



FISCAL YEAR

2015

UNITED STATES DEPARTMENT OF STATE AGENCY FINANCIAL REPORT



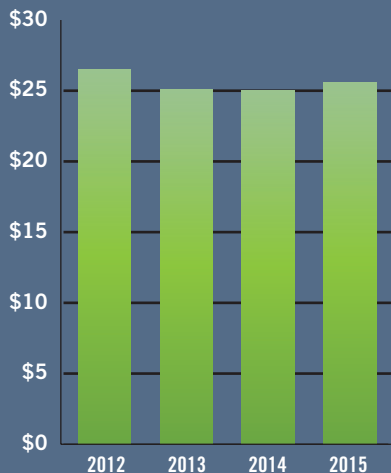
*Advancing America's
Interests Through
Global Leadership
and Diplomacy*



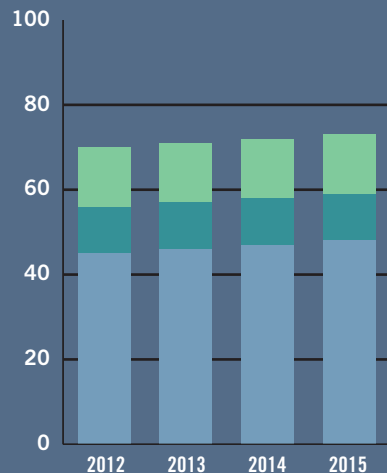
2015* Highlights (dollars in billions)	Percent Change 2015 over 2014	2015	2014	2013	2012
Balance Sheet Totals as of September 30					
Total Assets	4%	\$ 90.6	\$ 86.8	\$ 84.8	\$ 79.6
Total Liabilities	1%	25.4	25.1	26.4	25.4
Total Net Position	6%	65.2	61.7	58.4	54.2
Results of Operations for the Year Ended September 30					
Total Net Cost of Operations	2%	\$ 25.6	\$ 25.0	\$ 25.1	\$ 26.5
Budgetary Resources for the Year Ended September 30					
Total Budgetary Resources	2%	\$ 65.9	\$ 64.5	\$ 60.6	\$ 57.5
Visas Issued at Foreign Posts		10.9 million	9.9 million	9.2 million	8.9 million

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

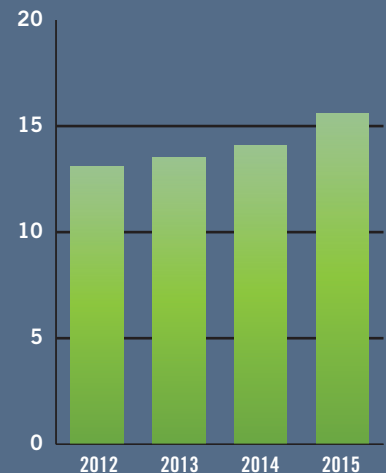
Total Net Cost of Operations
(dollars in billions)



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, Personal Services Agreements, and Personal Services Contractors.

ABOUT THE COVER

The cover is a photo montage that presents the Department's commitment to advancing America's interests through global leadership and diplomacy. The images include (top left) Assistance Secretary of State for African Affairs Linda Thomas-Greenfield observes a voter use the Independent National Electoral Commission card reader to authenticate his identity as he registers to vote in Abuja, Nigeria, March 28, 2015; (top right) Under Secretary of State for Management Patrick Kennedy delivers remarks at the unveiling of the completion of two Containerized Biocontainment System units at Dobbins Air Reserve Base in Marietta, Georgia, August 11, 2015. The units can be transported by airplane and will be instrumental in expanding and expediting medevac capabilities for healthcare workers on the frontlines fighting Ebola; (left) A C-130 aircraft used, in conjunction with USAID and the U.S. Air Force, for humanitarian and relief efforts to areas in need around the world; (middle) U.S. Secretary of State John Kerry delivers remarks at the flag-raising ceremony at the newly re-opened U.S. Embassy in Havana, Cuba, August 14, 2015; and (bottom) U.S. Secretary of State John Kerry gives remarks at the U.S.-China Human Rights Dialogue at the U.S. Department of State in Washington, D.C., August 13, 2015.



