secretary, Office of the Legal Adviser), general management, and certain administrative support costs. For the years ended September 30, 2017 and 2016, these consist of costs and earned revenue summarized below *(dollars in millions)*:

	2017			2016		
Administration of Foreign Affairs	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**
Costs:						
Administration of Foreign Affairs – Other	$ 1,586	$ 53	$ 1,533	$ 1,566	$ 60	$ 1,506
FSRDF	1,135	603	532	1,073	591	482
ICASS	3,441	2,457	984	3,233	2,307	926
Working Capital Fund	1,266	1,057	209	1,280	1,028	252
Total Costs	7,428	4,170	3,258	7,152	3,986	3,166
Less Earned Revenue:						
Administration of Foreign Affairs – Other	103	52	51	85	58	27
FSRDF	1,251	602	649	1,262	591	671
ICASS	3,463	2,450	1,013	3,327	2,300	1,027
Working Capital Fund	1,236	1,057	179	1,198	1,028	170
Total Earned Revenue	6,053	4,161	1,892	5,872	3,977	1,895
Actuarial Loss/(Gain) on Pension Assumption Changes	326	—	326	(153)	—	(153)
Total Net Cost for Administration of Foreign Affairs	$ 1,701	$ 9	$ 1,692	$ 1,127	$ 9	$ 1,118

Diplomatic and Consular Programs support essential diplomatic personnel and programs worldwide. It also supports the infrastructure for U.S. Government agencies and employees at diplomatic and consular posts around the globe. For the years ended September 30, 2017 and 2016, these consist of costs and earned revenue summarized below *(dollars in millions)*:

	2017			2016		
Diplomatic and Consular Programs	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**
Costs:						
Diplomatic Programs and Other	$ 4,253	$ 300	$ 3,953	$ 4,736	$ 1,519	$ 3,217
Overseas Buildings Operations	1,747	358	1,389	1,604	296	1,308
Central Salaries and Benefits	3,371	—	3,371	4,377	—	4,377
Diplomatic Security	3,081	45	3,036	2,690	109	2,581
Consular Affairs	2,471	6	2,465	2,595	7	2,588
Total Costs	14,923	709	14,214	16,002	1,931	14,071
Less Earned Revenue:						
Diplomatic Programs and Other	907	242	665	2,082	1,459	623
Overseas Buildings Operations	1,801	356	1,445	1,694	294	1,400
Diplomatic Security	256	45	211	316	109	207
Consular Affairs	4,500	7	4,493	4,410	7	4,403
Total Earned Revenue	7,464	650	6,814	8,502	1,869	6,633
Total Net Cost for Diplomatic and Consular Programs	$ 7,459	$ 59	$ 7,400	$ 7,500	$ 62	$ 7,438

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 2017 and 2016 was as follows *(dollars in millions)*:

Under Secretary	2017	2016
Political Affairs	$ 16,010	$ 15,604
Management (Consular Affairs)	5,402	5,625
Public Diplomacy and Public Affairs	1,318	1,237
Arms Control, International Security Affairs	242	206
Civilian Security, Democracy and Human Rights	429	1,118
Economic Growth, Energy and Environment	47	56
Total	$ 23,448	$ 23,846

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

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

The following inter-entity costs and imputed financing sources were recognized in the Statement of Net Cost and Statement of Changes in Net Position, for the years ended September 30, 2017 and 2016 *(dollars in millions)*:

Inter-Entity Costs	2017	2016
Other Post-Employment Benefits:		
Civil Service Retirement Program	$ 15	$ 23
Federal Employees Health Benefits Program	121	144
Federal Employees Group Life Insurance Program	1	1
Litigation funded by Treasury Judgment Fund	—	—
Subtotal – Imputed Financing Source	137	168
Future Workers' Compensation Benefits	19	18
Total Inter-Entity Costs	$ 156	$ 186

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

Intragovernmental Costs and Earned Revenues

Intragovernmental costs and earned revenues are transactions between the Department and another reporting entity within the Federal Government. Costs and earned revenues with the public are transactions between the Department and a non-Federal entity. If a Federal entity purchases goods or services from another Federal entity, the related costs are classified as intragovernmental. If the Federal entity sells them to the public, the earned revenues are classified as with the public. For the years ended September 30, 2017 and 2016, intragovernmental costs and earned revenues were as follows *(dollars in millions)*:

	2017	2016
Gross Cost:		
Intragovernmental	$ 3,369	$ 3,213
Intragovernmental Costs Capitalized	(244)	—
With the Public	32,183	32,732
Total Gross Cost	35,308	35,945
Less Earned Revenue:		
Intragovernmental	4,003	3,882
With the Public	4,789	4,712
Total Earned Revenue	8,792	8,594
Total Net Cost of Operations	$ 26,516	$ 27,351


Secretary Tillerson is briefed by U.S. soldiers in front of the Joint Security Area of the Korean Demilitarized Zone in Panmunjon, South Korea, March 17, 2017. *Department of State*

Earned Revenues

Earned revenues occur when the Department provides goods or services to the public or another Federal entity. Earned revenues are reported regardless of whether the Department is permitted to retain all or part of the revenue. Specifically, the Department collects, but does not retain passport, visa, and certain other consular fees. Earned revenues for the years ended September 30, 2017 and 2016, consist of the following *(dollars in millions)*:

	2017			2016		
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	$ 693	$ —	$ 693	$ 725	$ —	$ 725
Machine Readable Visa	1,938	—	1,938	2,123	—	2,123
Expedited Passport	269	—	269	233	—	233
Passport, Visa and Other Surcharges	1,617	—	1,617	1,378	—	1,378
Fingerprint Processing, Diversity Lottery, and Affadavit of Support	20	—	20	19	—	19
Subtotal – Consular Fees	4,537	—	4,537	4,478	—	4,478
FSRDF	1,251	602	649	1,262	591	671
ICASS	3,463	2,450	1,013	3,327	2,300	1,027
Other Reimbursable Agreements	3,024	667	2,357	4,069	1,887	2,182
Working Capital Fund	1,236	1,057	179	1,198	1,028	170
Other	102	45	57	112	46	66
Total	$ 13,613	$ 4,821	$ 8,792	$ 14,446	$ 5,852	$ 8,594

Pricing Policies

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

The FSRDF finances the operations of the FSRDS and the FSPS. The FSRDF receives revenue from employee/employer contributions, a U.S. Government contribution, and interest on investments. By law, FSRDS participants contribute 7.25 percent of their base salary, and each employing agency contributes 7.25 percent; FSPS participants contribute 1.35 percent of their base salary and each employing agency contributes 20.22 percent. Employing agencies report employee/employer contributions biweekly. Total employee/employer contributions for 2017 and 2016 were $387 million and $378 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 2017 and 2016 were $302 million and $295 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2017 and 2016 were $562 million and $589 million, respectively.

Did You Know?

John Forsyth, in addition to serving as the 13th Secretary of State, served in the U.S. House of Representatives and the U.S. Senate. He was also elected Governor of Georgia and appointed as U.S. Minister to Spain.

LEARN MORE

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

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

16 Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources reports information on how budgetary resources were made available and their status as of and for the years ended September 30, 2017 and 2016. 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, 2017 and 2016, the Department received approximately $71.0 billion and $69.3 billion in budgetary resources, respectively, primarily consisting of the following:

Source of Budgetary Resources *(dollars in billions)*	**2017**	**2016**
Budget Authority:		
Direct or related appropriations	$ 33.0	$ 30.8
Authority financed from Trust Funds	1.0	1.0
Spending authority from providing goods and services	11.8	12.5
Unobligated Balances – Beginning of Year	23.7	23.2
Other	1.5	1.8
Total Budgetary Resources	$ 71.0	$ 69.3

Apportionment Categories of Obligations Incurred
(dollars in millions)

	Direct Obligations	**Reimbursable Obligations**	**Total Obligations Incurred**
For the Fiscal Year Ended September 30, 2017			
Obligations Apportioned Under			
Category A	$ 2,950	$ 4,201	$ 7,151
Category B	28,321	6,983	35,304
Category A/B	—	767	767
Exempt from Apportionment	316	—	316
Total	$ 31,587	$ 11,951	$ 43,538

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

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

Status of Undelivered Orders

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

The amount of budgetary resources obligated for UDO for all activities as of September 30, 2017 and 2016, was approximately $26.9 billion and $26.4 billion, respectively. This includes amounts of $1.6 billion for September 30, 2017, and $1.6 billion for September 30, 2016, pertaining to revolving funds, trust funds, and substantial commercial activities.

Permanent Indefinite Appropriations

A permanent indefinite appropriation is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount. The Department received permanent indefinite appropriations of $143 million and $136 million for 2017 and 2016, respectively. The permanent indefinite appropriation provides payments to the FSRDF to finance the interest on the unfunded pension liability for the year, Foreign Service Pension System, and disbursements attributable to liability from military service.

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

The reconciliation of the Combined Statement of Budgetary Resources and the actual amounts reported in the Budget of the United States Government (Budget) as of September 30, 2016 is presented in the table below. Since these financial statements are published before the Budget, this reconciliation is based on the FY 2016 Combined Statement of Budgetary Resources because actual amounts for FY 2016 are in the most recently published Budget (i.e., FY 2018). The Budget with actual numbers for September 30, 2017 will be published in the FY 2019 Budget and available in early February 2018. 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, 2016 ***(dollars in millions)***	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Combined Statement of Budgetary Resources (SBR)	$ 69,282	$ 45,620	$ 232	$ 30,817
Distributed Offsetting Receipts			(232)	232
Funds not Reported in the Budget:				
Expired Funds	(1,062)	—	—	—
International Assistance Program	(2,982)	(1,689)	—	(1,476)
Undelivered Orders Adjustment	(239)	—	—	—
Other and Rounding errors	(51)	(7)	—	(1)
Budget of the United States	$ 64,948	$ 43,924	$ —	$ 29,572

17 CUSTODIAL ACTIVITY

The Department administers certain custodial activities associated with the collection of non-exchange revenues, which are deposited and recorded directly to the General Fund of the Treasury. The Department does not retain the amounts collected. Accordingly, these amounts are not considered or reported as financial or budgetary resources for the Department. The custodial revenue amounts are considered immaterial and incidental to the Department's mission. At the end of each fiscal year, the accounts are closed and the balances are brought to zero by Treasury. Specifically, the Department collects interest, penalties and handling fees on accounts receivable; fines, civil penalties and forfeitures; and other miscellaneous receipts. In 2017 and 2016, the Department collected $25 million and $29 million, respectively, in custodial revenues that were transferred to Treasury.

18 Reconciliation of Net Cost of Operations to Budget

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

For the Year Ended September 30, *(dollars in millions)*	**2017**	**2016**
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 43,538	$ 45,620
Spending Authority from Offsetting Collections and Recoveries	(13,402)	(14,223)
Offsetting Receipts	(557)	(232)
Net Obligations	29,579	31,165
Imputed Financing	137	168
Other Resources	7	15
Total Resources Used to Finance Activities	**29,723**	**31,348**
Resources Used to Finance Items not Part of Net Cost:		
Resources Obligated for Future Costs – goods ordered but not yet provided	(141)	(245)
Resources that Finance the Acquisition of Assets	(2,934)	(2,770)
Resources that Fund Expenses Recognized in Prior Periods	(620)	(850)
Other	(14)	(19)
Total Resources Used to Finance Items not Part of Net Cost	**(3,709)**	**(3,884)**
Total Resources Used to Finance the Net Cost of Operations	**26,014**	**27,464**
Components of the Net Cost of Operations that will not require or generate Resources in the Current Period:		
Increase in Actuarial Liability	514	(21)
Passport Fees Reported as Revenue Returned to Treasury General Fund	(654)	(675)
Depreciation and Amortization	1,105	1,085
Interest Income of Trust Funds	(564)	(589)
Other	101	87
Total Components of the Net Cost of Operations that will not require or generate Resources in the Current Period	**502**	**(113)**
Net Cost of Operations	**$ 26,516**	**$ 27,351**

19 Fiduciary Activities

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

Schedule of Fiduciary Activity

As of September 30, ***(dollars in millions)***	**2017**						**2016**					
	19X6038	**19X6224**	**19X6225**	**19X6226**	**19X6227**	**Total**	**19X6038**	**19X6224**	**19X6225**	**19X6226**	**19X6227**	**Total**
Fiduciary Net Assets, Beginning of Year	$ 101	$ —	$ 11	$ 50	$ 3	$ 165	$ 101	$ —	$ 2	$ —	$ —	$ 103
Contributions	1	—	227	—	—	228	—	—	36	60	3	99
Disbursements to and on behalf of beneficiaries	—	—	(188)	(14)	(1)	(203)	—	—	(27)	(10)	—	(37)
Increases/(Decreases) in Fiduciary Net Assets	1	—	39	(14)	(1)	25	—	—	9	50	3	62
Fiduciary Net Assets, End of Year	$ 102	$ —	$ 50	$ 36	$ 2	$ 190	$ 101	$ —	$ 11	$ 50	$ 3	$ 165

Fiduciary Net Assets

As of September 30, ***(dollars in millions)***	**2017**						**2016**					
Fiduciary Assets	**19X6038**	**19X6224**	**19X6225**	**19X6226**	**19X6227**	**Total**	**19X6038**	**19X6224**	**19X6225**	**19X6226**	**19X6227**	**Total**
Cash & Cash Equivalents	$ 102	$ —	$ 50	$ 4	$ 1	$ 157	$ 3	$ —	$ 11	$ 19	$ —	$ 33
Investments	—	—	—	32	1	33	98	—	—	31	3	132
Total Fiduciary Net Assets	$ 102	$ —	$ 50	$ 36	$ 2	$ 190	$ 101	$ —	$ 11	$ 50	$ 3	$ 165

Ambassador Robert Wood, U.S. head of delegation, on the Preparatory Committee for the 2020 Review Conference of the Parties to the Treaty on the Non-Proliferation of Nuclear Weapons. *Department of State*

FOCUS

The World is a Safer Place, Thanks to the Treaty on the Non-Proliferation of Nuclear Weapons

In the early 1960s, President John F. Kennedy warned that as many as twenty-five countries might be on the path to acquiring nuclear weapons by the end of the 1970s. Imagine the world today if many more nations had been able to develop nuclear weapons. This, without a doubt, would have greatly increased the risk of regional conflicts escalating to nuclear war. Thanks in large part to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), this did not happen.

On May 2, 2017, the NPT marked the first meeting of the five-year cycle leading to its tenth Review Conference in 2020, the year that marks the 50th anniversary of the treaty's entry into force. This milestone provides an opportunity for all parties to reflect on the benefits they derive from the Treaty, celebrate the goals they have achieved as partners, and further commit to work together to sustain global security.

Despite predictions of a cascade of proliferation that would have made catastrophic nuclear escalation much more likely around the world, global nonproliferation efforts based on the NPT have limited the number of states that possess nuclear weapons. Moreover, NPT Parties work closely with the International Atomic Energy Agency to make sure international safeguards are in place to verify that nuclear material is not diverted from peaceful uses to nuclear weapons.

These protections have enabled the expanding use of the peaceful uses of nuclear energy that diagnose and fight diseases, develop new crops, manage scarce water resources, and broadly apply nuclear science and technology that meet United Nations Sustainable Development Goals. Nuclear commerce is also thriving, providing clean electric capacity around the world.

The maintenance of a strong nonproliferation regime grounded in the NPT also helped create a more secure and stable security environment conducive to progress on nuclear disarmament. The Cold War nuclear arms race ended decades ago, U.S. nuclear stockpiles have fallen by 85 percent from their peak during the Cold War, and under the "New START" Treaty between the United States and the Russian Federation, stockpiles will reach low levels not seen since the 1950s. Any proliferation of nuclear weapons would upset the prospects for further reductions, and would increase the risks of a nuclear war. It could also increase the likelihood of nuclear escalation, miscalculations, and accidents, as well as the chances that non-state actors such as international terrorists might themselves acquire nuclear weapons.

However, as the threat from North Korea grows, the NPT is at a critical moment. This treaty sets an international norm supportive of peaceful uses of nuclear energy in conformity with strong international nonproliferation standards. The NPT also helps isolate unlawful and provocative behavior such as North Korea's illicit plutonium and uranium production and development of nuclear weapons. Such actions create instability and threaten the security of millions of people, including those in the United States.

The NPT is a tool that we need now more than ever.

Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2017 *(dollars in millions)*

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budgetary Resources:						
Unobligated balance brought forward, October 1	$ 12,680	$ 364	$ 92	$ 1,297	$ 9,229	$ 23,662
Adjustment to unobligated balance brought forward, October 1 (+ or -)	—	—	—	—	—	—
Unobligated balance brought forward, October 1, as adjusted	12,680	364	92	1,297	9,229	23,662
Recoveries of unpaid prior year obligations	981	18	6	104	455	1,564
Other changes in unobligated balance (+ or -)	(29)	(7)	(1)	(43)	(37)	(117)
Unobligated balance from prior year budget authority, net	13,632	375	97	1,358	9,647	25,109
Appropriations (discretionary and mandatory)	14,852	3,267	129	1,936	13,839	34,023
Borrowing authority (discretionary and mandatory)	1	—	—	—	—	1
Spending authority from offsetting collections (discretionary and mandatory)	11,723	—	16	43	56	11,838
Total Budgetary Resources	**$ 40,208**	**$ 3,642**	**$ 242**	**$ 3,337**	**$ 23,542**	**$ 70,971**
Status of Budgetary Resources:						
New obligations and upward adjustments (total)	$ 26,425	$ 2,773	$ 146	$ 1,818	$ 12,376	$ 43,538
Unobligated balance, end of year:						
Apportioned, unexpired accounts	12,838	861	87	1,393	10,924	26,103
Exempt from apportionment, unexpired accounts	65	—	—	30	70	165
Unapportioned, unexpired accounts	106	6	—	7	41	160
Unexpired unobligated balance, end of year	13,009	867	87	1,430	11,035	26,428
Expired unobligated balance, end of year	774	2	9	89	131	1,005
Unobligated balance, end of year (total)	13,783	869	96	1,519	11,166	27,433
Total Budgetary Resources	**$ 40,208**	**$ 3,642**	**$ 242**	**$ 3,337**	**$ 23,542**	**$ 70,971**
Change in Obligated Balance:						
Unpaid Obligations:						
Unpaid obligations, brought forward, October 1	$ 12,976	$ 151	$ 66	$ 1,460	$ 12,719	$ 27,372
Adjustments to unpaid obligations, start of year (+ or -)	—	—	—	—	—	—
New obligations and upward adjustments	26,425	2,773	146	1,818	12,376	43,538
Outlays (gross) (-)	(24,082)	(2,634)	(129)	(1,586)	(12,764)	(41,195)
Recoveries of prior year unpaid obligations (-)	(981)	(18)	(6)	(104)	(455)	(1,564)
Unpaid obligations, end of year	**$ 14,338**	**$ 272**	**$ 77**	**$ 1,588**	**$ 11,876**	**$ 28,151**
Uncollected payments:						
Uncollected payments, Federal sources, brought forward, October 1 (-)	$ (235)	$ —	$ (4)	$ —	$ (50)	$ (289)
Adjustments to uncollected payments, Federal sources, start of year (+ or -)	—	—	—	—	—	—
Change in uncollected payments, Federal sources (+ or -)	59	—	(6)	—	—	53
Uncollected payments, Federal sources, end of year (-)	**$ (176)**	**$ —**	**$ (10)**	**$ —**	**$ (50)**	**$ (236)**
Memorandum (non-add) entries:						
Obligated balance, start of year (+ or -)	$ 12,741	$ 151	$ 62	$ 1,460	$ 12,669	$ 27,083
Obligated balance, end of year (+ or -)	$ 14,162	$ 272	$ 67	$ 1,588	$ 11,826	$ 27,915

(continued on next page)

COMBINING STATEMENT OF BUDGETARY RESOURCES *(continued)*

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budget Authority and Outlays, Net:						
Budget authority, gross (discretionary and mandatory)	26,576	3,267	145	1,979	13,895	45,862
Actual offsetting collections (discretionary and mandatory) (-)	(11,862)	—	(10)	(48)	(98)	(12,018)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	59	—	(6)	—	—	53
Recoveries of prior year obligations (discretionary and mandatory)	79	—	—	5	42	126
Budget authority, net (total) (discretionary and mandatory)	**$ 14,852**	**$ 3,267**	**$ 129**	**$ 1,936**	**$ 13,839**	**$ 34,023**
Outlays, gross (discretionary and mandatory)	$ 24,082	$ 2,634	$ 129	$ 1,586	$ 12,764	$ 41,195
Actual offsetting collections (discretionary and mandatory) (-)	(11,862)	—	(10)	(48)	(98)	(12,018)
Outlays, net (total) (discretionary and mandatory)	12,220	2,634	119	1,538	12,666	29,177
Distributed offsetting receipts (-)	(557)	—	—	—	—	(557)
Agency outlays, net (discretionary and mandatory)	**$ 11,663**	**$ 2,634**	**$ 119**	**$ 1,538**	**$ 12,666**	**$ 28,620**

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, 2017

Category	Number of Assets	Condition
Diplomatic Reception Rooms Collection	1,828	Good to Excellent
Art Bank Program	2,628	Good to Excellent
Art in Embassies Program	1,187	Good to Excellent
Cultural Heritage Collection	18,422	Good to Excellent
Library Rare & Special Book Collection	1,250	Poor to Good
Secretary of State's Register of Culturally Significant Property	33	Poor to Excellent
U.S. Diplomacy Center	4,363	Good to Excellent
Blair House	2,623	Good to Excellent
International Boundary and Water Commission	140	Poor to Good

DEFERRED MAINTENANCE AND REPAIRS

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

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

Deferred Maintenance and Repairs Policy – Measuring, Ranking and Prioritizing

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

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

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

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

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

Factors Considered in Determining Acceptable Condition

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

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

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

Deferred Maintenance and Repairs
(dollars in millions)

Asset Category	2017 Ending Balance DM&R	2017 Beginning Balance DM&R
General PP&E	$ 93	$ 92
Heritage Assets	8	4
Total	$ 101	$ 96

Ambassador Osius, (center) in red jacket, leads embassy bicyclists on a four-day trek in Ha Giang province, Vietnam. ***Department of State***

FOCUS IN

Biking for Diplomacy

This year marked the 200th birthday of the modern bicycle.

