



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