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About This Report

The U.S. Department of State's *Agency Financial Report* (AFR) for Fiscal Year (FY) 2015 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/sd/rm/rls/perfrpt/2015/index.htm) and includes sidebars, videos, 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, and
- GPRA Modernization Act of 2010.



The AFR is the first of a series of three annual financial and performance reports the Department will issue. The reporting schedule includes: (1) an *Agency Financial Report* issued in November 2015;

(2) a *Summary of Performance and Financial Information*, produced jointly with the U.S. Agency for International Development (USAID), to be released in February 2016; and (3) an agency *Annual Performance Report* (APR) for FY 2015 issued in early spring 2016. These reports will be available online at <http://www.state.gov/sd/rm/c6113.htm>.

Certificate of Excellence in Accountability Reporting

In May 2015, 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 2014 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 eighth time the Department has won the CEAR award. The Department also received a *Best-in-Class Award* for Best Description of a Management Control Program. In addition, the Department's AFR was awarded the Silver Award by the League of American Communications Professionals for excellence within its industry.



Presented to the

U.S. Department of State

In recognition of your outstanding efforts in preparing the Agency Financial Report for the fiscal year ended September 30, 2014.

A Certificate of Excellence in Accountability Reporting is presented by AGA to federal government agencies whose Agency Financial Reports achieve the highest standards demonstrating accountability and communicating results.

Robert F. Drury
Robert F. Drury, CGFM, CPA
Chief, Certificate of Excellence in Accountability Reporting Board

Ann Roberts, MS, PMP
Ann Roberts, MS, PMP
Chief Executive Officer, AGA



Presented to the

U.S. Department of State

In recognition of Providing the Best Description of a Management Control Program in your FY14 Agency Financial Report

Robert F. Drury
Robert F. Drury, CGFM, CPA
Chief, Certificate of Excellence in Accountability Reporting Board

Ann Roberts, MS, PMP
Ann Roberts, MS, PMP
Chief Executive Officer, AGA

How This Report is Organized

The State Department's Fiscal Year 2015 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2014, and ending on September 30, 2015, 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, John F. Kerry. This introduction is followed by three main sections and various 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, introduces its mission and values, and describes the agency's organizational structure. This section highlights the Department's goals and priorities, and provides an overview of major program areas. The section also highlights the agency's financial results, and provides management's assurances on the Department's internal controls.

SECTION II: FINANCIAL SECTION

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

SECTION III: OTHER INFORMATION

Section III begins with the Combined Schedule of Spending followed by the Inspector General's assessment of the agency's management and performance challenges and a brief summary of the Department's corrective actions. The section also includes a summary of the results of the Department's financial statement audit and management assurances and



U.S. Secretary of State John Kerry delivers remarks at the flag-raising ceremony at the newly re-opened U.S. Embassy in Havana, Cuba. The American flag is raised at the Embassy for the first time in 54 years, August 14, 2015. *Department of State*

describes the Department's financial legal requirements, as well as improper payments efforts, financial management systems, a summary of the Department's heritage assets, and freeze the footprint.

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, a map of the Department of State's locations across the globe, a list of the past and present U.S. Secretaries of State, and websites of interest.