The U.S. Department of State's diplomats explore ways to strengthen the relationship between the United States and the host country. Bicycling can provide incredible opportunities for diplomatic engagement, thanks to the slower pace which allows more in-depth interaction with local communities.

One leading bicycle diplomat is the U.S. Ambassador to Vietnam, Ted Osius. He regularly rides through the cities and countryside to meet the local residents. In March 2017, he led embassy bicyclists on a four-day trek in Ha Giang province to meet with students, local government, and highlight the eco-tourism opportunities in the region.

Also in Southeast Asia, U.S. Embassy Seoul has a dedicated "bike diplomacy" team. They promote their rides on Twitter with #bikediplomacy, and have even partnered with the host country, the Republic of Korea, to host a bicycle ride to some of the venues that will be used in the 2018 Olympics in PyeongChang. The ride is an opportunity for cultural exchange on a more local level.

The U.S. Department of State's global educational and cultural outreach also includes bicycling. The Department and espnW partner together on a Global Sports Mentoring Program for women across the globe. One recent participant, Batoul Arnaout, is a cyclist in Jordan. She used what she learned on her exchange program in the United States to start an initiative – BOOST, or Better Options and Opportunities for Sports Today – in Jordan to empower underserved communities.

Everyday cycling also helps support local communities, reducing air pollution and traffic, while promoting wellness. Our facilities across the world are working to promote bicycling as a mode of everyday transport. The U.S. Mission in Geneva manages a fleet of electric bicycles, or "eBikes," which staff use to get to meetings around town. The staff even developed a cloud-based iPad app to easily reserve an eBike and show real-time status updates on the fleet's availability.

In Washington, D.C., traveling by bike is so popular with Department of State employees that the Capital BikeShare docking stations closest to Department buildings are regularly 100 percent utilized. Thanks to a great partnership with the District of Columbia, the Department recently joined with its Harry S Truman building neighbors, the American Pharmacists Association and the National Academies of Sciences, to celebrate the installation of a new Capital BikeShare docking station at 22nd and Constitution Ave NW.

LEARN MORE

Learn more about the State Department's efforts to make diplomacy power environmental innovation at: ***http://state.gov/ecodiplomacy,*** **or follow us on Twitter** ***@StateGDI.***

Secretary Tillerson, flanked by Secretary James Mattis and Special Presidential Envoy Brett McGurk, attends a meeting of the Global Coalition Working to Defeat ISIS in Washington, D.C., March 22, 2017.

Department of State

SECTION III:

Other Information

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

INTRODUCTION

Inspector General,
Steve A. Linick

Each year, as required by law,[1] the Office of Inspector General (OIG) for the Department of State (Department) identifies the most serious management and performance challenges facing the Department and briefly assesses the Department's progress in addressing those challenges.

Based on our oversight work performed this year and in the past, research, and independent judgment, OIG concludes that the following are the major management and performance challenges the Department faced in FY 2017:

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

Each of these challenges affects the Department's ability to achieve its substantive mission. In this report, we identify situations in which our oversight work found that the Department has addressed these concerns, but we focus primarily on the work that led us to include the challenge in the first place. We also identify some of OIG's specific recommendations associated with these issues.

Three of these challenges—protection of people and facilities; oversight of contracts, grants, and foreign assistance; and information security and management—are largely unchanged from our FY 2016 management challenges report and from our reports on this topic from the past several years. These issues go to the heart of the Department's programs and operations, and it is likely that these will be crucial challenges for the foreseeable future. Nonetheless, the specific ways that these challenges manifest themselves change over time, and our work in FY 2017 focused on particular aspects of these problems.

Two challenges that we identified in past reports—financial management and managing posts and programs in conflict zones—have been modified. In preceding years, we identified financial management as a key challenge for the Department, and this is still an area where the Department can improve. This year, however, we broaden the challenge to include a wider range of financial issues as well as property management. Our analysis of this issue particularly considers the effect of certain internal control deficiencies—specifically,

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

management failure to identify deficiencies and poor adherence to established internal control processes—on the Department's ability to safeguard its financial resources and property. Additionally, we address weaknesses in tracking and reporting data, analyzing and using financial data effectively, and effectively seeking reimbursement for services and implementing cost-sharing measures. We also broaden our discussion of the unique challenges the Department faces operating in zones experiencing contingency operations. We reframe this challenge to address contingency zones and otherwise critical environments. Our reports have found that many of the same types of logistical and security concerns arise in locations that are recovering from disasters (including disease) or civil strife but are not actively involved in conflicts.

Finally, this year we have added two new challenges: workforce management and promoting accountability through coordination and clear lines of authority. We include workforce management because OIG's reports have identified difficulties associated with lack of, or poor use of, personnel resources, such as inadequate training and overly short rotations. We address issues of coordination and authority because OIG has identified these concerns in a wide range of programs. Without clearly defined roles and responsibilities and effective coordination among Department entities with intersecting obligations, the Department's ability to effectively carry out its programs and operations is compromised.

These challenges are not necessarily found in isolation. Rather, they tend to compound each other. To take just one example, contract oversight in conflict zones, where Department employees frequently have short rotations and limited ability to monitor performance, presents a situation where management challenges related to oversight of contracts, operating in critical environments, and workforce management overlap. Other problems, such as weaknesses in IT security, are exacerbated in situations where there are unclear or overlapping lines of authorities.

Continued attention to the management challenges identified in this report will improve the Department's operations and, accordingly, its ability to fulfill its mission and to be a good steward of taxpayer resources. OIG particularly encourages the Department to consider ways that specific recommendations might be applied broadly to make more systemic changes that will improve the Department's overall operations and to ensure that these changes contribute to meaningful, permanent changes in practice. We hope that this report, read together with the work OIG produces throughout the year, assists the Department in its efforts.

1 Protection of People and Facilities

The protection of its people and facilities abroad remains a serious management and performance challenge for the Department. The threat of physical violence against U.S. diplomats and U.S. diplomatic facilities touches every region of the world. In its most recent compilation of incidents of political violence against Americans abroad, the Bureau of Diplomatic Security (DS) described numerous incidents that involved diplomats and diplomatic facilities as targets. These included, for example, incidents in which armed men fired at a vehicle carrying embassy personnel in Haiti, an individual threw a brick at Consulate General Hong Kong, and a knife-wielding assailant attacked a guard stationed outside of Embassy Nairobi in Kenya.[2] The threat of physical violence is naturally greater in conflict areas, such as Iraq and Afghanistan, that are at the forefront of U.S. engagement to defeat terrorism. Nonetheless, attacks in Belgium, France, Turkey, and elsewhere underscore the global nature of these threats. Additionally, natural disasters, environmental hazards, and ordinary crime continually pose risks to the health and safety of Department personnel and their families serving abroad. Much of OIG's work identifies risks to Department personnel and facilities and provides recommendations to address those risks.

Constructing and Maintaining Safe and Secure Diplomatic Facilities

The Department places great emphasis on the need to provide safe and secure facilities abroad. It expends significant resources on maintaining, updating, and expanding its more than 270 diplomatic missions abroad—some of them large, sprawling compounds.

Nonetheless, OIG found physical security deficiencies at U.S. diplomatic missions covered in its FY 2017 reports. Many of the reports related to this issue are classified, but

[2] Department of State Bureau of Diplomatic Security, *Political Violence Against Americans 2016* (May 2017).

publicly available information illustrates the challenges the Department faces in this area. For example, in one of two reports relating to Embassy Kabul in Afghanistan, OIG found that, after installation and inspection by DS, two security doors at the embassy were improperly altered, which potentially affected their overall security performance.[3] In a separate report on the construction of two buildings at Embassy Kabul, OIG found that poor quality assurance and oversight of the construction process led to myriad instances of failure to adhere to electrical and fire safety standards[4]. Throughout FY 2017, OIG inspections of U.S. embassies identified numerous facility maintenance deficiencies, including partially collapsed and leaky roofs, and nonfunctioning fire alarms.[5]

Constructing and maintaining safe and secure diplomatic facilities is always a challenge, and that challenge is compounded in regions afflicted by conflict and humanitarian crises. For several years, OIG has, however, recommended various steps the Department could take to improve adherence to its own policies and processes. For example, the Bureau of Overseas Buildings Operations (OBO) and DS should develop and implement formal, standardized processes to prioritize physical security-related deficiencies at posts by category.[6] OBO should also implement an effective process to respond to posts' formal requests for physical security-related funding.[7] Additionally, the Department should modify the security certification process to include a follow-up inspection by DS that would prevent alterations such as those identified at Embassy Kabul from going unnoticed.[8] Finally, overseas posts should follow the Department's facilities maintenance policies, including implementing required comprehensive preventive, routine, and special maintenance programs. OIG has, for the most part, made recommendations directed toward the practices of particular posts but encourages the Department to consider whether similar concerns at other locations could be addressed as well.

Ensuring the Health and Safety of Personnel Abroad

The Department pays serious attention to the security, and more generally, the overall health and safety of its personnel abroad. OIG reviewed its findings on executive direction from the past 3 years of inspection reports and concluded that, in more than 70 percent of the reports, embassy leadership was engaged on security issues and supported the Regional Security Officer and other mission elements that contributed to an effective security, health, and safety posture.[9] This is, however, an area that requires constant attention, and, throughout its FY 2017 reports, OIG identified specific areas in which the Department could do better. As described below, OIG noted continuing concerns with the operations of official vehicles overseas and certain aspects of residential security.

Operations of Official Vehicles Overseas

In several FY 2017 reports, OIG detailed deficiencies in the management and operation of official vehicles at overseas posts. For example, in an audit of the administration of the armored vehicle program, OIG found that some posts used armored vehicles that did not meet required protective standards; OIG also found that some posts did not have

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3 OIG, *Management Assistance Report: Improvements Needed to the Security Certification Process To Ensure Compliance With Security Standards at Embassy Kabul, Afghanistan* (AUD-MERO-17-28, March 2017).

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

5 OIG, *Inspection of Embassy Monrovia, Liberia* (ISP-I-17-12, May 2017); OIG, *Inspection of Embassy Freetown, Sierra Leone* (ISP-I-17-16, May 2017).

6 OIG, *Management Assistance Report: Department Attention Needed to Address Overdue Responses on Selected Open Recommendations* (AUD-ACF-17-55, July 2017); OIG, *Compliance Follow-up Audit of the Process To Request and Prioritize Physical Security-Related Activities at Overseas Posts* (AUD-ACF-16-20, December 2015); OIG, *Audit of the Process To Request and Prioritize Physical Security-Related Activities at Overseas Posts* (AUD-FM-14-17, March 2014).

7 *Ibid*.

8 In particular, OIG recommended that OBO, in coordination with DS, revise the physical security certification process to include a follow-up inspection by DS to confirm that OBO took actions to address all identified deficiencies in accordance with physical security standards before occupancy. AUD-MERO-17-28, March 2017. OBO did not concur with this recommendation, and, as of September 30, 2017, OIG considers the recommendation unresolved.

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

enough armored vehicles to provide an enhanced level of protection for their employees.[10] Furthermore, OIG identified problems with the maintenance of armored vehicles, including inadequate tire pressure and extensive damage to windshields.[11] These deficiencies can directly affect the safety and utility of these vehicles.

Compounding those problems are deficiencies in driver training, an issue that OIG has previously identified.[12] For example, OIG found that most chauffeurs at Mission Pakistan lacked armored vehicle training even though the mission's own travel policy mandates the use of armored vehicles for all vehicle movements.[13] OIG also reported instances where inadequate driver training extended beyond armored vehicle operators. In particular, several inspection reports discussed posts that did not ensure that all their chauffeurs and incidental drivers received appropriate training.[14] Some posts also failed to ensure drivers had required medical certifications[15] and adhered to Department limits on working hours.[16] At Embassy Tel Aviv—a post with a high number of preventable vehicle mishaps—OIG also found that the embassy did not impose disciplinary measures on three drivers with repeated motor vehicle mishaps.[17]

Some of these issues are limited to practices at particular posts. More generally, though, OIG recommendations have identified potential improvements in program management practices that could minimize these deficiencies. For example, the Department should develop and implement a detailed plan for the armored vehicle program and hire an experienced program manager to oversee the fleet. Regarding the acquisition and maintenance of armored vehicles, the Department should bolster its internal policies requiring adherence to its standards.[18] Furthermore, given that Department personnel posted abroad rely heavily on official vehicles, posts should ensure that supervisors are not disregarding limits on working hours, overlooking requirements for medical certifications and driving training, or ignoring appropriate occasions to administer disciplinary measures.

Residential Security

In FY 2017, OIG identified some posts that largely complied with the Department's standards for residential safety and security. For example, a limited-scope inspection of Embassy Kingston in Jamaica revealed a housing pool that generally met Department standards.[19] Additionally, OIG found that new employees received briefings that outlined the critical crime threat in Jamaica and policies and directives related to personnel security restrictions.[20]

In many other posts, however, OIG continued to find deficiencies in the administration of the Department's housing and related anti-crime program. Multiple inspections identified posts that had not ensured that residential properties met the Department's fire safety standards.[21] For example, in Luanda, Angola, OIG reported that 28 of the 38 government-leased apartments in a high-rise building did not meet fire safety requirements and concluded they should be removed from the housing pool.[22] Additionally, OIG

10 OIG, *Audit of the Bureau of Diplomatic Security's Administration of the Armored Vehicle Program* (AUD-SI-17-21, February 2017).

11 *Ibid*.

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

13 OIG, *Inspection of Embassy Islamabad, Pakistan* (ISP-I-17-11A, February 2017).

14 OIG, *Inspection of Embassy Tel Aviv, Israel* (ISP-I-17-20, May 2017); OIG, *Inspection of Embassy Bishkek, Kyrgyzstan* (ISP-I-17-13, March 2017); ISP-I-17-12, May 2017; ISP-I-17-16, May 2017.

15 ISP-I-17-20, May 2017; ISP-I-17-12, May 2017; ISP-I-17-16, May 2017.

16 ISP-I-17-20, May 2017; ISP-I-17-16, May 2017.

17 ISP-I-17-20, May 2017. OIG notes that, based on its recommendations to improve the motor vehicle safety management program and the Department's efforts, Embassy Tel Aviv has significantly decreased motor vehicle mishaps.

18 AUD-SI-17-21, February 2017.

19 OIG, *Inspection of Emergency Preparedness and Residential Security at Embassy Kingston, Jamaica* (ISP-I-17-25A, June 2017).

20 *Ibid*.

21 OIG, *Inspection of Embassy Belgrade, Serbia* (ISP-I-17-08A, January 2017); OIG, *Inspection of Embassy Luanda, Angola* (ISP-I-17-19, June 2017); ISP-I-17-12, May 2017.

22 ISP-I-17-19, June 2017.

identified several posts that had not properly inspected or could not demonstrate they had properly inspected residential properties for health and safety risks before assigning employees to occupy them.[23]

Extended staffing gaps, particularly in the position of Post Occupation Safety and Health Officer, underlie these deficiencies in some cases. Given the implications for the health and safety of Department personnel and their families, however, overseas posts should focus on complying with the Department's standards pertaining to residential properties, including completing and documenting required safety and health inspections and residential security surveys.

Emergency Preparedness

Department guidelines require U.S. embassies to maintain post-specific emergency action plans to respond to situations such as bombs, fires, civil disorders, and evacuations. Many FY 2017 inspections of overseas posts noted broad compliance with Department emergency planning standards and solid engagement on the issue from front office leadership. To take one example, Embassy Bishkek in Kyrgyzstan took intermediate and long-term steps to obtain a housing pool of seismically secure residences.[24]

OIG, however, continued to note deficiencies that present safety risks to Department personnel and American citizens abroad in the event of a natural disaster or other crisis. These included consular sections that did not comply with Department standards for emergency preparedness[25] and inadequate testing and maintenance of important hardware necessary for communication during a crisis, including satellite phones and high-frequency radios.[26] OIG also found that, despite being at a high risk for earthquakes, Embassy Rangoon in Burma had not conducted adequate earthquake drills or training and had no seismic surveys for any of the buildings in its residential housing pool.[27]

In some cases, staffing shortages and competing priorities were cited as factors in these deficiencies. Nonetheless, because of the importance of the issue, OIG has issued various recommendations that overseas posts should comply with the Department's emergency preparedness policies, including conducting required drills and ensuring consular staff are trained on their roles during a crisis.

2 Oversight of Contracts, Grants, and Foreign Assistance

The Department spends substantial resources by means of contracts, grants, and cooperative agreements. In FY 2016 alone, the Department's obligations included more than $15 billion for contracted services and more than $18 billion in grants and fixed charges.[28] To meet its obligation to use taxpayer resources prudently, the Department must ensure that contractors and grantees are appropriately selected, work is properly conducted and monitored, objectives of the grant or contract are achieved, and costs are effectively contained. Oversight of these resources continues to be a significant management challenge for the Department. Inadequate oversight and mismanagement pose substantial financial risk to the Department. Moreover, oversight weaknesses and mismanagement also increase the possibility that the purpose of these instruments will not be met.

Managing Grants in Compliance With Applicable Standards

Throughout the year, various reports identified posts and bureaus that carefully managed their grants in accordance with applicable standards. For example, in its inspection of the Bureau of Population, Refugees, and Migration, OIG found that the bureau, which oversees a large portfolio of grants and cooperative agreements, developed generally effective internal control policies and procedures for managing these instruments and generally complied with

23 OIG, *Inspection of Bratislava, Slovakia* (ISP-I-17-06A, January 2017); OIG, *Inspection of Port Moresby, Papua New Guinea* (ISP-I-17-07A, January 2017); ISP-I-17-19, June 2017; ISP-I-17-20, May 2017; ISP-I-17-13, March 2017.

24 ISP-I-17-13, March 2017.

25 ISP-I-17-12, May 2017; ISP-I-17-16, May 2017.

26 OIG, *Inspection of Emergency Preparedness at Consulate General Hamilton, Bermuda* (ISP-I-17-26, May 2017); ISP-I-17-25A, June 2017.

27 OIG, *Inspection of Embassy Rangoon, Burma* (ISP-I-17-05A, January 2017).

28 Department of State, *Agency Financial Report (Fiscal Year 2016)*.

applicable Federal assistance regulations.[29] This bureau had taken substantial steps to improve its processes and had seen genuine change as a result.

Nonetheless, OIG continued to find grants management practices that did not comply with Department requirements. Problems that were noted across multiple inspection reports included missing performance or financial reports; insufficient site visits; improper closeout procedures; and a lack of pre-award evaluation criteria, risk assessments, and monitoring plans.[30] Overlooking formal steps for soliciting, evaluating, monitoring, and documenting grant awards risks using funds on projects that do not match mission priorities or providing funds to grantees that lack the capacity to implement the grant objectives. In another manifestation of this problem, in an inspection of the Bureau of Near Eastern Affairs (NEA), OIG found that a majority of public diplomacy grants reviewed were awarded noncompetitively and without documented justification.[31] Furthermore, most did not have required monitoring and evaluation plans.

The causes of these deficiencies varied, but OIG reports often identified staffing shortages, poor training, and high turnover. Competing priorities also played a role because Grants Officers and Grants Officer Representatives frequently have other responsibilities that are unrelated to oversight of grants. For example, at Embassy Rangoon, 3 staff managed 38 active grants throughout the country in addition to carrying out other responsibilities.[32] The report noted that this was a heavy work load for grants management staff under any circumstance, but it was particularly so in Burma where many of the grants were being implemented in remote locations.

OIG's reports provided recommendations directed at these issues. For example, to guide staff with grants management responsibilities, bureaus and posts should establish and implement formal standard operating procedures for conducting grants management activities that comply with Department requirements.

Ensuring Proper Invoice Review and Approval Processes

Proper invoice review and approval processes are a crucial aspect of ensuring that the Department receives the benefit of its contracts and that the Department is able to take appropriate steps if contractors are not performing appropriately. In FY 2017, OIG issued two audit reports that highlighted domestic bureaus' successful efforts to improve the invoice review and approval process for specific contracts under their purview. OIG reported that NEA developed a standard operating procedure for invoice review and provided invoice examiner training to its staff.[33] These standard operating procedures led, at least in part, to OIG's finding that the percentage of allowable and supported costs approved for payment under the Baghdad Operations and Maintenance Support Services Contract improved over time.[34] Similarly, OIG found that the Bureau of South and Central Asian Affairs established internal controls that complied with applicable invoice review requirements and that the bureau had paid no money in prompt payment interest penalties related to the Afghanistan Life Support Services Contract in FY 2016.[35]

Again, though, OIG continued to identify ways that the Department could improve its practices. For example, despite implementing a standard operating procedure and

[29] OIG, *Inspection of Bureau of Population, Refugees, and Migration* (ISP-I-17-10, February 2017).

[30] OIG, *Management Assistance Report: Improved Oversight Needed to Standardize the Use of Risk Assessments and Monitoring Plans for Overseas Grants* (ISP-17-33, July 2017); see also ISP-I-17-05A, January 2017; ISP-I-17-07A, January 2017; ISP-I-17-08A, January 2017; ISP-I-17-12, May 2017; ISP-I-17-16, May 2017; and ISP-I-17-19, June 2017.

[31] OIG, *Inspection of the Bureau of Near Eastern Affairs* (ISP-I-17-22, May 2017).

[32] ISP-I-17-05A, January 2017.

[33] OIG, *Audit of Baghdad Diplomatic Support Center Task Orders Awarded Under Operations and Maintenance Support Services Contract SAQMMA12D0165* (AUD-MERO-17-45, June 2017).

[34] *Ibid*.

[35] OIG, *Audit of the Bureau of South and Central Asian Affairs Invoice Review Process for the Afghanistan Life Support Services Contract* (AUD-MERO-17-47, June 2017).

training and despite generally following Federal requirements, NEA possessed a significant backlog of invoices that were approved for expedited provisional payment but had not received the required post-payment review.[36] The bureau also failed to properly document its invoice reviews in many cases.[37] Similarly, in an audit of a contract for monitoring services in Iraq, OIG found inadequate supporting documentation for 77 percent of the total amount billed in its sample of invoices.[38] In another example, in an audit of six IT contracts administered by the Bureau of Consular Affairs (CA), Office of Consular Systems and Technology, OIG found that 85 percent of the invoices it reviewed were not approved by the designated Contracting Officer's Representative.[39]

Staffing shortages, high turnover, and a lack of internal controls played a role in these deficiencies, and a number of OIG's recommendations addressed these concerns. For example, OIG recommended that NEA develop and implement a process to periodically review and address staffing requirements in its contract management offices; this recommendation was intended to ensure that invoice oversight staff levels are sufficient to complete effective and timely invoice reviews that comply with Federal requirements and Department guidance.[40] Likewise, OIG recommended that CA's Office of Consular Systems and Technology develop and implement training for its contract oversight staff and put into place internal policies and procedures governing contract administration that specifically include guidance on reviewing and approving invoices.[41]

Monitoring and Documenting Contractor Performance

Over the past several years, OIG has provided the Department with numerous recommendations to improve its oversight of contractor performance, and a 2017 audit report specifically noted that a 2014 management alert had "prompted the Department to improve guidance and training for contract oversight."[42] OIG identified in its FY 2017 reports several instances in which the Department engaged in appropriate oversight. For example, OIG found that Bureau of South and Central Asian Affairs oversight of the Afghanistan Life Support Services contract was effective. Oversight staff identified and resolved performance issues and reduced invoice payments when contractual requirements were not being fulfilled.[43] The report specifically noted that the Contracting Officers Representatives, "who are Department civil service employees rather than Foreign Service Officers, are dedicated full time to overseeing the . . . contract."[44] Also, OIG reported that CA's Office of Consular Systems and Technology had identified and resolved significant contractor performance issues with some of the contracts OIG audited.[45] In a third report, OIG determined that the Contracting Officers Representatives within DS had made "significant improvements" in file maintenance practices since 2015.[46]

OIG continued to find, however, inadequacies in the monitoring and documentation of contractor performance pertaining to contracts and foreign assistance programs.

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36 OIG, *Aspects of the Invoice Review Process Used by the Bureau of Near Eastern Affairs to Support Contingency Operations in Iraq Need Improvement* (AUD-MERO-17-33, March 2017).

37 *Ibid*.

38 OIG, *Audit of the Department of State's Contract To Monitor Foreign Assistance Programs in Iraq* (AUD-MERO-17-41, May 2017).

39 OIG, *Audit of the Bureau of Consular Affairs, Office of Consular Systems and Technology, Administration of Selected Information Technology Contracts* (AUD-CGI-17-38, May 2017).

40 AUD-MERO-17-33, March 2017.

41 AUD-CGI-17-38, May 2017.

42 OIG, *Audit of Invoices Submitted by Torres Advanced Enterprise Solutions, LLC, for Select Local Guard Force Contracts* (AUD-CGI-17-63, September 2017) (citing to OIG, *Management Alert (Contract File Management Deficiencies)*, MA-A-0002, March 2014).

43 AUD-MERO-17-47, June 2017.

44 *Ibid*.

45 AUD-CGI-17-38, May 2017.

46 AUD-CGI-17-63, Sept. 2017.

These deficiencies manifested themselves in various ways, and OIG found concerns in both domestic and overseas operations. For example, OIG detailed ongoing difficulties in monitoring and overseeing the antiterrorism assistance program in Pakistan. In particular, OIG reported that DS had no staff in Pakistan responsible for verifying satisfactory contractor performance or monitoring whether required reports were submitted. Furthermore, the bureau had not adopted a meaningful way to measure progress toward program goals.[47] In another example, an audit of a contract for monitoring services in Iraq reported that the Department did not adequately monitor funds available under contract line item numbers.[48] OIG's inspection reports also highlighted posts where Contracting Officers Representatives served without proper training or without proper designation, which could affect their ability to ensure proper oversight of contractors.[49] Domestically, OIG reported that CA's Office of Consular Systems and Technology contract files did not have all required documentation and that contractor monthly status reports were missing for each contract reviewed.[50]

OIG acknowledges that conditions on the ground can have significant effect on the Department's ability to perform oversight. For example, OIG found that difficulty in obtaining visas from the Government of Pakistan was a contributing factor in the Department's flawed oversight and monitoring of the antiterrorism assistance program there.[51] Even in such situations, however, OIG identified specific, practical actions the Department could take to improve oversight, including developing and implementing procedures to verify compliance with contract reporting requirements. In other situations, Department bureaus responsible for administering contracts and foreign assistance should better ensure compliance with contract reporting requirements and should develop and implement monitoring and evaluation systems that measure contractor performance.

3 Information Security and Management

Like all large organizations, the Department depends on information systems and electronic data to carry out its mission. The security of these systems and networks—cybersecurity—is vital to protecting national and economic security, public safety, and the flow of commerce. These same information systems, however, are subject to serious threats, including exploitation and compromise of the information being processed, stored, and transmitted. These threats, in turn, can harm the Department's operations and assets. As described below, OIG's reports have emphasized a number of these risks. OIG also notes that, as discussed in the separate section addressing coordination and the need for clear lines of authority, these issues are affected by the organizational placement of the Chief Information Officer (CIO).

Strengthening Cybersecurity Practices

Overall, during FY 2017, OIG reported that the Department did not have an effective information security program guided by risk-based decision-making, as evidenced by security weaknesses in key IT metrics, including risk management, configuration management, identity and access management, continuous monitoring, incident response, and contingency planning.[52] OIG FY 2017 reports identified various areas where the Department could strengthen its cybersecurity performance. These include Information Systems Security Officer duties, the cybersecurity assessment process, the configuration change control process, and IT contingency planning.

Information Systems Security Officers (ISSO) are responsible for implementing the Department's information systems security program and for working closely with system

[47] OIG, *Management Assistance Report: Challenges Remain in Monitoring and Overseeing Antiterrorism Assistance Program Activities in Pakistan* (AUD-MERO-17-37, May 2017).

[48] AUD-MERO-17-41, May 2017.

[49] *See, e.g.*, ISP-I-17-07A, January 2017; ISP-I-17-12, May 2017; ISP-I-17-16, May 2017.

[50] AUD-CGI-17-38, May 2017.

[51] AUD-MERO-17-37, May 2017.

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

managers to ensure compliance with information systems security standards. In a management assistance report, OIG reported that one third of its overseas inspections conducted from fall FY 2014 to spring FY 2016 included findings related to the deficient performance of ISSO duties.[53] Similarly, several FY 2017 inspections confirmed that this continued to be a problem for the Department both at overseas posts and domestic bureaus.[54]

Because ISSO duties are often assigned to information management personnel on a collateral basis, competing priorities are sometimes at the root of this challenge. Neglect of these duties, however, may leave the Department vulnerable to cybersecurity attacks. Accordingly, OIG recommended that the Bureau of Information Resource Management (IRM) take the lead in implementing a plan to enforce the performance of ISSO duties by overseas information management personnel in accordance with Department standards.[55] Additionally, OIG issued recommendations for individual overseas posts to implement standard operating procedures to ensure performance of ISSO duties.

OIG also found missed opportunities to improve systems through use of the Department's cybersecurity assessment reports. These reports, which are conducted by DS, focus on cybersecurity practices and include specific recommendations for improvement. In comparing its own reports with DS reports, OIG found that, of the 23 instances in which DS performed a cybersecurity assessment before an OIG inspection of a post, subsequent OIG reports made recommendations reflecting the same or similar deficiencies 18 times.[56] The specific recommendations related to a range of issues, including inadequate performance of ISSO duties, incomplete or untested IT contingency plans, unidentified dedicated internet networks, physical control deficiencies, administrative control weaknesses, and technical control issues. To address this serious issue and to ensure that the Department is taking advantage of its own processes to protect its information security, OIG recommended that the Department require implementation of cybersecurity assessment recommendations and establish a process to track and verify compliance.[57]

Another report on this subject detailed concerns with the Department's configuration change control process. Configuration change control prevents changes to IT systems or changes that could introduce security weaknesses—such system changes can be as minor as adding a new type of printer or as significant as deploying an entirely new application.[58] At the Department, enterprise change requests must be reviewed through a process led by the Information Technology Configuration Control Board. OIG reported that this board did not authorize or test change requests in compliance with Federal requirements and Department policy. Specifically, change requests were not sufficiently authorized at every stage of the review process, and change requests were not tested as required. As a result of unauthorized and untested change requests, the Department's network, applications, and software are put at risk because of an inconsistently applied and controlled configuration control process.

OIG also continued to find deficiencies in Department IT contingency planning at overseas posts. Department guidelines require every information system to have a contingency plan that is documented and tested annually. Incomplete and untested IT contingency plans increase the risk of ineffective responses to or loss of critical communication during an emergency or crisis. OIG found several embassies that were not (or could not show

[53] OIG, *Management Assistance Report: Non-Performance of Information Systems Security Officer Duties by Overseas Personnel* (ISP-17-24, May 2017).

[54] OIG, *Inspection of Consulate General Jerusalem* (ISP-I-17-18, June 2017); ISP-I-17-12, May 2017; ISP-I-17-16, May 2017; ISP-I-17-20, May 2017; ISP-I-17-13, ISP-I-17-22, May 2017, March 2017.

[55] ISP-17-24, May 2017.

[56] OIG, *Management Assistance Report: Deficiencies Reported in Cyber Security Assessment Reports Remain Uncorrected* (ISP-17-39, July 2017). The DS assessments occurred between 1 and 41 months before OIG's inspection, with an average of over 10 months between the two reports.

[57] *Ibid*.

[58] OIG, *Audit of the Department of State's Information Technology Configuration Control Board* (AUD-IT-17-64, September 2017).

that they were) testing IT contingency plans annually.[59] For example, OIG found that Embassy Tel Aviv in Israel had not updated its plan annually, which, in turn, meant that managers did not provide initial and annual refresher contingency training to information management personnel.[60] The lack of a properly developed and tested IT contingency plan that is linked with overall emergency preparedness processes could compromise a post's recovery efforts following an IT incident. OIG has accordingly recommended repeatedly that overseas posts conduct IT contingency planning in accordance with Department standards.

Finally, OIG identified inconsistencies and omissions in two databases that track the Department's IT assets.[61] Without accurate and complete information on its IT systems, Department processes meant to protect these systems and safeguard the confidentiality, integrity, and availability of its information are significantly hampered.

Establishing Effective Records Management Programs

In a number of FY 2017 inspections, OIG noted Department entities that were not fulfilling records management responsibilities. For example, NEA did not have an active records management program with adequate guidance regarding creation, maintenance, use, and disposition of records.[62] OIG also found several embassies that had ineffective records management programs and employees who were untrained on records management responsibilities.[63] Similarly, OIG inspections reported that, at a number of embassies, employees did not consistently use record emails to document activities and operations.[64] Finally, with respect to paper records, OIG noted poor practices in two inspections in which it observed safes containing classified documents from departed employees that were not retired, archived, or disposed.[65]

Inattentive management, a lack of employee training, and unclear existing guidance are contributing factors in these deficiencies. To address these issues, OIG has recommended that Department entities establish records management programs that are in accordance with Department guidance and that include dedicated and trained staff with records management responsibilities. Posts and bureaus should also prescribe and adhere to internal guidance for maintaining files and records and train employees on the appropriate use of record emails.

4 Financial and Property Management

Financial management has historically been a challenge for the Department, and, as described below, OIG continued to identify concerns related to this issue. OIG has modified this challenge from previous management challenges reports to include the related issue of property management because OIG's work this year repeatedly identified the difficulties the Department faced in managing both financial issues and its property. This challenge, in particular, implicates a wide range of Department functions and management practices. One significant aspect of this challenge relates to overall internal control issues—namely, the Department's ability to identify internal control weaknesses in the first place and the Department's subsequent compliance with relevant standards. This issue affects management of both the Department's financial resources and its property. This section also describes the Department's difficulties in tracking and reporting data affecting financial issues,

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59 *See, e.g.*, OIG, *Inspection of Embassy Accra, Ghana* (ISP-I-17-17, June 2017); ISP-I-17-18, June 2017; ISP-I-17-12, May 2017; ISP-I-17-13, March 2017; ISP-I-17-19, June 2017.

60 ISP-I-17-20, May 2017.

61 OIG, *Management Assistance Report: The Process to Authorize and Track Information Technology Systems Needs Improvement* (AUD-IT-17-56, August 2017).

62 ISP-I-17-22, May 2017.

63 *See, e.g.*, ISP-I-17-12, May 2017; ISP-I-17-16, May 2017.

64 OIG, *Inspection of Embassy Colombo, Sri Lanka* (ISP-I-17-14, April 2017); ISP-I-17-13, March 2017; ISP-I-17-16, May 2017; ISP-I-17-12, May 2017.

65 ISP-I-17-16, May 2017; ISP-I-17-14, April 2017.

especially foreign assistance. In addition, we identify weaknesses in the Department's collection, use, and analysis of financial information. Finally, this section discusses areas where the Department has not effectively sought reimbursement for services provided or implemented cost-sharing measures. As with oversight of contracts and grants, attention to this challenge is particularly important to ensure that the Department appropriately oversees and uses taxpayer resources.

Identifying Internal Control Deficiencies

Effective management control systems play a key role in ensuring that the Department is able to achieve its objectives through effective stewardship of public resources. The Department's statement of assurance process—in which Department entities (including bureaus, special offices, and overseas missions) submit annual statements of assurance—partially informs the Secretary of State's opinion regarding the effectiveness of the management controls and the existence of any material weaknesses or significant deficiencies.

In FY 2017 inspections of overseas posts and domestic bureaus, OIG continued to find deficiencies in the statement of assurance process. In numerous inspections, OIG found recent statements of assurance in which the entity being inspected had identified no or very few internal control deficiencies. Upon inspection, however, OIG found numerous deficiencies that had been overlooked.[66] For example, in one inspection of an overseas post, OIG found 22 internal control deficiencies despite the embassy's 2016 statement of assurance that identified no deficiencies.[67] Furthermore, one bureau did not prepare written standard operating procedures for the annual exercise.[68]

OIG noted management's important role with respect to this issue. In a report that reviewed findings in 34 inspection reports on overseas missions issued from December 2014 through January 2017, OIG examined its findings regarding chief of mission and deputy chief of mission performance in five areas, including adherence to internal controls.[69] OIG reported that 38 percent of inspections had found deficiencies in the chief of mission's oversight of embassy internal controls and the annual statement of assurance process.

Weak internal controls that go unidentified by management increase the risk of misuse of Department resources. Each Department entity plays a role in formulating the Department's annual statement of assurance and should, therefore, ensure that vulnerabilities in the process are identified and appropriate corrective actions are taken. The Department should include additional training on management control responsibilities in its classes for chiefs of mission and deputy chiefs of mission.

Complying With Internal Controls

In many FY 2017 inspections, OIG found internal control deficiencies that spanned a wide range of operations, including functions related to financial and property management. Numerous inspections found deficiencies in cashier operations, which were related to periodic reconciliations, unannounced verifications, and separation of duties, among others.[70] OIG also found persistent problems with procurement. One post, for example, failed to maintain separation of duties in ordering, receiving, billing, and paying for goods and services.[71] OIG also noted several examples of posts that failed to establish acquisition plans, which, when used effectively, decrease the risk that staff will procure unnecessary goods and services.[72] All of these practices put the Department's financial resources at risk.

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[66] *See, e.g.*, ISP-I-17-19, June 2017; ISP-I-17-12, May 2017; ISP-I-17-16, May 2017; ISP-I-17-07A, January 2017.

[67] ISP-I-17-16, May 2017.

[68] ISP-I-17-10, February 2017.

[69] ISP-17-38, July 2017.

[70] *See, e.g.*, ISP-I-17-12, May 2017; ISP-I-17-13, March 2017; ISP-I-17-16, May 2017; ISP-I-17-05A, January 2017; and ISP-I-17-14, April 2017.

[71] ISP-I-17-14, April 2017.