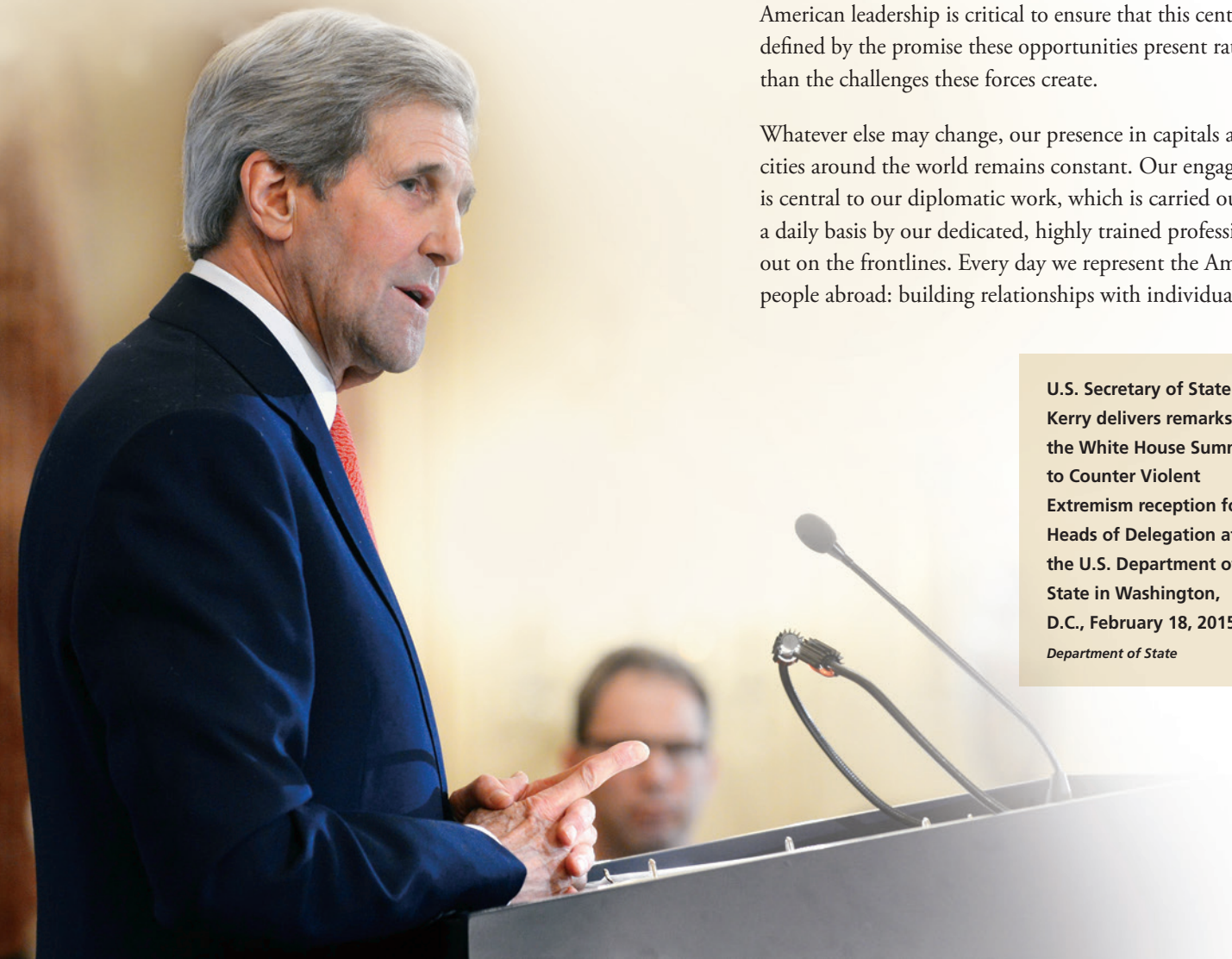
Message from the Secretary

I am pleased to present the U.S. Department of State's Agency Financial Report (AFR) for Fiscal Year (FY) 2015. In an increasingly interconnected world, global leadership is a strategic imperative for the United States of America. American leadership will continue to be a global force for good, reflecting our enduring national interests of security, sustainable prosperity, respect for universal values and human dignity, and a rules-based international order. The financial and performance information in this report reflects our dedication to achieving America's foreign policy goals in a fiscally responsible manner and to carrying out our mission as we advance America's interests and values across the globe.

As President Obama has stated, "Our security, our leadership, depends on all elements of our power – including strong and principled diplomacy." We are dedicated to leading American foreign policy in a rapidly changing world. Today, the pace and scale of transformations has created a more complex international landscape than ever before. Stress on the international system and pressure on sovereign states continues to mount: from resource scarcity, food security, demographic tensions, to the accelerating effects of climate change. The diffusion of power among and beyond nations has further exacerbated the geopolitical environment. The convergence of technologies and the sophistication and volume of information has far-reaching effects from the global economy to governance structures. It is precisely because of this complexity that strong and sustained American leadership is critical to ensure that this century is defined by the promise these opportunities present rather than the challenges these forces create.