[72] ISP-I-17-12, May 2017; ISP-I-17-16, May 2017; ISP-I-17-11A, February 2017.

Another example of internal control weaknesses was identified in the annual audit of the Department's financial statements. There, an external auditor performing the audit on OIG's behalf and under OIG's direction identified a significant number of invalid unliquidated obligations (ULOs)[73] that had not been identified by the Department's own review process. This occurred, at least in part, because the internal control structure was not operating effectively to comply with existing policy or to facilitate the accurate reporting of ULO balances in the financial statements. In particular, the Department's internal controls were not effective to ensure that ULOs were consistently and systematically evaluated for validity and deobligation.[74]

Internal control deficiencies related to property management were also wide-ranging. Several reports noted particular issues with fuel. For example, OIG found that several posts failed to properly secure and control access to their bulk fuel inventory, did not perform spot checks of fuel deliveries, or did not calibrate pumps and tanks.[75] This problem extended to residential properties leased by the Department. In one report, OIG determined that safeguards meant to protect residential fuel tanks at diplomatic residences in Amman, Jordan were easily circumvented and that additional vulnerabilities in fuel tank and boiler rooms could leave embassy residences susceptible to diesel fuel loss.[76] Because of the significant value and widespread threats of theft of this commodity, fuel is a particularly vulnerable asset.

In another audit, OIG found that the Department did not maintain sufficient accountability over the inventory of armored vehicles stored domestically. Specifically, Department data on armored vehicles in the inventory systems was not always accurate and five vehicles could not be located during a physical inventory. A single armored vehicle can cost more than $100,000. Without sufficient controls, vehicles could be misappropriated, which could have a significant financial effect on the Department.[77]

In terms of general physical inventories, some posts did not strictly control access to areas where supplies and stock were kept, failed to ensure supplies were issued for official use only, and neglected to perform periodic inventories and reconciliation of property records.[78] Separation of duties was again an issue, with one post using the same personnel to receive, record, and tag incoming assets.[79] All of these issues increased the risks that Department property might be misappropriated or diverted.

Tracking and Reporting Department Assets

Throughout this reporting period, OIG identified weaknesses in the Department's ability to keep track of and report its assets. OIG considers this to be a manifestation of weaknesses in financial and property management because, without an accurate understanding of its assets—financial or otherwise—the Department cannot adequately account for, much less use effectively, those resources. This is an issue that overlaps with internal controls deficiencies.

In some instances, these weaknesses were identified in the course of work that addressed other issues. For example, in an evaluation that focused on the timeliness and cost-effectiveness of the Department's security clearance process, OIG found that the Department does not have accurate information regarding the costs of conducting a security clearance. This, in turn, makes it difficult to assess the cost-effectiveness of its processes or to accurately bill other agencies for overseas investigatory work that it performs on their behalf.[80]

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73 Unliquidated obligations 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.

74 OIG, *Audit of the Department of State's FY 2016 and FY 2015 Financial Statements* (AUD-FM-17-09, November 2016).

75 ISP-I-17-14, April 2017; ISP-I-17-12, May 2017; ISP-I-17-16, May 2017; ISP-I-17-17, June 2017; and ISP-I-17-19, June 2017.

76 OIG, *Management Assistance Report: Additional Measures Needed at Embassy Amman to Safeguard Against Residential Fuel Loss* (AUD-MERO-17-50, July 2017).

77 AUD-SI-17-21, February 2017.

78 ISP-I-17-12, May 2017; ISP-I-17-08A, January 2017.

79 ISP-I-17-05A, January 2017.

80 OIG, *Evaluation of the Department of State's Security Clearance Process* (ESP-17-02, July 2017).

Perhaps the most notable example of this problem is the challenge that the Department faces in tracking and reporting on foreign assistance funds. As highlighted in a compliance follow-up review, even though OIG issued a recommendation on this issue some time ago, the Department's tracking and reporting processes are still inadequate.[81] The lack of information on this crucial aspect of the Department's work hinders its ability to manage foreign assistance resources strategically, identify whether programs are achieving objectives, and determine how well bureaus and offices implement foreign assistance programs. The significance of this problem is illustrated by the fact that Congress limited the Department's ability to use certain appropriated funds until it submitted a plan to address OIG's recommendations on the issue.[82]

Collecting, Analyzing, and Using Financial Information

A number of OIG reports identified flaws in the Department's collection, use, and analysis of financial information. Although OIG's work in this area tended to address specific programs or bureaus, OIG views this as an overall financial management challenge because of the common threads in these reports—namely, the use of outdated or otherwise weak methods of collecting, analyzing, and applying financial and related data. We have noted similar concerns in the past[83] and discuss below two particularly important examples of this issue described in FY 2017 reports.

First, OIG reported significant flaws in the Department's processes that set certain cost-of-living allowances for Department employees who are stationed in foreign areas.[84] Although OIG identified weaknesses in the calculation of all of the allowances audited, the report particularly identified flaws in setting the post allowance, which is intended to ensure that employees are not financially penalized for working at a more expensive overseas location. OIG's report described a laborious, subjective, and error-prone process for gathering data that has not changed in decades. The flaws in this data gathering process, in turn, led to substantive errors in the allowances themselves. OIG recommended that the Department use independent economic data instead of collecting this information on its own; OIG estimated that doing so would have saved more than $18 million between FY 2013 and FY 2015 at six of the seven posts audited.

Second, OIG identified significant flaws in the processes CA used to set fees for selected consular services.[85] The external auditor performing the audit on OIG's behalf and under OIG's direction found that CA collected consular fees of $3.7 billion during FY 2014 and $4.1 billion during FY 2015 but that the cost of providing the relevant services was only $3.3 billion each year. Consequently, the report explained that CA did not comply with Office of Management and Budget Circular A-25, which governs user charges, and relevant fee-governing statutes.

The report identified two reasons that this occurred. First, the price of one fee was not adjusted even though the cost of providing the service had decreased. The report noted that, as of FY 2013, CA did not receive an appropriation to cover certain costs and that CA needed additional funds. By not reducing this fee, CA collected revenue that offset some of the lost funding. As noted in the report, however, CA does not have the legal authority to take this approach and was instead required to set fees at the cost of providing the underlying services.[86] Second, CA more generally used a flawed fee-setting methodology that did not rely on adequate data and did not fully consider the effects of large carry-forward balances—at the beginning of FY 2017, for example, CA had a total unobligated balance from consular fees of almost

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81 OIG, *Compliance Follow-up Review: Department of State is Still Unable to Accurately Track and Report on Foreign Assistance Funds* (ISP-C-17-27, June 2017).

82 Consolidated Appropriations Act, 2017, HR 244-486, § 7006, available at *https://www.congress.gov/115/bills/hr244/BILLS-115hr244enr.pdf*.

83 *See, e.g.*, OIG, *Audit of the Financial Results of the Telephone, Wireless, and Data Cost Center* (AUD-FM-16-32, March 2016); OIG, *Audit of Selected Working Capital Fund Cost Center Financial Results* (AUD-FM-13-36, September 2013).

84 OIG, *Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas* (AUD-FM-17-51. Aug. 2017). Between FY 2013 and FY 2015, the Department spent approximately $673 million on the three allowances addressed in the report.

85 OIG, *Audit of the Bureau of Consular Affairs Fee-Setting Methodology for Selected Consular Services* (AUD-FM-17-53, September 2017). CA charges fees for many of its services and is permitted to retain funds generated from some of those fees. Other fees, however, must be remitted to the Department of the Treasury.

86 OMB Circular A-25, "User Fees," July 8, 1993.

$1.4 billion. Further, CA did not have an adequate process to analyze its financial results over time to determine whether adjustments were required to its fee-setting methodology, and it did not have adequate historical data or sound quality processes to assess the data that it did use. OIG recommended the Department return $284 million in excess unobligated balances from consular fees to the Department of the Treasury to be put to better use across the Federal Government and to benefit taxpayers. OIG also recommended the Department develop and implement standard data documentation and quality control measures.

Seeking Reimbursement and Sharing Costs for Services Provided

Finally, OIG inspections reported weaknesses in various methods by which the Department should ensure that costs are appropriately shared across agencies. As noted above, the Department does not maintain information necessary to ensure that it can accurately bill for overseas investigatory work it performs on other agencies' behalf.[87] In addition, OIG reported that the Department did not appropriately designate particular positions to the International Cooperative Administrative Support Services (ICASS) system so that other agencies that received services from those positions shared the cost of providing them. In particular, OIG identified 52 U.S. direct-hire information management positions whose salary and benefits costs were being paid entirely by the Department even though other agencies used these services at various diplomatic and consular posts overseas.[88] Because other agencies are benefiting from these individuals' work, their salaries should be paid through the ICASS Working Capital Fund, a mechanism for spreading the cost among Federal agencies at overseas posts. OIG estimated the Department could recover $81,331 per position, or a total of $4.23 million annually, if it converted these 52 information management positions to ICASS.

5 Operating in Contingency and Critical Environments

In FY 2017, the Department continued to carry out programs and operations in environments affected by ongoing "contingency operations" (involving the deployment of the U.S. military overseas) and in what the Department calls "critical environments" (other situations characterized by conflict, instability, and natural disasters, including disease). Recognizing the particular difficulties of managing posts and programs in such areas, as well as the fact that the Department has spent billions of dollars doing so, OIG continued to focus closely on the complex issues affecting Department operations in these environments. The difficulties of these operations often contribute to the management and performance challenges discussed elsewhere in this report.

Managing contracts and grants can be particularly challenging in these locations, and many OIG reports related to contingency and critical environments focused on this issue quite closely. For example, an audit of the Baghdad Life Support Services and Operations and Maintenance Support Services[89] contracts in Iraq illustrates the unique challenges associated with the administration of large, complex contracts in such areas. Among other conclusions, OIG found that NEA had not assigned personnel with the contract management and technical experience to oversee these contracts.[90] Inexperience was compounded by 1-year rotations, which allow limited time to understand and oversee the contract, particularly in light of the fact that, on average, 17 percent of that rotation is spent on rest and recuperation travel. As a result, many oversight activities did not occur, and subpar contractor performance went unaddressed.[91]

OIG's report addressing the operations and maintenance contract at Embassy Kabul also identified the relationship among staffing limitations, security concerns, and contract

[87] ESP-17-02, July 2017.

[88] *Management Assistance Report: Cost of Information Management Staff at Embassies Should Be Distributed to Users of Their Services* (ISP-17-23, May 2017).

[89] As relevant to this discussion, the Baghdad Life Support Services contract addresses acquisition, inspection, and delivery of fuel and has a not-to-exceed cost of $1 billion. As relevant to this discussion, the Operations and Maintenance Support Services contract addresses testing, storage, and distribution of fuel as well as maintenance of fuel-related equipment for all sites in Iraq. It has a not-to-exceed cost of $2 billion.

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

[91] *Ibid*.

oversight. Here, OIG determined that the contract did not contain clear, specific, and measurable performance metrics. OIG noted that remedying these deficiencies was "paramount" in posts such as Kabul. Because staff are assigned to 1-year rotations, "the learning curve for managing a large and complex contract is high, and the staff have to respond to continuous threats against and changes at the embassy."[92] In the same report, OIG found that the Contracting Officer had not assigned an alternate Contracting Officers Representative, which created oversight gaps that were particularly concerning in this security environment. For example, the report described an instance in which someone without authorization to do so approved a change in offloading fuel tanks necessitated by "safety and security concerns" because of the Contracting Officer Representative's unavailability.[93]

In another example, OIG's report addressing oversight of the antiterrorism assistance program in Pakistan focused on the unique staffing challenges associated with work in this location. In particular, OIG found that difficulty in obtaining visas for oversight personnel contributed to the Department's inadequate oversight of this program.[94] OIG also identified ways that the Department's own practices contributed to problems, notwithstanding the fact that oversight personnel could not be located in Pakistan. For example, the Contracting Officer waived—without formally modifying the terms of the contract—many reporting requirements that would have allowed the Department to verify satisfactory contractor performance. OIG accordingly recommended that the Department develop and implement procedures to confirm compliance with contract reporting requirements; OIG also recommended that, in situations where the operating environment warrants a contract modification, Department personnel with oversight responsibility should execute such modifications in line with appropriate guidelines.

OIG notes, though, that the challenges associated with contingency environments are not limited to those pertaining to contracts and grants. In the inspection of Mission Pakistan, OIG concluded that the mission's security policies restricting staff travel in country made it difficult to meet with Pakistani contacts and audiences; this, in some cases, impeded operations or program implementation.[95] For example, the types of public diplomacy programs the Public Affairs Section conducted were necessarily constrained—although OIG noted that the section made innovative use of exchange program alumni and virtual programming to work around this limitation. The inspection report also noted that travel restrictions were partly to blame for a backlog of immigrant visa fraud investigations.

Other OIG inspections also revealed the unique obstacles affecting work in unstable environments. The inspection of Embassy Monrovia in Liberia served as an example of how a difficult operating environment can contribute to and exacerbate weaknesses in internal controls at an embassy. Management staff there stated that the strain the Ebola crisis put on the mission in 2014 and 2015 was at the root of a wide range of problems that included everything from driver certifications, collection of travel advances, spot checks of inventory, and grants management procedures.[96]

The OIG inspection of Embassy Freetown in Sierra Leone further illustrated the effect of the Ebola crisis on Department programs and operations.[97] As in Monrovia, the crisis strained the embassy's internal controls, and during the inspection, OIG identified numerous and significant deficiencies in facility maintenance and security. Furthermore, OIG found the Consular Section was still working to address associated problems, including eliminating immigrant visa genetic testing backlogs and rebuilding the consular warden system. The embassy's focus on responding to the Ebola crisis—including dealing with an influx of funding and additional U.S. Government personnel when staff was already short in certain embassy sections—hampered its ability to attend to ordinary operational functions.

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[92] OIG, *Management Assistance Report: Contract Management—Lessons Learned from Embassy Kabul, Afghanistan, Operations and Maintenance Contract* (AUD-MERO-17-04, October 2016).

[93] *Ibid*.

[94] AUD-MERO-17-37, May 2017.

[95] ISP-I-17-11A, February 2017.

[96] ISP-I-17-12, May 2017.

[97] ISP-I-17-16, May 2017.

6 Workforce Management

The Bureau of Human Resources rightly identifies staff as the Department's greatest asset. The Department accordingly expends substantial resources on recruiting, training, and retaining a diverse, talented workforce capable of carrying out the Department's foreign policy goals and priorities. Across functional areas and geographic regions, however, OIG's work finds that inexperienced staff, insufficient training, and staffing gaps and frequent turnover contribute to the Department's other management and performance challenges. These problems afflict programs and operations domestically and overseas and are identified in a range of reports that cover a variety of topics.

For example, as described previously, OIG issued a report that identified numerous physical deficiencies on two buildings constructed at Embassy Kabul.[98] OIG noted that these deficiencies were in large part a result of poor quality assurance and oversight of the construction process. OIG's report specifically commented that the lack of an adequate number of qualified quality assurance staff contributed to these problems. For example, OIG found that some of the Department's quality assurance staff did not take the opportunity to conduct physical inspections and signed off on items that were never inspected. OIG also identified the project director's failure to make full use of the subject-matter experts that OBO had retained to observe, oversee, and document the functional performance of building systems to verify that these systems met design intent and contract requirements. In another report, OIG noted that personnel responsible for overseeing contracts related to fuel acquisition in Iraq lacked contract-administration experience and technical expertise. OIG concluded that this lack of experience contributed to oversight deficiencies leading to millions of dollars in questioned costs stemming from fuel purchases that did not conform to quality standards specified in the contract.[99]

In another example, OIG found that contract administration within CA's Office of Consular Systems and Technology was affected by the lack of training on contract administration policies for Contracting Officers Representatives and Government Technical Monitors; this same report found that more senior personnel did not sufficiently appropriately oversee Contracting Officers Representatives and Government Technical Monitors.[100] In another report, OIG identified a range of problems associated with allocation, tracking, and maintenance of armored vehicles.[101] OIG specifically recommended that DS hire an "experienced program manager who has an expert knowledge of internal controls and vehicle fleet management experience" to manage the fleet. The report noted that the then-current branch chief position was typically a rotating Foreign Service position and that the person holding the position typically had the technical background necessary to manage the security aspects of the program but was not required to possess specialized skills necessary for the fleet management aspects of the program.

OIG also identified other workforce management concerns. For example, OIG's inspection of NEA found that this bureau attracted the fewest number of bidders for its domestic positions of any of the regional bureaus, and approximately 75 percent of its overseas positions were designated as hard-to-fill. This places at risk NEA's ability to develop the next generation of diplomats with expertise in the region. On a related point, OIG noted that NEA's growing workload in parts of the bureau combined with understaffing led to workplace stress and employee burnout.[102]

These poor workforce practices have real, practical implications for the Department. Remedying physical deficiencies at the two new buildings at Embassy Kabul could cost the Department millions of dollars, and widespread inadequacies in the oversight of contracts and grants increases the risk of fraud, waste, and abuse of Government resources.

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[98] AUD-MERO-17-44, June 2017. In addition to the fire and electrical concerns noted previously, these physical deficiencies included plumbing systems; heating, ventilation, and air conditioning systems; and elevators.

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

[100] OIG, *Audit of the Bureau of Consular Affairs, Office of Consular System sand Technology, Administration of Selected Information Contracts* (AUD-CGI-17-38, May 2017).

[101] AUD-SI-17-21, February 2017.

[102] ISP-I-17-22, May 2017.

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 crucial. OIG, however, has identified program management weaknesses associated with a lack of coordination and dispersed authority as a serious challenge facing the Department. This is a concern that is reflected in a wide range of OIG's reports. OIG has included this as a management challenge because of its significant implications for the Department's ability to implement its programs and operate efficiently and effectively. Moreover, as described below, unclear lines of authority and a lack of coordination have particular consequences for both physical and IT security.

OIG acknowledges that, in some areas, the Department has made efforts to address these concerns. To take just one example, OIG's inspection of NEA discussed the ways that the bureau worked across "complex lines of authority" to address a range of crises in its area of operations and noted that it complied with Department guidance requiring it to serve "as the single focus of responsibility for leadership and coordination" of government activities in "its area of assignment." In the same report, OIG highlighted the effective coordination work of two NEA offices—the Office of Iranian Affairs and the Office of Maghreb Affairs. OIG, however, identified other areas where coordination was not effective, noting, for example, that NEA did not fully engage with the Bureau of Conflict and Stabilization Operations, although the two bureaus had overlapping responsibilities in some areas.[103]

Moreover, in other specific program areas, challenges regarding coordination and clear lines of authority persisted. For example, OIG identified ineffective administration of the armored vehicle program that resulted, in part, from a lack of documentation and understanding regarding the relative roles of DS and the Bureau of Administration.[104] Confusion over its role in the program contributed to DS's failure sufficiently to oversee the program and strategically plan the allocation of armored vehicles at overseas posts.

Another area of concern is the lack of coordination between OBO and DS, both of which have responsibilities for physical security of diplomatic facilities. Although OBO and DS collaborate on a number of working groups, OIG has long pointed out the implications of this overall lack of coordination and encourages complete implementation of its recommendation for these bureaus to work together to develop formal, standardized processes to prioritize physical security-related deficiencies at posts by category.[105] One recent example of the consequences of a lack of coordination concerns a gap OIG identified in the security certification process. In particular, OIG found that the improper alterations on security doors were overlooked, in part, because the security certification process did not include a follow-up inspection by DS to confirm that OBO's actions to address identified physical security deficiencies were in accordance with physical security standards.[106]

OIG has also identified concerns regarding overlapping and poorly defined information security responsibilities between DS and IRM.[107] The Federal Information Technology Acquisition Reform Act enhanced the CIO's authority and responsibility for the implementation of an agency's information security program. According to Department policies, however, both IRM and DS have responsibilities for information security, even though the Department's CIO, who is the head of IRM, should have this role. Furthermore, the Department's current organizational risk-reporting structure requires the CIO and DS separately to report to the Under Secretary for Management; DS and other bureaus or offices reporting to the Under Secretary for Management,

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[103] *Ibid*.

[104] AUD-SI-17-21, February 2017.

[105] OIG, *Compliance Follow-up Audit of the Process To Request and Prioritize Physical Security-Related Activities at Overseas Posts* (AUD-ACF-16-20, December 2015); OIG, *Management Assistance Report: Department Attention Needed to Address Overdue Responses on Selected Open Recommendations* (AUD-ACF-17-55, July 2017).

[106] AUD-MERO-17-28, March 2017.

[107] *See, e.g.*, OIG, *Audit of the Department of State's Efforts to Detect and Address the Use of Unapproved Portable Devices* (AUD-IT-17-61, September 2017) and AUD-IT-17-17, November 2016.

however, are not required to communicate information security risks to IRM. In 2015, OIG recommended that the Department review the organizational placement of the CIO to address this decentralized risk-reporting structure.[108] The Department acknowledged the need for enhancements to information security across the Department, but it determined that the CIO's position within IRM was sufficient to implement an effective agency-wide information security program. The Department stated that it had instead made efforts to improve the effectiveness of its information security program by drafting a new approach to managing information system-level security risks. As a result, the CIO is still not organizationally placed to address information security program issues effectively.

A recent report illustrates the flaws in this organizational structure. In particular, OIG reported that insufficient program management was one reason that the Department did not authorize or test IT change requests in accordance with Department and Federal policies. The report explained that, although IRM is responsible for ensuring control over change requests, the CIO, who is located within IRM, does not have sufficient authority to manage activities of the Information Technology Configuration Control Board, as provided for in law. This relative lack of authority increases the need for a strong, centralized, oversight function within IRM to ensure that changes requested for IT systems are safe and will not damage the Department's IT infrastructure and also to ensure consistent implementation of Office of Management and Budget requirements. The Department, however, has not established and implemented such an oversight function to allow IRM to perform this role appropriately under the current organizational structure. To the contrary, IRM management stated that IRM's role was to facilitate the change request process rather than to act as a program manager for the process.[109]

CONCLUSION

Each of the management challenges described in this report has 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.

OIG notes as well the unique vulnerabilities that emerge when these challenges interact with one another. They do not exist in isolation; rather, many overlap with and exacerbate one another. For example, operating in contingency and critical environments amplifies the Department's weaknesses in managing contracts and grants. The already challenging task of overseeing and monitoring a complex foreign assistance program becomes even more challenging when the Department cannot put oversight staff on the ground where a particular program is being implemented. An additional example pertains to information security, where weaknesses can have a broad effect on the Department and worsen challenges such as financial management. In particular, IT security weaknesses can affect the integrity of financial applications, which, in turn, increases risks that sensitive financial information could be accessed by unauthorized individuals, that financial transactions could be accidentally or intentionally altered, or, more basically, that the Department will be unable to report financial data accurately. OIG accordingly encourages the Department to consider the ways that these challenges compound each other and how it can address these problems systematically rather than in a piecemeal fashion.

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

[109] AUD-IT-17-64, September 2017.

Management's Response to Inspector General

In 2017, the Department of State's Office of Inspector General (OIG) identified management and performance challenges in the areas of: protection of people and facilities; oversight of contracts, grants, and foreign assistance; information security and management; financial and property management; operating in contingency and critical environments; workforce management; and promoting accountability through internal coordination and clear lines of authority. The Department promptly takes corrective actions in response to OIG findings and recommendations. Highlights are summarized below.

1 Protection of People and Facilities

The protection of people and facilities remains a top priority for the Department. In a very dangerous world, the Department is succeeding in keeping its personnel and facilities safe. Threats to our people and facilities will continue to evolve and requires constant focus and risk mitigation. To manage risk, the Department is developing its Enterprise Risk Management program. The Department annually revises the Security Environment Threat List and conducts High Threat Post Review Board assessments, and it is increasing the number of posts for which the Foreign Affairs Counter Threat training is mandatory. Despite these and other efforts, the challenge of eliminating risk and preventing attacks will continue given the nature of diplomacy and the environment.

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.

- In response to evolving threats, the Department developed and implemented a mandatory High Threat Security Overseas Seminar training course for contractors to take prior to their deployment to contingency operation posts and critical environments.
- The Department disagrees with OIG's assertion that poor quality assurance and oversight of the construction process of two buildings at Embassy Kabul led to failure to adhere to electrical and fire safety standards.
    - The company that was consulted on these deficiencies had a conflict of interest. It was actively negotiating a maintenance contract with the U.S. Government and could have benefitted from identifying maintenance issues that required mitigation.
    - OIG conducted this audit during the warranty period. The majority of construction issues noted in the report are being mitigated by the contractor. The OIG is not following standard operating procedures in conducting an audit during an active construction project.
- The Department took steps to address issues OIG identified involving the maintenance of armored vehicles. The Department implemented an enhancement of the Fleet Management Information System (FMIS), which allows maintenance work orders to be created and tracked and captures maintenance data for domestically located armored vehicles. In addition, the FMIS system has been configured to alert and/or remind users that preventative maintenance is due or overdue.

2 Oversight of Contracts, Grants, and Foreign Assistance

In response to 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 the recommendations.

- The Department is developing online training that explains risk assessments and monitoring plan requirements for grants and cooperative agreements. The training is anticipated to be available in May 2018.
- Embassy Rangoon's Political/Economic Section's Small Grants Program completed closeout for 42 expired grants from three previous fiscal years. Remaining funds were de-obligated and/or returned to the Embassy by the grant recipients, resulting in a zero balance.
- The Bureau of Consular Affairs developed a Contract Monitoring and Administration Quick Guide, which reinforces and enhances existing policy and procedures governing contract administration. The guide also includes a newly developed Risk Management and Compliance Program section to assure Contract Officer Representatives and Government Technical Monitors are held accountable for meeting all responsibilities delegated to them by the Contracting Officer. The guide is pending final approval.

3 Information Security and Management

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

- The Department developed a Cybersecurity Strategy Framework for fiscal years 2017-2019. It will provide an operational framework that enhances the Department's cybersecurity defense-in-depth information assurance program.
- The Department began an unprecedented drive to close its backlog of Freedom of Information Act cases within a period of months.
- The Department instituted an email management system at the end of 2016 that includes a centralized repository for the vast majority of Department email records. These OpenNet and ClassNet emails are automatically captured, retained, and disposed of in accordance with their appropriate disposition.
- The Department is in the final stages of updating the required records management training course. This revamped distance-learning course will be available in March 2018. The Department tracks compliance with records training.
- The Enterprise Risk Management Work Group initiated a comprehensive initiative to streamline the Department's 6,700 records disposition schedules.

4 Financial and Property Management

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

Department officials at all levels, both at home and abroad, are dedicated to ensuring effective management controls and oversight over the resources entrusted to the Department. In doing so, the Department has received five consecutive unmodified opinions (FY 2012-2016) from the external Independent Auditor on our annual Department-wide financial statements. In addition, the Department ended FY 2016 with no reported material weaknesses in internal controls over financial reporting. Last year, in recognition of the exceptional quality of the Department's Agency Financial Report, the Association of Government Accountants awarded the Department the prestigious Certificate of Excellence in Accountability Reporting.

The following are examples of improvements in response to OIG recommendations as well as additional information about a recommendation with which the Department disagrees:

- The Department disagrees with OIG's assertion that the Statement of Assurance (SoA) process itself is deficient, but agrees that improvements in posts' reporting of deficiencies through other means are needed. Improvements made to the SoA process included updating and expanding the Management Controls Checklist that was distributed to Assistant Secretaries and Chiefs of Mission, providing in-person training to Bureau Management Control Coordinators, providing SoA training to a Post Management Officer course at the Foreign Service Institute and to managers in the Arms Control and International Security bureaus during 2017. In addition, the Bureau of Population, Refugees and Migration disseminated a risk management policy and program review memorandum that includes standard operating procedures for the annual SoA.

- The Department worked to update the content on management control responsibilities for its Ambassadorial Seminar and its Deputy Chief of Mission/Principal Officers' Seminar.

- The Department initiated a strategic review of the International Cooperative Administrative Services System (ICASS). As part of the review, the Department is identifying services that support the ICASS platform that could be realigned into ICASS, rather than being funded exclusively by the Department or direct-charged to agencies.

- The Department uses several tools to actively monitor cashiering operations, including cashier system controls and an oversight cashier monitor function carried out by the Bureau of the Comptroller and Global Financial Services (CGFS). Cashier Monitors review post cashier transactions and work to ensure compliance with monthly unannounced cash counts and reconciliations of the Cashier's accountability performed by the Foreign Service Financial Management Officer or the Management Officer at each Post. CGFS measure posts' performance with this compliance on a monthly basis and has developed an annual Cashier Operations Based Risk Assessment tool to help prevent theft, fraud and misuse of cash within the operations deemed higher risk. The tool analyzes operational risk, verification and controls and an overall cashier operation assessment. CGFS also conducts on-site reviews of all Class B Cashier operations at least every five years, which provides an in-depth history of operations and post actions on findings.

- Improving the reporting to the American public on how the Department spends their tax dollars is a priority goal for the Department. The Digital Accountability and Transparency Act of 2014 (DATA Act) requires agency financial and payment information to be reported to the public using USASpending.gov in accordance with Government-wide financial data standards. As required under the Act, on April 30, 2017, the Department made its first submission of the requisite data files on Department spending for the second quarter of FY 2017 to the DATA Act Broker.

- The Department disagrees with OIG's assertion that the Bureau of Consular Affairs (CA) set its fees based on inaccurate data and should remit to the Department of the Treasury (Treasury) unobligated balances that exceed the carry forward threshold and could be put to better use for FY 2017.

  - Consular fees were established in accordance with statutory and regulatory authorities and, therefore, there is no requirement to remit the funds to the Treasury. Furthermore, it is unclear what legal authority the Department would rely on to return fees to the Treasury, which Congress has explicitly authorized the Department to retain until expended.
  - Consular fee setting is a multi-year process subject to changes in rulemaking, which is why consular fees are typically updated no more than every two years. Non-Immigrant Visa (NIV) demand is difficult to forecast in out-years because the global economy is unpredictable and NIV demand cannot be controlled by CA. The fees were set using a cost model from 2012 and the expenditures were expended in 2014.

- In FY 2017, the Department continued efforts to improve the reliability, accessibility, and standardization of foreign assistance data.

  - Starting with the Bureau of International Narcotics and Law Enforcement Affairs (INL), CGFS and INL worked together to develop and implement the Regional Financial Management System (RFMS) – INL bilateral processing model. This new process accounts and reports all bilateral agreement project funded activity from the project bulk obligation through to expenditures. As part of this upgrade, INL bilateral related procurement transactions automatically integrate the commitment and obligation transactions into RFMS, thereby improving the accuracy of data and eliminating the duplicate entry of thousands of transactions. In addition, INL has established new data structures within the Department's Global Financial Management System that provides new reporting capabilities for tracking and reporting on INL regional program funds by country and project. Building on these new reporting capabilities, CGFS and INL have partnered to implement other reporting improvements leveraging the Global Business Intelligence platform providing the ability to explore, visualize, and report on post-specific INL data.
  - CGFS has also partnered with Office of U.S. Foreign Assistance Resources (F) to implement an extract on foreign assistance spending that corresponds with the data dictionary developed by the Foreign Assistance Data Review working group. This will be a multi-phased effort to provide F, and ultimately the taxpayer via public reporting such as ForeignAssistance.gov, with accurate foreign assistance spending totals, and supporting details on procurements, interagency agreements, grants, and contributions. The first extract is scheduled for February 2018 for data for the first quarter of FY 2018.

5 Operating in Contingency and Critical Environments

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

- In response to a recommendation that the Bureau of Near Eastern Affairs (NEA) ensure that they have the appropriate number of certified oversight personnel to oversee Baghdad Life Support Services and Operations (BLiSS contracts), Chief Management Office (CMO) Iraq took several steps to increase contract oversight and to bridge any staffing gaps, including:
    - Alternate Contracting Officer's Representatives (ACORs) are now required to become ACORs for both Operations and Management Support Services (OMSS) and for BLiSS. In this manner, they can provide surge support to each other and assist in staffing any gaps as needed. To ensure the Contracting Officer Representatives (CORs) and ACORs have time to understand the contracts associated with this tertiary responsibility, the CMO and Mission Iraq removed other responsibilities from the COR work requirement statements.
    - Second, the CMO reached out to other Department elements at all sites to ask for subject matter experts to become Government Technical Managers on the contracts. This increases the technical knowledge of the CMO team monitoring each contract without an increase in the number of personnel on the ground at any location.
    - Finally, NEA has approved an additional ACOR for the CMO office, which will provide the CMO with additional depth.
- Prompted by OIG findings in a report on contract management in Kabul, the Department included specific, objective, clear, and measurable performance standards in a statement of work for a new worldwide operations and management contract. The Department awarded a contract that included these standards. The award is an Indefinite Delivery Indefinite Quantity type contract and performance will be accomplished under specific task or requirements-based task orders. The statement of work identifies and includes all known and anticipated operations and maintenance requirements for mission operations.
- Critical Environment Contracting Analytics Staff developed and coordinated 10 risk assessments and 47 contract risk mitigation plans to ensure the safety and security of our Department of State contractor workforce in contingency operation posts and critical environments.

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
COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	**Federal systems comply to financial management system requirements**					
Total Non-compliances	0	0	0	0	0	0

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

DEFINITION OF TERMS

Beginning Balance: The beginning balance will agree with the ending balance of material weaknesses from the prior year.

New: The total number of material weaknesses that have been identified during the current year.

Resolved: The total number of material weaknesses that have dropped below the level of materiality in the current year.

Consolidated: The combining of two or more findings.

Reassessed: The removal of any finding not attributable to corrective actions (e.g., management has re-evaluated and determined a finding does not meet the criteria for materiality or is redefined as more correctly classified under another heading (e.g., section 2 to a section 4 and vice versa)).

Ending Balance: The agency's year-end balance of material weaknesses.

Payment Integrity and Other Laws and Regulations

Improper Payments Information Act, as Amended

The Improper Payments Information Act of 2002 (IPIA), Public Law No. 107-300, as amended, requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments, as well as to conduct payment recapture audit programs. In 2010, the President signed into law the Improper Payments Elimination and Recovery Act (IPERA, Public Law No. 111-204), which amends the Improper Payments Information Act of 2002, and repeals the Recovery Auditing Act (Section 831 of the 2002 Defense Authorization Act, Public Law No. 107-107). In January 2013, the IPIA of 2012 (IPERIA Public Law No. 112-248) was signed into law and further amended IPIA. All remaining references in this disclosure to the term IPIA will imply IPIA, as amended by IPERA and IPERIA. Most significantly, IPERIA expanded the term payment to refer to all payments except intragovernmental transactions. It also codified OMB's ongoing efforts to develop and enhance the government's Do Not Pay Initiative, which included the creation of a centralized Do Not Pay List for agencies to access prior to disbursing payments.

IPIA defines significant improper payments as annual improper payments in a program that exceed both 1.5 percent of program annual payments and $10 million, or that exceed $100 million, regardless of the error rate. Once those highly susceptible programs and activities are identified, agencies are required to estimate and report the annual amount of improper payments. Generally, an improper payment is any payment that should not have been made or that was made in an incorrect amount under a statutory, contractual, and administrative or other legally applicable requirement.

Payment Integrity Reporting Details

The Department defines its programs and activities in alignment with the manner of funding received through appropriations, as further subdivided into funding for operations carried out around the world. Risk assessments over all programs are done every three years. In the interim years, risk assessments evaluating programs that experience any significant legislative changes and/or significant increase in funding will be done to determine if the Department continues to be at low risk for making significant improper payments at or above the threshold levels set by OMB. The Department conducted a risk assessment of all programs and activities in 2013 and again in 2016. As such, 2017 is an interim year.

Risk assessments of Department programs and activities involve an evaluation of the risk factors described in OMB Circular A-123 Appendix C including whether the program or activity reviewed is new to the Department; the complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts; the volume of payments made annually; whether payments or payment eligibility decisions are made outside of the Department; recent major changes in program funding, authorities, practices, or procedures; the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; inherent risks of improper payments due to the nature of Department programs; significant deficiencies in the audit reports on the Department including OIG, GAO, and the Special Inspector General for Afghanistan Reconstruction audit report findings; results from the prior year improper payment recapture work; and the percentage increase in funding. Additional risk factors are considered as needed. Further, risks and results from the work performed in compliance with OMB Circular A-123 Appendix A, other internal Department reviews, and other relevant information are considered.

Based on this series of internal control review techniques performed in 2017, the Department determined that none of its programs were risk-susceptible for making significant improper payments at or above the threshold levels set by statute. The 32 programs assessed were: American Compensation; Voluntary Contributions to International Organizations; Assessed Contributions to International Organizations; Domestic Purchase Card Payments; Capital Investment Fund-Information Systems; Global Health and Child Survival; Economic Support Fund; Democracy Fund; Diplomatic and Inspector General Programs; Consular Information Technology and Security; Security for Afghanistan and Pakistan; Diplomatic and Consular Programs; Passport Generation and Related Programs; Overseas Buildings Operations (OBO) Capital Program; Compound Security Program; Real Property Acquisitions Program; International Security Programs; Population Refugees and Migrations Programs; Refugee Programs; International Cooperative Administrative Support Services; Working Capital Fund Programs; Citizen Exchange Program; International Visitor Program; Educational Programs; Anti-crime Programs; Physical Security Programs; Aviation and Eradication Related Programs; Interdiction and Related Programs; International Security and Nonproliferation; International Security and Nonproliferation; Land; and Construction. Based on these procedures, the Department determined that none of its programs in 2017 were risk-susceptible for making significant improper payments at or above the threshold levels set by OMB.

Recapture of Improper Payments Reporting

A number of improper payment activities, both preventative and recovery, exist for domestic and overseas payments at the Department, Bureau, post, and program levels to support IPIA efforts and ensure the integrity and accuracy of Department payments. The Bureau of the Comptroller and Global Financial Services (CGFS) has a two-tiered improper payment monitoring and review program that consists of activities performed by the payment issuing office and secondly by the Office of Oversight and Management Analysis (OMA). As an integral part of our post-payment review process, improper payment reviews are performed initially by the payment issuing offices which include the Office of Claims (CGFS/F) and Office of Global Compensation (CGFS/C). The subsequent review performed by OMA focuses on overpayments and utilizes data and risk analysis to drive the recapture work performed. While many agencies hire external recapture auditors to perform a secondary review, this function is performed more efficiently within the Department by OMA. Because the activity performed by CGFS/F and CGFS/C is a post-payment (versus recapture payment) review process, those results are not considered recapture audits and are considered an activity outside of recapture audits. Because the OMA activity is secondary and consistent with a function that an external auditor would perform, for reporting purposes OMA's activity is considered recapture as defined by IPIA.

Payment Recapture Audit Reporting

CGFS incorporates various manual and automated data analysis techniques and processes to identify, validate and collect improper payments, including use of data mining software, manual sampling of internal payment records, U.S. Treasury taxpayer identification number matching, and sampling of vendors. Monthly, as part of the Recapture Audit process, OMA conducts a query of domestic vendor payments. Domestic vendor payments represent the largest category of Department-made payments subject to IPIA recapture audit requirements, focusing on identifying potential improper and duplicate payments. Currently, these payments are reviewed on a monthly basis using IDEA - Data Analysis software to run matches of vendor invoice numbers and payment amounts against current payment data and payments dating back to 2007. The increased quality control processes by CGFS/F in both payments generation and internal post-payment review process have contributed to overall lower improper recapture audit amounts. In addition to the automated IDEA analysis, OMA performs a manual quarterly review of overseas and domestic payments. These manual recapture audits validate elements such as vendor, payment amount, and ensure proper documentation exists to support sampled payments. In 2017, OMA contract recapture audit efforts identified $16,698 contract overpayments. Also in 2017, $130,902 was recovered and returned to the originating appropriations.

In addition, OMA performs a quarterly manual recapture audit of employee claim payments subject to the Department's overall travel program. This recapture audit focuses on known identified issue areas as well as providing overall audit coverage of employee travel payments. As shown in the "Overpayment

Payment Recaptures with and without Recapture Audit Programs" table, in 2017 OMA identified $52,254 in travel program recapture audit overpayments, and collected $13,428 which was returned to the originating appropriation.