Whatever else may change, our presence in capitals and cities around the world remains constant. Our engagement is central to our diplomatic work, which is carried out on a daily basis by our dedicated, highly trained professionals out on the frontlines. Every day we represent the American people abroad: building relationships with individuals,

U.S. Secretary of State John Kerry delivers remarks at the White House Summit to Counter Violent Extremism reception for Heads of Delegation at the U.S. Department of State in Washington, D.C., February 18, 2015.
Department of State



businesses, and organizations; promoting resilient, democratic societies; influencing outcomes; and making the world safer, more prosperous, and free. We do so knowing that we must balance our values and interests with the risks inherent in 21st Century diplomacy. We are committed to continuously improving our capacity to proactively assess and mitigate risk, knowing that our work requires the assumption of risks that can never be completely eliminated.

Throughout FY 2015, we have promoted stability in key countries and regions, confronted security challenges, advanced economic transformations, responded to humanitarian crises, and encouraged better governance, policies, and institutions. This has required us to act on several fronts at once to coordinate and execute effective policies. We continue to lead the global coalition to defeat ISIL in the Middle East and counter Russian aggression against Ukraine. We have mobilized dynamic partnerships to confront new interconnected challenges, from climate change and extreme poverty to the proliferation of weapons of mass destruction and the failure of state institutions. We helped define a new set of UN development goals while working to ensure that the impact of the Ebola outbreak in West Africa does not impede their continued development. We worked with our partners in Central America to strengthen civilian security partnerships and address the root causes of outward migration through a new strategy for regional engagement that will improve security, governance, and prosperity in an integrated manner. We continue to deepen diplomatic relations with Asia, Latin America, and Europe as we set the world's highest standards for labor rights and environmental protection through the Trans-Pacific Partnership and Transatlantic Trade and Investment Partnership.

We also have maximized our efficiency to carry out our mission by improving the way we do business through innovative solutions and building cross-agency partnerships to achieve measureable results. These efforts have been bolstered by the release of the second Quadrennial Diplomacy and Development Review (QDDR). The 2015 QDDR is a blueprint for achieving a more strategic, dynamic, and agile approach to our mission. The QDDR identified four global strategic policy priorities that are, in many cases, interrelated:

preventing conflict and violent extremism, promoting open democratic societies, advancing inclusive economic growth and mitigating climate change. These policy objectives are relevant to our work in nearly all parts of the world and the QDDR provides guidance on how we should focus our efforts. Furthermore, the 2015 QDDR includes recommendations to adapt our organizations to support our policy priorities as well as how we build a skilled, diverse, and agile workforce.

The State Department remains committed to corporate governance. To that end, we continue to work to improve our financial management and internal controls. This AFR is our principal publication and report to the President, Congress, and the American people on our leadership in financial management and on our management and stewardship of the public funds to which we have been entrusted. To ensure this AFR is complete and reliable, we worked with our 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 2015 and includes the results of the independent audit of our FY 2015 Financial Statements.

With the leadership of President Obama and support from Congress, we continue our work to advance the interests and values of the American people. In a complex and dangerous world, we believe that America is safer when the world is safe, more prosperous when the world prospers, and more secure in our dignity and democracy when those values are shared. American leadership is essential now, and will continue to be in the years ahead. Sustaining that leadership will ensure that the United States remains a positive force to advance economic opportunity, security, freedom, and human dignity around the world.



John F. Kerry
Secretary of State
 November 16, 2015



Secretary Kerry meets with Iranian Foreign Minister Zarif one-on-one in the Palais Coburg Blue Salon. The negotiations involved dozens of people, but on occasion, the negotiations came down to two figures: Secretary Kerry and Iranian Foreign Minister Zarif, July 1, 2015. *Department of State*

SECTION I:

Management's Discussion and Analysis

“ America is strongest when our optimism, integrity, ideals, and innovation are a model for the world. History has taught us that we lead most effectively by our example at home, and by our commitment to advancing collective security, shared prosperity, and human dignity through diplomacy and development around the world. ”