During 2017, OMA built on prior year efforts and expanded recapture audit activities in additional areas.

- **Grants payments.** OMA continued manual sampling and testing of grants payments made on behalf of the Department by the Department of Health and Human Services through their Payment Management System (PMS). In addition, OMA reviewed closed grants and additional data analysis efforts were developed in an effort to identify grant overpayments in a more cost-effective manner.

- **FSRDF annuitant payments.** In 2017, OMA efforts continued regarding FSRDF annuitant payments by reviewing annuitant payments that are calculated based on certain eligibility requirements and reviewing annuity supplemental payments.

- **American Employee (AE) and Foreign Locally Employed (LE) Staff Compensation payments.** In addition, during 2017 OMA implemented additional recapture efforts AE and LE Staff Compensation payments. LE Staff payments represent compensation made to local employees of Embassies and Posts who typically hold residency in those countries. OMA continued systematic analysis and duplicate payment reviews. In addition, OMA performed sampling and manual testing of AE and LE employees with payments that displayed an increased frequency or amount of adjustments. OMA will continue to expand efforts in the Grants, Annuity Payments, AE, and LE Staff Compensation recapture audit areas in future years.

The CGFS automated duplicate or erroneous payment program using the domestic payment file for recapture audit analysis has proven to be a cost effective tool. The additional inclusion of automated and manual recapture audit processes implemented in the domestic and overseas vendor, annuity payment, PMS grant, AE compensation, and LE Staff compensation areas ensures the Department has coverage

OVERPAYMENT PAYMENT RECAPTURES WITH AND WITHOUT RECAPTURE AUDIT PROGRAMS
(dollars in thousands)

Does this include funds recaptured from a High-Priority Program (Y/N)	Program or Activity	Overpayments Recaptured through Payment Recapture				Overpayments Recaptured	
		Amount Identified in FY 2017	Amount Recovered in FY 2017	Recapture Rate in FY 2017	FY 2018 Recapture Rate Target	Amount Identified in FY 2017	Amount Recovered in FY 2017
N	Travel Program	$ 52.3	$ 13.4	26%	50%	$ 25.6	$ 11.3
N	OBO Programs	16.7	130.9	784%	85%	56.7	56.7
N	Foreign Service Annuities					225.6	342.8
N	American Compensation					7,130.4	5,969.2
N	Diplomatic and Consular Programs					1,637.2	1,945.4
N	Working Capital Fund					110.1	2,283.5
N	Nonproliferation, Antiterrorism, Demining					13.0	13.0
N	International Narcotics Control and Law Enforcement					61.1	12.8
N	Peacekeeping Operations					300.0	300.0
N	Foreign Locally Employed Compensation					18.9	0.0
N	Other Programs					90.8	40.6
	Total	$ 69.0	$ 144.3			$ 9,669.4	$ 10,975.3

in required IPIA recapture audit areas. Prior to these efforts, in 2005 and 2006, the Department contracted with an external firm to perform recapture audit activities. However, after 2006, the contracted firm determined it was not cost-effective to continue this function. At this time, CGFS has not made a request to OMB to exclude any IPIA area from recapture audit activity. CGFS realizes that additional recapture audit opportunities may exist and continues to collectively assess areas of greater risk of improper payments and implement recapture audit measures deemed cost-effective.

Overpayments Recaptured Outside of Payment Recapture Audits

Improper payment identification and collection are essential functions of the CGFS/F Accounts Payable operations. As such, CGFS/F has established an internal debt management unit, whose primary mission is to identify and collect improper payments. In addition, this Unit assists in identifying potential systemic issues leading to improper payments, which facilitates immediate implementation of corrective actions. Programs in which CGFS/F identified improper payments in 2017 include: Diplomatic and Consular Programs; the Working Capital Fund; Embassy Security, Construction, and Maintenance; Nonproliferation, Antiterrorism, Demining; International Narcotics Control and Law Enforcement; Peacekeeping Operations; and other State programs. Collectively, as shown in the "Overpayment Payment Recaptures with and without Audit Programs" table, during 2017, CGFS/F identified and confirmed transactions totaling $2.3 million of actual duplicate/improper payments, of which we recovered $2.0 million in addition to collecting $2.7 million of the prior year unrecovered balance. Also, in 2017 the Department identified and confirmed employee claims overpayments totaling $25,596, of which we recovered $11,289, including $560 from prior year identified amounts. All recovered amounts were returned to the original appropriations.

CGFS/C also leverages an overpayment processing unit whose purpose is to review, calculate, and notify employees of any salary or allowance overpayment debt. Salary overpayments can occur for various reasons in the Department's complex global pay environment, much of which is dependent on timely notification of events impacting pay. For example, late receipt of a cable notifying CGFS that an employee has departed an overseas mission for official duty travel or on personal leave can result in an overpayment of allowances. The payroll systems have programmatic internal controls and system edits in place to assist in preventing overpayments. CGFS/C continues to implement additional measures to prevent and identify overpayments. In 2017, the Department's CGFS American Pay Processing Division identified and confirmed payroll overpayments totaling $7.1 million, of which $4.2 million has been recovered. An additional $1.7 million of prior year debts were recovered, bringing the total recovered in 2017 to $5.97 million. To date, CGFS/C has collected 85.6 percent of prior year debts. This is notable because recovery of payroll debts can be delayed due to a debtor's request for an administrative review or a waiver. Efforts to collect outstanding payroll debts are on-going and attempts are made to use the most effective means to maximize collection, such as salary offsets, when possible.

In addition to salary overpayments, Global Compensation performs procedures to identify overpayments impacting Foreign Service annuities paid by the Department. In 2017, the CGFS/C Annuitant Pay Processing (ANP) identified and confirmed overpayment transactions totaling $225,566 and recovered $342,783 ($57,474 of the overpayments identified in 2017 and ANP recovered $285,309 of prior year overpayments). All amounts recovered were returned to the original appropriation. These overpayments occur for reasons such as annuity reductions due to divorce, annuitant re-employment, and untimely notification of death. CGFS continues the use of the Do Not Pay Death Master File (DMF) on a pre-payment basis to better identify when annuitant deaths occur. This and other internal controls greatly assist ANP in preventing and managing improper payments.

DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDIT PROGRAMS
(dollars in thousands)

Program or Activity	Amount Recaptured	Original Purpose
Travel Program	$ 13.4	$ 13.4
OBO Programs	130.9	130.9
Total	$ 144.3	$ 144.3

AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDIT PROGRAMS *(dollars in thousands)*				
Program or Activity	Amount Outstanding (0–6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount Determined to Not Be Collectable
Travel Program	$ 27.6	$ 13.1	$ 111.6	$ —
OBO Programs	16.3	0.4	7.9	—
Foreign Service Annuities	—	—	51.9	—
Total	$ 43.9	$ 13.5	$ 171.4	$ —

Additional Department Payment Integrity Information can be found at the following link: *https://paymentaccuracy.gov/*. This link contains more detailed Department information on improper payments.

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The Department reviewed potential improper payments provided by the Department of the Treasury (Treasury) generated as a result of submitting disbursed payments through the Do Not Pay (DNP) portal. In FY 2017, the Treasury reviewed and disbursed 1,439,300 payments totaling $12.6 billion paid by the Department through the DNP portal. Potential matches were provided on a daily basis, comparing payments to the public Death Master File (DMF) of the Social Security Administration and the General Services Administration's Excluded Parties List System (EPLS). The Department has access to the private EPLS matching criteria, and as such, the DMF results were based on a social security number and name match of any payees who have been reported as deceased.

Through daily access via the Treasury DNP portal, the Department reviewed 1.1 million unmatchable payments, totaling $3.1 billion, and adjudicated 19 potential erroneous payment matches totaling $77,345 as part of the post-payment review process. The Department adjudicated and determined that the 11 DMF matches were deemed to be rightfully due to the deceased annuitants' estates. The remaining System for Award Management sourced payments included eight erroneous payments totaling $17,086.

The Department continued to utilize the Do Not Pay portal's Social Security Administration DMF on a pre-payment continuous monitoring basis for all annuitant payments this year. At least twice each month the Department's annuitant database is screened against the DMF to identify deceased annuitants. All matches are researched and if confirmed, payment to the annuitant is stopped prior to processing the monthly annuity payment run. In 2017, 199,355 annuitant payments totaling $934 million were reviewed against the DMF and 121 payments totaling $418,551 were stopped due to this initiative. This process has been successful in timely identifying deceased annuitants and ensuring improper payments are not made. In addition, all annuity manual payments processed through Treasury's Secure Payment System are also reviewed through the Do Not Pay DMF online search prior to making the payment. For each manual payment, the Department maintains supporting documentation to show that a DMF match did not occur.

For non-Treasury Disbursing Office payments made by the Department for disbursement overseas, payee information is checked against Treasury's Office of Foreign Assets Control's (OFAC) list of Specially Designated Nationals (SDN). During 2017, potential payment matches were reviewed and resulted in two stopped payments totaling $1,306. Also, during country integration to the Society of Worldwide Interbank Financial Telecommunication network, the Department provided payee lists associated with the given country to the Federal Reserve Bank. The Federal Reserve Bank verified none of the listed payees were included on the OFAC's SDN list. Furthermore, each disbursement payment batch was verified against OFAC's SDN list before being sent to the intermediary bank and before the intermediary bank transferred the funds to local bank.

In addition, in 2017 Department grants processed through the Department of Health and Human Services Payment Management System (PMS) are included in a Do Not Pay review. The Health and Human Services Division of Payment Management incorporated a review of the Do Not Pay portal into their payment process to identify individuals or entities with delinquent Federal non-tax debt, a recipient that is listed as deceased on the DMF, and recipients excluded from doing business with the government. In 2017, the Department was notified of five recipients that appeared ineligible due to results of the Do Not Pay process.

Premium Class Travel Reviews

The Department's mission is conducted throughout the world and requires extensive travel, sometimes of a significant duration. Because of the high volume of travel, the Department has made concerted efforts to monitor if official travel has adhered to Government-wide and Department regulations for premium class travel.

For 2017, there were no instances identified where a business class travel payment was inappropriate and needed to be recovered, or where the travelers flying business class were found to be ineligible. However, there have been instances where proper and complete supporting documentation was not readily available. Those errors represent an error rate of 4 percent ($47,536) in FY 2017, 4 percent ($32,242) in FY 2016, 15 percent ($157,144) in FY 2015, 17 percent ($54,885) in FY 2014, and 8 percent ($56,442) in FY 2013. OMB requires agencies to report improper payment errors based on three categories of errors: documentation and administrative errors, authentication and medical necessity errors, and verification errors. All Department errors found each year were attributable to documentation and administrative errors. The Department carefully considered these results in combination with results from other travel reviews, and will undertake efforts in 2018 to correct the deficiencies noted during the FY 2017 review.

Debt Management

Outstanding debt from non-Federal sources (net of allowance) increased from $34.6 million at September 30, 2016 to $38.6 million at September 30, 2017. Civil Monetary Penalties decreased by $2.0 million while IBWC, Direct Loans, Administrative fees, and Passport non-sufficient funds increased by $6.0 million at September 30, 2017, 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 $3.3 million to Treasury for cross-servicing in 2017. Of the current and past debts referred to Treasury, $1.5 million was collected in 2017.

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

	2017	2016	2015
Number of Accounts	1,114	1,002	1,212
Amounts Referred *(dollars in millions)*	$3.3	$3.6	$2.0
Amounts Collected *(dollars in millions)*	$1.5	$2.1	$1.1

Electronic Payments

The payments made through Electronic Funds Transfer (EFT) were 98.8 percent of the total payments made for domestic and overseas payments. Domestic operations accomplished 99 percent of its payments with EFT this year. Overseas operations have a slightly lower EFT percentage (98.6 percent) than domestic operations due to the complexities of banking operations in some foreign countries. For 2017, approximately 3.7 million payments were disbursed for the Department of State.

Federal Civil Penalties Inflation Adjustment Act

The Federal Civil Penalties Inflation Adjustment Act of 1990 established annual reporting requirements for civil monetary penalties assessed and collected by Federal agencies. The Department assesses civil fines and penalties on individuals for such infractions as violating the terms of munitions licenses, exporting unauthorized defense articles and services, and valuation of manufacturing license agreements. In 2017, the Department did not assess any new penalties, and collected $2 million of outstanding penalties from one company. There is no outstanding balance as of September 30, 2017. The following table lists the current penalty level for infractions governed by the Department.

FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENTS

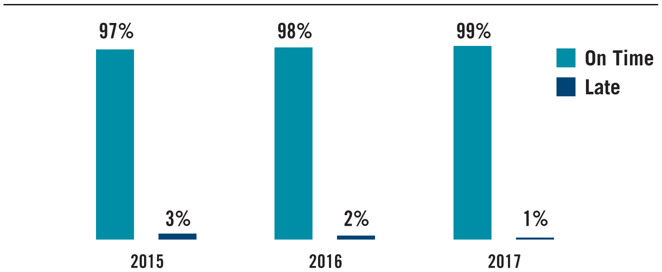
Statutory Authority	Penalty	Year Enacted	Latest Year of Adjustment	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/ Unit	Location for Penalty Update Details
Arms Export Control Act of 1976, 22 U.S.C. 2778(e)	International Traffic in Arms Regulations Violations – Export of Defense Articles and Defense Service	1985	2017	$1,111,908		Federal Register 82 3168-3170
Arms Export Control Act of 1976, 22 U.S.C. 2779a	International Traffic in Arms Regulations Violations – Prohibition on Incentive Payments	1994	2017	$808,458		Federal Register 82 3168-3170
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	2017	$962,295		Federal Register 82 3168-3170
False Claims Act of 1986, 31 U.S.C. 3729-3733	Penalty imposed on persons and companies who defraud governmental programs	1986	2017	$10,957 – $328,734		Federal Register 82 3168-3170
Chemical Weapons Convention Act of 1998, 22 U.S.C. 6761(a)(1)(A)	Prohibited acts relating to inspections	1998	2017	$36,849		Federal Register 82 3168-3170
Chemical Weapons Convention Act of 1998, 22 U.S.C. 6761(a)(1)(B)	Recordkeeping violations	1998	2017	$7,370		Federal Register 82 3168-3170

Prompt Payment Act

Timeliness of Payments

The Prompt Payment Act (PPA) requires Federal agencies to pay their bills on time. PPA assesses an interest penalty against Federal agencies that do not pay their vendors timely as required by law. In 2017, the Department timely paid 98.5 percent of the 603,245 payments subject to PPA regulations. The “Timeliness of DOS Payments” bar chart reflects the timeliness of the Department’s payments from 2015 through 2017. During 2017, the Department paid $271,158 in interest penalties out of $10.5 billion in payments that were subject to the PPA, compared to $349,358 in 2016.

TIMELINESS OF DOS PAYMENTS (2015 – 2017)



Fraud Reduction Report

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

The Fraud Reduction and Data Analytics Act of 2015 (Public Law No. 114-186) required OMB to establish guidelines for Federal agencies to establish financial and administrative controls to identify and assess fraud risks and design and implement control activities in order to prevent, detect, and respond to fraud, including improper payments. Agencies were required to design and implement control activities in order to prevent, detect, and respond to fraud including improper payments under the Act.

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 a conceptual framework. The GAO's *Framework for Managing Fraud Risk in Federal Programs*, and other leading practice materials, provided a foundation for the Department's fraud reduction program. Following are examples of some of the accomplishments in each of the three phases: Prevention, Detection, and Response.

Prevention:

An Internal Controls Fraud Working Group consisting of members representing the Office of Management Controls, the Regional Bureaus, Logistics Management (A/LM), the Foreign Service Institute, Regional Bureau representatives, and the International Cooperative Administrative Support Services Service Center collaborated to develop a framework to increase awareness of identifying fraud risk factors. Results included improved training, increased awareness to reduce vulnerabilities, and the development of three case studies based on frauds that were discovered at Posts regarding vehicle fuel debit card theft, government purchase card embezzlement, and time and attendance fraud.

Detection:

In FY 2016, A/LM began a fraud analytic forensics program which developed a system-based data analytics tool along with a three point data forensics plan to identify, combat, and prevent non-compliant behavior and potential fraud at post. The team implemented the plan starting with the Department's personal property and it analyzed 3.4 million assets worth $2.4 billion across 244 posts. In FY 2017, the forensics team expanded the program and began analyzing the $7 billion of domestic and $2 billion of overseas goods and services procured annually by the Department.

Response:

A/LM's data forensics team communicated the results of its analysis to many individual Posts, which did lead to the identification of fraud at one Post. Additionally, training sessions were developed and provided at extensively attended Regional Bureau training events.

Overall, the Department's assessment of fraud utilized other existing fraud programs taken into consideration during the Department's testing of Principle #8 regarding fraud in the GAO's Standards for Internal Control, and expanded our capability to identify risk and vulnerabilities and prevent fraud by employing data analytic tools in our logistics systems. The Department will advance its fraud reduction efforts and take further steps to reduce fraud in FY 2018.

Grants Oversight and New Efficiency Act

The Department recognizes the importance of closing out grants and cooperative agreements in a timely manner. The implementation of a standardized Federal assistance management system (State Assistance Management System (SAMS)) for domestic bureaus and overseas posts, 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 closing awards. While data does pass electronically between SAMS, the Department's financial systems, and PMS, some critical closeout tasks remain a manual process in the payment system. As highlighted in the GAO report, *Actions Needed to Address Persistent Grant Closeout Timeliness and Undisbursed Balance Issues* (GAO-16-362), the manual steps required to reconcile differences between systems can be labor-intensive, especially in PMS.

The Department has taken numerous steps to mitigate and resolve these issues. These include implementing SAMS, a uniform global Federal assistance management system that uses a standardized closeout checklist and offers reporting capabilities to help target awards awaiting closeout; using Department of Interior services to negotiate indirect cost rates on our behalf, which enabled the closeout of many old awards; and publishing a Federal assistance Human Capital Plan that resulted in increased training and guidance on Federal assistance management, including closeout requirements and procedures.

To compile the data required by the Grants Oversight and New Efficiency Act, the Department had to perform analysis between systems and conduct individual data calls for each overseas post since SAMS was not implemented overseas during the period covered by the Act.

GRANTS OVERSIGHT AND NEW EFFICIENCY ACT SUMMARY TABLE

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	109	77	15
Number of Grants/Cooperative Agreements with Undisbursed Balances	171	57	3
Total Amount of Undisbursed Balances	$8,433,875	$3,682,156	$11,907

Resource Management Systems Summary

INTRODUCTION

The financial activities of the Department of State (the Department or DOS) occur in approximately 270 locations in 180 countries. We conduct business transactions in over 135 currencies and even more languages and cultures. Hundreds of financial and management professionals around the globe allocate, disburse, and account for billions of dollars in annual appropriations, revenues, and assets. The Department is at the forefront of Federal Government efforts to achieve cost savings by engaging in shared services. Indeed, the Department's resource management customers include 45 U.S. Government agencies in every corner of the world, served 24 hours a day, seven days a week. Another illustration of the Department's commitment to shared services is its hosting at its Charleston, S.C. financial center of USAID's core financial system. This system, known as Phoenix, makes use of the same commercial off-the-shelf (COTS) software as the Department's core system, thereby promoting smooth interaction between the two agencies.

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

The nonprofit independent firm that conducts the Department's annual survey of overseas users of financial operations and systems is one of the leading proponents of benchmarking and best practices in business research. The firm noted that the Department's Bureau of the Comptroller and Global Financial Services (CGFS) set its overall performance target for customer satisfaction at 80 percent for all services, a goal considerably higher than what many Government agencies and private sector financial institutions achieve. Not only has CGFS set such high goals, it has consistently surpassed these marks for overall satisfaction and satisfaction with the majority of its individual systems. This past year for the first time, all nine financial systems received a satisfaction rating of 80 or higher from overseas users. Such scores exceed benchmark averages from financial services customers of 64 for Federal Government agencies and 75 for private sector providers. CGFS viewed this improvement as particularly meaningful as it was driven by an increase in both the response rate and average satisfaction scores provided by financial management officers.

Continued standardization and consolidation of financial activities and leveraging investments in financial systems to improve our financial business processes will lead to greater efficiencies and effectiveness. This change is not always easy with the decentralized post-level financial services model that exists for the Department's worldwide operations. In addition, over the next several years, we will need to leverage upgrades in our core financial system software, locally employed (LE) staff and American payroll and time and attendance (T&A) deployments, and integration with other Department corporate systems to improve our processes in ways that better support financial operations. Besides seeking greater linkages within our systems, we also are seeking additional opportunities to improve our shared service efficiencies in ways that help us serve our customer agencies and so lower overall costs to the U.S. Government.

We have made significant progress in modernizing and consolidating Department resource management systems. In response to cybersecurity concerns, our development efforts in all lines of business increasingly emphasize the need to reduce vulnerabilities within systems and to be mindful of potential threats to unauthorized access and to the integrity of data within our systems. This focus seeks to protect both the Department and its employees. For example, all of our systems were brought into compliance with data-at-rest encryption requirements during 2017. CGFS' financial systems development activities are now operated under

Capability Maturity Model Integration (CMMI) industry standards.

We continue to make use of proven COTS software in delivering resource management systems to the Department and our serviced customers. We have pushed to consolidate these systems to the CGFS platform with the goals of meeting user requirements, sharing a common platform and architecture, reflecting rationalized standard business processes, and ensuring secure and compliant systems. A COTS solution is the platform for our Global Foreign Affairs Compensation Systems (GFACS). By managing the process in this manner, we can deliver products that are compliant, controlled, and secure. OMB continues its initiative to standardize Government-wide business processes to address the Federal Government's long-term need to improve financial management. Also, over the next several years, a number of new Federal accounting and information technology standards, many driven by the Department of the Treasury, will become effective. These include Government-wide projects to standardize business requirements and processes, establish and implement a Government-wide accounting classification, and support the replacement of financial statement and budgetary reporting. The Department's implementation of new standards and Government-wide reporting will strengthen both our financial and information technology management practices.

The Department uses financial management systems that are critical to effective agency-wide financial management, financial reporting, and financial control. These systems are included in various programs. An overview of these programs follows.

Financial Systems Program

The financial systems program includes the Global Financial Management System (GFMS), the Regional Financial Management System (RFMS), the Consolidated Overseas Accountability Support Toolbox (COAST), and the Invoice Processing Platform (IPP).

The Global Financial Management System. GFMS centrally accounts for billions of dollars recorded through over 5 million transactions annually, by more than 1,000 users and over 25 "handshakes" with other internal and external systems. GFMS is critical to the Department's day-to-day operations. It supports the execution of the Department's mission by effectively accounting for business activities and recording the associated financial information, including obligations and costs, performance, financial assets, and other data. It supports the Department's domestic offices and serves as the agency's repository of corporate data.

During 2017, GFMS was updated to meet the Digital Accountability and Transparency Act of 2014 (DATA Act) requirements. The DATA Act is considered the first legislative mandate for data transparency. It expands on the Federal Funding Accountability and Transparency Act of 2006 by creating new reporting requirements that require Federal agencies to disclose direct agency expenditures and link procurement and financial assistance spending to Federal programs.

The Regional Financial Management System. RFMS is the global accounting and payment system that has been implemented for posts around the world. RFMS includes a common accounting system for funds management and transaction processing. One of the largest improvements to our overseas financial management environment was the integration of RFMS and Ariba (the Department's overseas procurement and grants system) for procurement activity. When a requisition is approved in Ariba, a commitment transaction will automatically be recorded in RFMS. When a purchase order is approved in Ariba, an obligation transaction will automatically be recorded in RFMS/M, eliminating duplicate data entry. This integration ensures timely recording of fiscal data and funds availability checks, increases operational efficiency by avoiding costly rework generated by rejected transactions, and improves the accuracy of financial reporting. By the end of 2017 over 200,000 integrated transactions had been processed at 180 posts.

In a joint effort with INL, CGFS coordinated the deployment of bilateral agreement functionality in RFMS to 85 posts during 2017. This functionality provides a linkage between a country bilateral agreement and subsequent specific contracts to carry out the agreement. Changes were made to the RFMS/M and Ariba integration to transmit the Bilateral Agreement number for contracts.

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. Four pilot posts started using PrOPP in 2016, and 35 additional installations went live during 2017. Full deployment efforts will continue in 2018.

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 2017, the Department continued with the RFMS/Cashiering (RFMS/C) project to replace COAST Cashiering with a centralized, web-based cashiering application installed in a single location. New functionality was designed to integrate transactions from RFMS/C to RFMS/M in real time. This will replace the existing COAST Cashiering process of sending transactions to RFMS/M through a batch file. Implementation of RFMS/C will begin in 2018. COAST Reporting and COAST Payroll Reporting capabilities will be discussed in more detail under the Business Intelligence Program.

Invoice Processing Platform. IPP is a shared service provided by the Department of the Treasury. Use of this service will allow DOS to streamline domestic and overseas invoice processing in accordance with the OMB directive to mandate the use of an OMB-approved invoicing solution. The Department and vendors will have access to the IPP platform to exchange data on invoices, orders, and payments. Internal controls will ensure that invoices are reviewed and approved by DOS personnel using configurable standard workflows. During 2017, analysis tasks were completed for configuration, interface designs, and approval processing. In 2018, implementation tasks will be completed and pilots, both domestic and overseas, will begin. Full deployment will continue into 2019.

Planning and Budget Systems Program

In 2017, the Budget System Modernization (BSM) project to standardize, consolidate, and simplify the budgeting systems of the Department went into production for headquarters level financial planning of a sub-set of appropriated funds. Central budget office financial planning will fully move from the legacy Central Resource Management System (CRMS) in FY 2018. BSM uses a COTS solution and will be developed incrementally. The recording of State's service agreements through reimbursements with other Federal agencies and between Department offices will move from CRMS to the accounting system in early FY 2018.

CRMS will continue to process apportionments, warrants, non-expenditure transfers, as well as domestic and overseas fund allocations in 2018. These transactions are interfaced into the Department's accounting system. CRMS also provides foreign currency fluctuation impact projections for use in managing the overseas budgets for the current year and fund allocation planning for the International Cooperative Administrative Support Services (ICASS) working capital fund. In 2017, only those changes absolutely necessary to maintain the system until retirement were undertaken. This work included technical enhancements to address security as well as modifications to keep pace with the Department's network and its use of current versions of technology.

WebRABIT is an application used by regional and other bureaus for program and public diplomacy execution year budgets at their posts. In 2017, WebRABIT moved into an operations and maintenance mode, with resources being aligned with this lower level of activity. The functionality of WebRABIT is part of the long-term strategy for the BSM project.

WebICASS is the principal means by which the U.S. Government shares the cost of common administrative support at its more than 270 diplomatic and consular posts overseas. The Department has statutory authority to serve as the primary overseas shared service provider to other agencies.

Travel Systems Program

In 2016, the Department successfully transitioned to the next generation of the E-Government Travel Services (ETS2) contract with Carlson Wagonlit Travel. In 2016, the Department also implemented the Local Travel module allowing for the submission of local travel claims for expenses incurred in and around the vicinity of a duty station. The Department expanded the use of the Local Travel feature to also accommodate non-travel employee claims previously submitted through an SF-1164. In the Local Travel module, approvers will electronically approve claims and provide reimbursement to the employee's bank account via EFT. The Department has completed this implementation for 51 posts overseas.

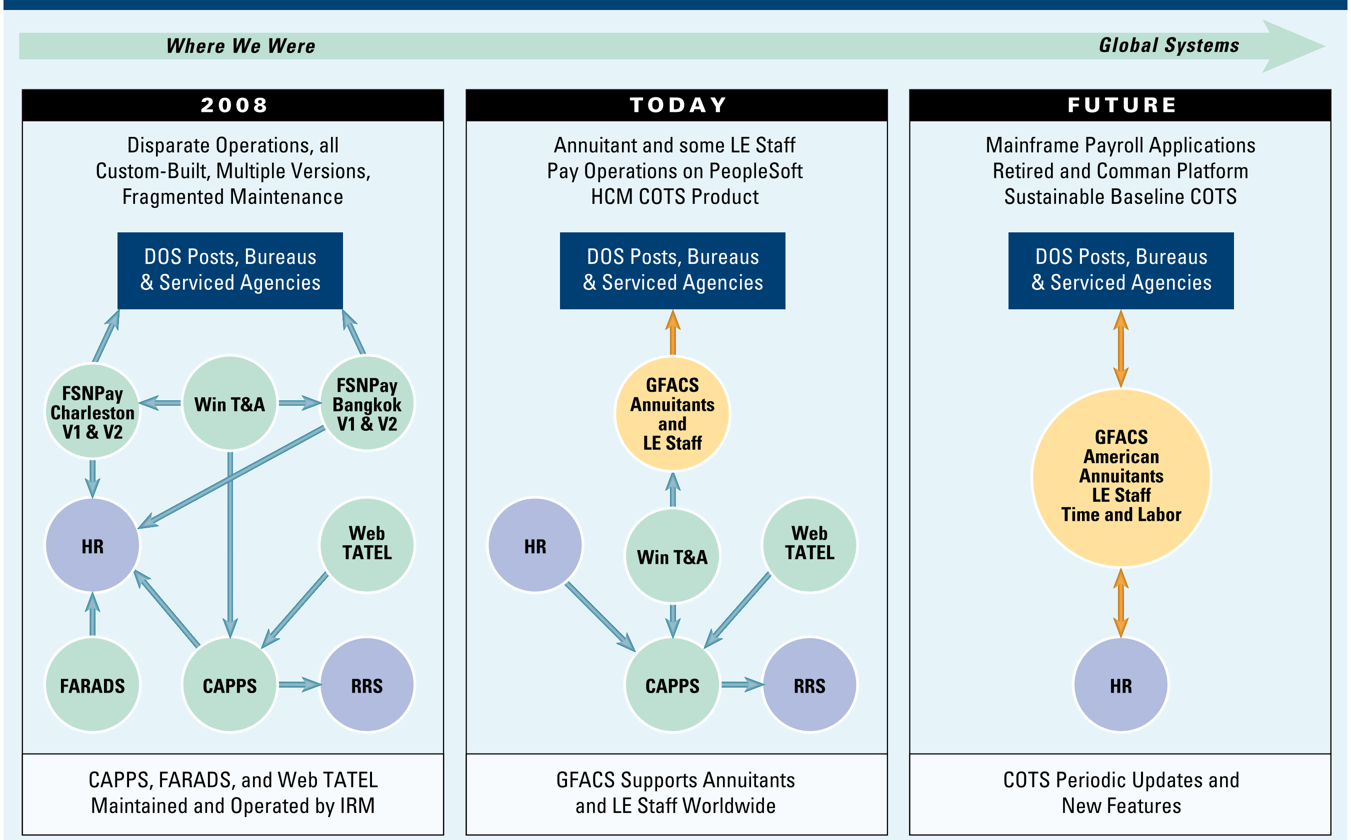
The Department will continue to work with our bureaus and posts to identify improvements that can be made to the travel system. The Department also participates with other agencies to prioritize travel system enhancements across the Federal Government landscape. Examples of improvements for FY 2018 include the implementation of Single Sign-on, the implementation of the Local Payments module domestically, and the implementation of enhancements to support DOS policy on Long-term Temporary Duty 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 eight legacy payroll systems with a single, COTS-based solution to address the widely diverse payroll requirements of the Foreign Service, Civil Service, LE staff, and retirees of the Department and the other 45 civilian agencies serviced. The "Compensation System Vision and Concept" diagram highlights how past and future changes involve simplifying and consolidating our systems. The

THE COMPENSATION SYSTEM VISION AND CONCEPT



Global Foreign Affairs Compensation System (GFACS) will leverage a rules-based, table-driven architecture to promote compliance with the complex statutes found across the Foreign and Civil Service Acts and local laws and practices applicable to all the countries in which civilian agencies operate. At the close of 2017, 186 countries and over 56,000 LE staff have been converted to GFACS.

The last pay module to be implemented in GFACS is American payroll. It is currently scheduled for full implementation in 2018. The web-based global time and attendance product, based on the same technology as GFACS, will follow the American payroll implementation. This product has the capability of electronic routing, electronic signature, and self-service features. As a result, it will bring a more efficient and modern process to the Department's workforce.

Business Intelligence Program

The Department's Business Intelligence (BI) program consists of the GFMS Data Warehouse (DW), COAST Reporting, COAST Payroll Reporting, and the Global BI framework. The GFMS DW enables users to access financial information from standard, prepared reports or customized queries. It also provides, on a daily basis, critical financial information to the Department's enterprise data warehouse. During 2017, the GFMS DW was updated to implement new reimbursement reports supporting the rollout of new BSM capabilities, and implement updates that included new Financial Assistance, Procurement, Budget, Accounts Receivable, and Accounting requirements. For 2018, work will continue to implement new and changing reporting requirements.

In 2017, the Department implemented enhancements to COAST to support new document types being implemented in the overseas financial systems. In addition, updates to support COAST installations on the Windows 10 operating system and Microsoft Office 2016 were completed.

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. The Global BI application was used to produce extract files that met the requirements of the DATA Act. Import, systems assurance, data reconciliation, and export processes were developed and tested for this effort. The Global BI application was also updated to include a first wave of reports for overseas posts as well as analytics information spaces for posts to drill into their transactional data. Report and information space requirements were finalized through an agile-like process involving the development team in Washington, D.C., seven overseas posts, a regional bureau, and accounting support staff in Charleston, S.C. Training was conducted for initial posts in the European and African regions. User security requirements were also included within Global BI. In 2018, the Global BI application will be updated to include additional waves of financial and payroll spending reports for post use. Training and implementation activities will be conducted for all remaining overseas posts. Improvements to the DATA Act processes will also occur in 2018. New reports supporting financial assistance requirements will also be developed. Domestic bureau use of Global BI will also be initiated in 2018. This will include new reporting and data analytics capabilities for domestic bureaus as well as the migration of initial reporting from the GFMS DW.

Participants in a workshop on efforts to address radicalization in prisons pose for a group picture in Turin, Italy, September 6, 2017. ***Department of State***

FOCUS

Terrorism in Foreign Prisons: Countering Recruitment

Countering terrorist recruitment in foreign prisons is an essential element of the fight against terrorism. The management of terrorist inmates is critically important because of concerns that these individuals are attracting new recruits while incarcerated or planning attacks upon their release. Those involved in high profile terrorist attacks in Barcelona, Brussels, London, Nice, and Jakarta were initially imprisoned for non-terrorist offenses and are believed to have been radicalized to violence while in jail. Many countries throughout the world are grappling with reported cases of individuals being drawn to terrorist ideology while incarcerated, and government officials have sought assistance in addressing this issue.

The State Department's Bureau of Counterterrorism and Countering Violent Extremism (CT) launched in 2016 a global initiative that included a series of workshops to help prison officials and policy makers detect and respond to prison radicalization. As part of this initiative, the CT Bureau partnered with the International Institute for Justice and the Rule of Law and the U.S. Department of Justice's International Criminal Investigative Training Assistance Program to develop and implement four workshops that included officials from countries in the Balkans, Central, East and North Africa, and the Middle East. At these workshops prison officials highlighted the use of specialized risk assessment tools for terrorist offenders; discussed the advantages and disadvantages of different approaches for housing terrorists; and reiterated the importance of monitoring prisoners' communications and behavior.

Detecting and countering prison radicalization is best achieved when prison officials develop and implement solid management and rehabilitation policies and programs. Prison officials need to assess and classify inmates properly when they first enter a facility and thereafter regularly re-assess and re-classify them. This helps early detection of susceptibility to violent radicalization and also helps prison staff detect changes in prisoners' behavior and patterns. The housing of terrorists in prisons is significant because where and with whom inmates are placed can contribute to or mitigate their ability to recruit and influence other inmates. This can be a significant challenge as prison systems in underdeveloped nations often lack basic needs such as access to water, a functioning waste water treatment system, and larger facilities to accommodate outsized prison populations. Assessing the sophistication of the prison system is critical in determining whether a specialized prison program is the right approach. Since country contexts vary widely, all programs are custom designed.

The State Department looks forward to continuing its work with partner nations on sound prison management and rehabilitation policies and programs that can help minimize opportunities for terrorist recruitment within prisons. We are encouraging other donors to take a leading role in the rehabilitation and reintegration space given their experience in this area and share the financial burden for addressing this widespread problem.

Heritage Assets

The Department has collections of art objects, furnishings, books, and buildings that are considered heritage or multi-use heritage assets. These collections are housed in the Diplomatic Reception Rooms, senior staff offices in the Secretary's suite, offices, reception areas, conference rooms, the cafeteria and related areas, and embassies throughout the world. The items have been acquired as donations, are on loan from the owners, or were purchased using gift and appropriated funds. The assets are classified into nine categories: the Diplomatic Reception Rooms Collection, the Art Bank Program, the Library Rare & Special Book Collection, the Cultural Heritage Collection, the Secretary of State's Register of Culturally Significant Property, the U.S. Diplomacy Center, the Art in Embassies Program, the International Boundary and Water Commission, and the Blair House. Items in the Register of Culturally Significant Property category are classified as multi-use heritage assets due to their use in general government operations.

Diplomatic Reception Rooms Collection

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

Thomas Jefferson State Reception Room. ***Department of State***

Art Bank works include "Lake Shore, Late Afternoon" (2017), Kathleen Best-Gillmann, pastel on paper (left) and "Tempest" (2015), Marlene Rye, pastel on paper (right).

Art Bank Program

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

Rare & Special Book Collection

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

Cultural Heritage Collection

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

Secretary of State's Register of Culturally Significant Property

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

Diplomacy Center

The U.S. Diplomacy Center is a unique education and exhibition venue at the Department of State that explores the history, practice and challenges of U.S. diplomacy. It is a place that fosters a greater understanding of the role of U.S. diplomacy, past, present and future, and is an educational resource for students and teachers in the United States and around the globe. Exhibitions and programs inspire visitors to make diplomacy a part of their lives. The Diplomacy Center is located within the Bureau of Public Affairs, and actively collects artifacts for exhibitions.

Art in Embassies Program

The Art in Embassies Program was established in 1964 to promote national pride and the distinct cultural identity of America's arts and its artists. The program, which is managed by the Bureau of Overseas Buildings Operations, provides original U.S. works of art for the representational rooms of United States ambassadorial residences worldwide. The works of art were purchased or are on loan from individuals, organizations, or museums.

International Boundary and Water Commission

One of the IBWC's primary mission requirements is the demarcation and preservation of the international boundary between the United States and Mexico (see Reporting Entity in Note 1). Roughly 1,300 miles of this border are demarcated by the Rio Grande and the Colorado River, and the other 700 miles of border are demarcated by 276 monuments along the land boundary, which extends from the Pacific Ocean to the Rio Grande. These monuments are jointly owned and maintained by the United States and Mexico. The United States is responsible for 138 monuments and considers them heritage assets. In addition, the IBWC is responsible for the Falcon International Storage Dam and Hydroelectric Power Plant. These were constructed jointly by the United States and Mexico pursuant to Water Treaty of 1944 for the mission purposes of flood control, water conservation, and hydroelectric power generation. Both were dedicated by U.S. President Dwight D. Eisenhower and President Adolfo Ruiz Cortines, of Mexico to the residents of both countries. Falcon is located about 75 miles downstream (southeast) of Laredo, Texas and about 150 miles above the mouth of the Rio Grande. They are considered multi-use heritage assets.

Art Bank work "Verse from Macrocosm" (2010), Karen Kunc, woodcut print on paper.

Blair House

Composed of four historic landmark buildings owned by GSA, Blair House, the President's Guest House, operates under the stewardship of the Department of State's Office of the Chief of Protocol and has accommodated official guests of the President of the United States since 1942. In 2012, these buildings were added to the Secretary's Register of Culturally Significant Property for their important role in U.S. history and the conduct of diplomacy over time. Its many elegant rooms are furnished with collections of predominantly American and English fine and decorative arts, historical artifacts, other cultural objects, rare books, and archival materials documenting the Blair family and buildings history from 1824 to the present. Objects are acquired via purchase, donation or transfer through the private non-profit Blair House Restoration Fund; transfers may also be received through the State Department's Office of Fine Arts and Office of the Chief of Protocol. Collections are managed by the Office of the Curator at Blair House, which operates under the Office of Fine Arts.

Reduce the Footprint

Consistent with Section 3 of the OMB Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations*, and OMB Management Procedures Memorandum 2013-02, the "Reduce the Footprint" policy implementing guidance, all CFO Act entities must set annual targets to reduce the total square footage of their domestic office and warehouse inventory compared to the 2015 baseline. As a result, OMB is working in partnership with the GSA and other Federal agencies to right-size the Federal real property inventory.

While some of the data is comparable to other agencies' data, the Department functions as a service provider supporting U.S. Government agencies with overseas presence. This affects how the data is analyzed. There are service providers and support staff in domestic facilities who are providing overseas interagency support. Forty percent of U.S. direct-hire employees under Chief of Mission authority work for other agencies; most of them receive some direct service or management policy coordination from employees occupying domestic facilities. For example, the Department provides management services such as human resources, security, medical, diplomatic pouch and mail, financial management, real estate management, acquisition, information technology, contracting, and other services, to most agencies overseas.

The Department's overall Reduce the Footprint plan shows a slight reduction of four percent from the 2015 baseline to FY 2016. The Department's current plans anticipate that the portfolio will remain at or close to the 2015 baseline in the immediate future. In the longer term, the reorganization of the Department will impact future housing plans and the Department will be actively seeking opportunities to maximize efficiencies and co-locate staff in order to best support the goals of the reorganization, while also retaining the necessary resources to support the mission.

The Department strives for efficiency and best practices in its real estate program. The Department works closely with GSA on long-term strategic planning and housing the Department's domestic staff. Furthermore, as the Department realigns its knowledge management IT platforms, opportunities are expected for cost savings in its real estate portfolio. Additionally, the Department has space allocation standards that reduce workstation sizes and limit the number of private offices, and is achieving improved utilization rates via increased densification.

As the Department's real property needs are mission-driven, it must be prepared for real world events that may require changes in its physical footprint. Whether it is reacting to crises such as the Zika outbreak and other immediate threats to our nation's security, or longer-term engagements such as coalition building and supporting U.S. citizens overseas, the Department must have the necessary personnel and facilities to respond rapidly to changing requirements. The Department commits however, to continuing to improve utilization rates and accommodating the additional personnel within its current portfolio to the maximum extent possible.

The following table compares the most recent reported total square footage and annual operating costs associated with the Department's assets subject to the Reduce the Footprint policy to the 2015 baseline assigned by GSA. The operation and maintenance (O&M) costs have been calculated from the 2015 Federal Real Property Profile data and include facilities other than office and warehouse space, such as data and training centers. The 2017 amounts are not available until after publication of the Agency Financial Report.

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

	2016	2015 *Baseline*	Change
Square Footage	7.1	7.0	0.1

	2016	2015 *Reported Cost*	Change
Operation and Maintenance Costs	$12.4	$22	($9.6)

Secretary Tillerson, flanked by Secretary James Mattis and Special Presidential Envoy Brett McGurk, attends a meeting of the Global Coalition Working to Defeat ISIS in Washington, D.C., March 22, 2017. *Department of State*

IN FOCUS

The Global Coalition – Working to Defeat ISIS

Since its formation in 2014, the Global Coalition has worked diligently to reduce the threat ISIS poses to international security and our homelands. Coalition members are united in common cause to defeat ISIS through a robust approach, including working by, with, and through local partners for military operations; supporting the stabilization of territory liberated from ISIS; and, enhancing international cooperation against ISIS' global objectives through information sharing, law enforcement cooperation, severing ISIS' financing, countering violent extremist recruitment, and neutralizing ISIS' narrative. The Coalition is also engaged in broad-based civilian efforts to provide humanitarian aid to communities suffering from displacement and conflict, and supporting stabilization efforts in territory liberated from ISIS. The Coalition's combined efforts have diminished ISIS' military capability, territorial gains, leadership, financial resources, and on-line influence. The 68-member Global Coalition is the largest international coalition in history. It is a diverse group, in which each member makes unique contributions to a robust civilian and military effort.

Military Campaign

Twenty-three Coalition partners have over 9,000 troops in Iraq and Syria in support of the effort to defeat ISIS. Working by, with, and through our local partners, the Coalition has made significant progress in denying ISIS safe haven and building the military capacity of those engaged in direct action against ISIS.

Coalition operations have liberated 62 percent of the terrain ISIS once controlled in Iraq and 30 percent in Syria, including key cities in both countries. Coalition air assets have conducted more than 19,000 strikes on ISIS targets, removing tens of thousands of ISIS fighters from the battlefield and killing over 180 senior to mid-level ISIS leaders. The Coalition has supported our Iraqi partners to achieve significant progress in the fight to retake Mosul. Iraqi Security Forces officially liberated eastern Mosul on January 24, 2017 and now are making significant territorial gains in the western portion of the city.

Civilian Effort

Since 2014, Coalition members have provided more than $22.2 billion in stabilization, demining capabilities, economic support, and humanitarian assistance in Iraq and Syria – all of which guard against a resurgence of ISIS. Last July, at the Iraq Pledging Conference held in Washington, partners pledged more than $2.3 billion for humanitarian assistance, stabilization, and demining in Iraq. Coalition support for stabilization programs is crucial as we seek to hold terrain taken from ISIS and provide for people in liberated areas. Support for stabilization efforts is a strategic investment in the fight against ISIS. As a result of this support, local partners in Iraq are holding ground against ISIS, restoring services, clearing schools and clinics of explosive remnants of war and improvised explosive devices, helping families return home once they are ready, providing security, and contributing to re-establishing the rule of law in liberated areas.

Multilateral Initiatives to Counter a Global Threat

ISIS has deliberately fostered interconnectedness among its scattered branches, networks, and supporters, seeking to build a global organization. It continues to provide guidance and funds its branches and networks, has carried out attacks well beyond the territory it directly controls, and retains a robust online presence. Coalition partners have recognized the importance of being networked together to effectively counter this global threat and coordinate efforts to disrupt and degrade ISIS activities. Coalition members and other partners have taken the following steps:

Counter-messaging: Building resistance to extremist propaganda and countering terrorist use of the internet is vital to our effort. Counter ISIS content is now more prevalent online and pro-ISIS content is declining in open forum social media channels. This is a terrorist group that is increasingly struggling in the face of an increasingly organized and sophisticated set of initiatives by the Coalition. Global Coalition member countries are producing national responses and coordinating counter-ISIS communications efforts regionally and globally.

Counter-finance: Coalition collaboration on financial intelligence and broad-spectrum information sharing has supported our military effort to damage or destroy more than 2,600 ISIS energy targets. Coalition airstrikes against energy assets have impeded ISIS's ability to produce, use, and profit from oil. Coalition airstrikes have also targeted more than 25 ISIS bulk cash storage sites, destroying tens of millions – and possibly hundreds of millions – of dollars.

Countering foreign terrorist fighters: The flow of foreign terrorist fighters to Iraq and Syria, many of which joined ISIS, is down significantly over the last year after peaking in 2014. This decline has been dramatic, prolonged, and geographically widespread. Significant milestones include: 1) securing of the Syria-Turkey border as of November 2016; 2) the EU's adoption of a Passenger Name Recognition protocol; 3) 31 non-EU members implementing enhanced traveler screening measures; and 4) countries enacting measures in UN Security Council Resolution 2178 (2014) to strengthen their response and abilities to counter foreign fighters and prosecute related crimes.

U.S. Secretaries of State Past and Present

1. **Thomas Jefferson** (1790-1793)
2. **Edmund Jennings Randolph** (1794-1795)
3. **Timothy Pickering** (1795-1800)
4. **John Marshall** (1800-1801)
5. **James Madison** (1801-1809)
6. **Robert Smith** (1809-1811)
7. **James Monroe** (1811-1817)
8. **John Quincy Adams** (1817-1825)
9. **Henry Clay** (1825-1829)
10. **Martin Van Buren** (1829-1831)
11. **Edward Livingston** (1831-1833)
12. **Louis McLane** (1833-1834)
13. **John Forsyth** (1834-1841)
14. **Daniel Webster** (1841-1843)
15. **Abel Parker Upshur** (1843-1844)
16. **John Caldwell Calhoun** (1844-1845)
17. **James Buchanan** (1845-1849)
18. **John Middleton Clayton** (1849-1850)
19. **Daniel Webster** (1850-1852)
20. **Edward Everett** (1852-1853)
21. **William Learned Marcy** (1853-1857)
22. **Lewis Cass** (1857-1860)
23. **Jeremiah Sullivan Black** (1860-1861)
24. **William Henry Seward** (1861-1869)
25. **Elihu Benjamin Washburne** (1869-1869)
26. **Hamilton Fish** (1869-1877)
27. **William Maxwell Evarts** (1877-1881)
28. **James Gillespie Blaine** (1881-1881)
29. **Frederick Theodore Frelinghuysen** (1881-1885)
30. **Thomas Francis Bayard** (1885-1889)
31. **James Gillespie Blaine** (1889-1892)
32. **John Watson Foster** (1892-1893)

Secretary Tillerson arrives in Beijing, China, March 18, 2017.

Department of State

Secretary Tillerson meets with Turkish Foreign Minister Mevlut Cavusoglu at the Ministry of Foreign Affairs in Ankara, Turkey, March 30, 2017. *Department of State*

33. **Walter Quintin Gresham** (1893-1895)
34. **Richard Olney** (1895-1897)
35. **John Sherman** (1897-1898)
36. **William Rufus Day** (1898-1898)
37. **John Milton Hay** (1898-1905)
38. **Elihu Root** (1905-1909)
39. **Robert Bacon** (1909-1909)
40. **Philander Chase Knox** (1909-1913)
41. **William Jennings Bryan** (1913-1915)
42. **Robert Lansing** (1915-1920)
43. **Bainbridge Colby** (1920-1921)
44. **Charles Evans Hughes** (1921-1925)
45. **Frank Billings Kellogg** (1925-1929)
46. **Henry Lewis Stimson** (1929-1933)
47. **Cordell Hull** (1933-1944)
48. **Edward Reilly Stettinius** (1944-1945)
49. **James Francis Byrnes** (1945-1947)
50. **George Catlett Marshall** (1947-1949)
51. **Dean Gooderham Acheson** (1949-1953)
52. **John Foster Dulles** (1953-1959)
53. **Christian Archibald Herter** (1959-1961)
54. **David Dean Rusk** (1961-1969)
55. **William Pierce Rogers** (1969-1973)
56. **Henry A. (Heinz Alfred) Kissinger** (1973-1977)
57. **Cyrus Roberts Vance** (1977-1980)
58. **Edmund Sixtus Muskie** (1980-1981)
59. **Alexander Meigs Haig** (1981-1982)
60. **George Pratt Shultz** (1982-1989)
61. **James Addison Baker** (1989-1992)
62. **Lawrence Sidney Eagleburger** (1992-1993)
63. **Warren Minor Christopher** (1993-1997)
64. **Madeleine Korbel Albright** (1997-2001)
65. **Colin Luther Powell** (2001-2005)
66. **Condoleezza Rice** (2005-2009)
67. **Hillary Rodham Clinton** (2009-2013)
68. **John Forbes Kerry** (2013-2017)
69. **Rex Wayne Tillerson** (2017-Present)

LEARN MORE

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

Secretary Tillerson shakes hands with North Atlantic Treaty Organization (NATO) Secretary General Jens Stoltenberg before the NATO Foreign Ministerial in Brussels, Belgium, March 31, 2017. ***Department of State***

Appendices

Appendix A: Abbreviations and Acronyms

A	Bureau of Administration (DOS)
ACOR	Alternate Contracting Officer's Representative
ADP	Automated Data Processing
AE	American Employee
AF	Bureau of African Affairs (DOS)
AFCS	Annual Facility Condition Survey
AFR	Agency Financial Report
AGA	Association of Government Accountants
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immunodeficiency Syndrome
ANP	Annuitant Pay Processing
APG	Agency Priority Goal
Appendix A	OMB Circular A-123, Appendix A
BI	Business Intelligence
BLiSS	Baghdad Life Support Services and Operations
BP	Bureau of Budget and Planning (DOS)
BSM	Budget System Modernization
CA	Bureau of Consular Affairs (DOS)
CAP	Cross-Agency Priority
CDM	Continuous Diagnostics and Mitigation
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
CGFS	Bureau of the Comptroller and Global Financial Services (DOS)
CGFS/C	Office of Global Compensation (DOS)
CGFS/F	Office of Claims (DOS)
CIF	Capital Investment Fund
CIO	Chief Information Officer
CIO	Contributions to International Organizations
CIPA	Contributions to International Peacekeeping Activities
CMI	Collaborative Management Initiative
CMMI	Capability Maturity Model Integration
CMO	Chief Management Office
COAST	Consolidated Overseas Accountability Support Toolbox
COM	Chief of Mission
COR	Contracting Officer Representative
COTS	Commercial Off-the-Shelf
CP	Contingency Plan
CRMS	Central Resource Management System
CSRS	Civil Service Retirement System
CT	Bureau of Counterterrorism and Countering Violent Extremism
CY	Current Year
DATA Act	Digital Accountability and Transparency Act
D&CP	Diplomatic and Consular Programs (DOS)
DCF	Defined Contributions Fund
Department	U.S. Department of State
DM&R	Deferred Maintenance and Repairs
DMF	Death Master File (SSA)
DNP	Do Not Pay
DoD	U.S. Department of Defense
DOL	U.S. Department of Labor
DOS	U.S. Department of State

DS	Bureau of Diplomatic Security (DOS)
DW	Data Warehouse
E	Under Secretary for Economic Growth, Energy and Environment (DOS)
EAP	Bureau of East Asian and Pacific Affairs (DOS)
ECA	Bureau of Educational and Cultural Affairs (DOS)
ECE	Educational and Cultural Exchange Programs
EPLS	Excluded Parties List System (GSA)
EFT	Electronic Funds Transfer
ERM	Enterprise Risk Management
ERMA	U.S. Emergency Refugee and Migration Assistance
ESCM	Embassy Security, Construction, and Maintenance
ETS	E-Government Travel Services
EUR	Bureau of European and Eurasian Affairs (DOS)
F	Office of U.S. Foreign Assistance Resources (DOS)
FAO	Food and Agriculture Organization (UN)
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees Compensation Act
FEGLIP	Federal Employees Group Life Insurance Program
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FISMA	Federal Information Security Modernization Act of 2014
FMF	Foreign Military Financing
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMIS	Fleet Management Information System
FMLP	Future Minimum Lease Payments
FOIA	Freedom of Information Act
FSI	Foreign Service Institute
FSN	Foreign Service National
FSN DCF	Foreign Service National Defined Contributions Fund
FSO	Foreign Service Officer
FSRDF	Foreign Service Retirement and Disability Fund
FSRDS	Foreign Service Retirement and Disability System
FSPS	Foreign Service Pension System
FWCB	Federal Workers' Compensation Benefits
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GeT	Global eTravel
GFACS	Global Foreign Affairs Compensation System
GFMS	Global Financial Management System
GPRA	Government Performance and Results Act
GSA	U.S. General Services Administration
HHS	U.S. Department of Health and Human Services
HIV	Human Immunodeficiency Virus
HST	Harry S Truman
IAS	International Accounting Standards
IBWC	International Boundary and Water Commission
ICAO	International Civil Aviation Organization (UN)
ICASS	International Cooperative Administrative Support Services (DOS)
ICS	Integrated Country Strategy
IDIQ	Indefinite Delivery Indefinite Quantity
IG	Inspector General
IIP	Bureau of International Information Programs (DOS)
IMET	International Military Education and Training
INCLE	International Narcotics Control and Law Enforcement
INL	Bureau of International Narcotics and Law Enforcement (DOS)
INR	Bureau of Intelligence and Research (DOS)
IO	Bureau of International Organization Affairs (DOS)
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
IPP	Invoice Processing Platform
IRM	Bureau of Information Resource Management (DOS)
ISIS	Islamic State in Iraq and Syria
ISSO	Information Systems Security Officer
IT	Information Technology

IUS	Internal Use Software
J	Under Secretary for Civilian Security, Democracy and Human Rights (DOS)
JSP	Joint Strategic Plan
LACP	League of American Communications Professionals
LE Staff	Locally Employed Staff
LSSS	Local Social Security System
M	Under Secretary for Management (DOS)
MCSC	Management Control Steering Committee (DOS)
MD&A	Management's Discussion and Analysis
MfR	Managing for Results
MRA	Migration and Refugee Assistance
NADR	Nonproliferation, Antiterrorism, Demining, and Related Programs
NATO	North Atlantic Treaty Organization
NEA	Bureau of Near Eastern Affairs (DOS)
NIV	Non-Immigrant Visa
NPT	Treaty on the Non-Proliferation of Nuclear Weapons
OAS	Organization of American States
OBO	Overseas Buildings Operations (DOS)
OCO	Overseas Contingency Operations (DOS)
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control
OI	Other Information
OIG	Office of Inspector General (DOS)
O&M	Operations and Maintenance
OMA	Office of Oversight and Management Analysis (DOS)
OMB	U.S. Office of Management and Budget
OPM	U.S. Office of Personnel Management
OSCE	Organization for Security and Co-operation in Europe
P	Under Secretary for Political Affairs (DOS)
PBO	Projected Benefit Obligation
PKO	Peacekeeping Operations
PMS	Payment Management System
PP&E	Property, Plant, and Equipment
PPA	Prompt Payment Act
PRM	Bureau of Population, Refugees, and Migration (DOS)
PrOPP	Property related Obligation and Payment
PY	Prior Year
R	Under Secretary for Public Diplomacy and Public Affairs (DOS)
R&I	Repair & Improvement
RFMS	Regional Financial Management System
SAAA	Security Assistance Appropriations Act
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SCA	Bureau of South and Central Asian Affairs (DOS)
SID	Software in Development
SDN	Specially Designated Nationals
SFFAS	Statements of Federal Financial Accounting Standards
SoA	Statement of Assurance
SSA	Social Security Administration
T	Under Secretary for Arms Control and International Security Affairs (DOS)
T&A	Time and Attendance
Treasury	U.S. Department of the Treasury
TSP	Thrift Savings Plan
UDO	Undelivered Orders
UK	United Kingdom
ULO	Unliquidated Obligations
UN	United Nations
UNEP	United Nations Environment Programme (UN)
UNESCO	United Nations Educational, Scientific and Cultural Organization (UN)
UNVIE	U.S. Mission to International Organizations in Vienna
USAID	U.S. Agency for International Development
USG	U.S. Government
USSGL	U.S. Standard General Ledger
VAT	Value Added Tax
WebRABIT	Resource and Budget Integration Toolkit
WHA	Bureau of Western Hemisphere Affairs (DOS)
WSP	Worldwide Security Protection

Appendix B: Department of State Locations

Boundaries are not necessarily authoritative

Cities with multiple Department of State facilities

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

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

Geneva:
U.S. Mission Geneva
Consular Agency Geneva

Paris:
Embassy Paris
U.S. Mission to OECD
U.S. Mission to UNESCO

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

Jakarta:
Embassy Jakarta
U.S. Mission to ASEAN

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

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

Portsmouth, NH:
National Passport Center
National Visa Center

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

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

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

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Back Cover: *Images (Left) to (Right)*: (1) New Delhi Chancery, built in the 1950s, was the first major embassy building project approved in the Eisenhower years. The Chancery was designed by master architect Edward Durell Stone, who captured history and fantasy in a memorable symbol of the United States' commitment to India after its independence. The Chancery expresses the characteristic American preference for efficiency and straightforwardness; and (2) The new U.S. Embassy in Oslo, Norway opened on May 15, 2017. It received a Leadership in Energy and Environmental Design Gold Certification for its numerous green elements. The Embassy meets U.S. Government's security, space, and other requirements. *Department of State*

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