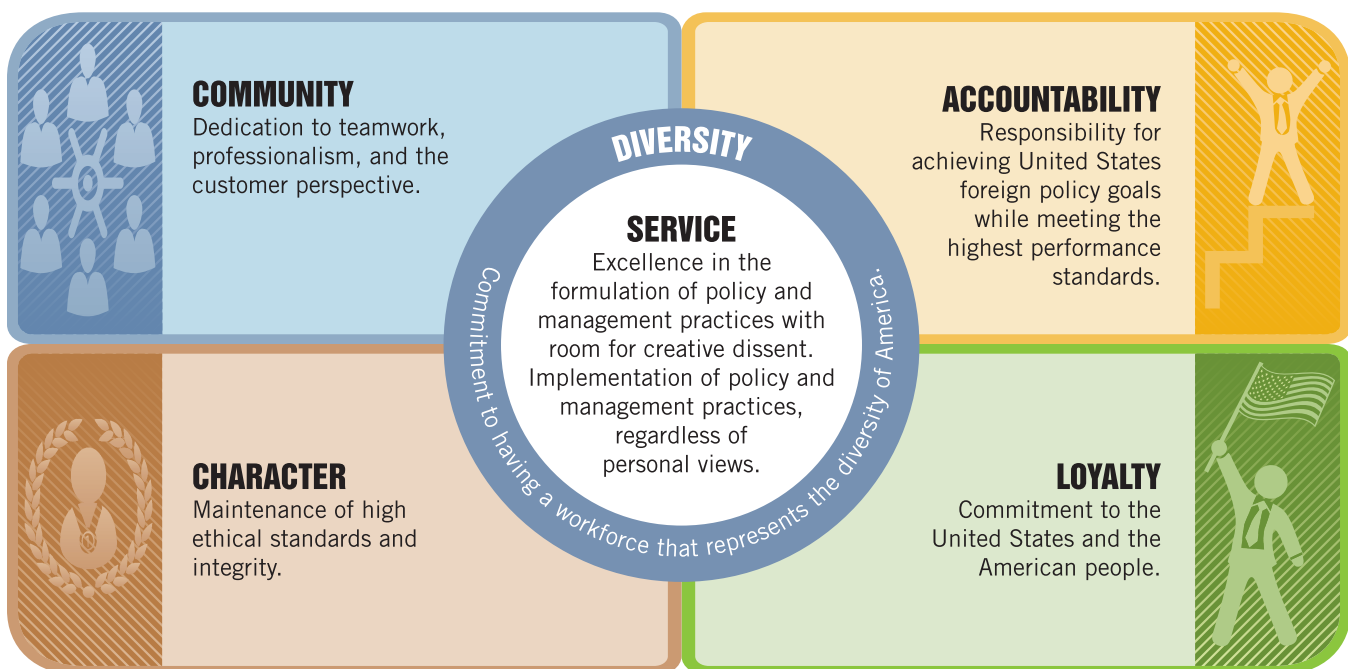
– From the 2015 Quadrennial Diplomacy and Development Review

About the Department

OUR MISSION STATEMENT

The Department's mission is to shape and sustain a peaceful, prosperous, just, and democratic world and foster conditions for stability and progress for the benefit of the American people and people everywhere. This mission is shared with the USAID, ensuring we have a common path forward in partnership as we invest in the shared security and prosperity that will ultimately better prepare us for the challenges of tomorrow.

OUR VALUES



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.

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

Did You Know?

Only serving for eight months, Secretary of State Abel Parker Upshur settled a prolonged border dispute with Great Britain over the Oregon Treaty. The Oregon Treaty was established in 1846. For a complete list of those who have served as U.S. Secretary of State, please refer to Appendix C of this report.



LEARN MORE

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

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



U.S. Ambassador to Liberia Deborah R. Malac joins Rear Admiral Scott F. Giberson and Liberian President Ellen Johnson Sirleaf to mark the inauguration of the Monrovia Medical Unit (MMU), a 25-bed field hospital constructed and located in Margibi County, Liberia. The mission of the MMU is to treat national and international healthcare workers who fall ill with Ebola in their brave service to others, November 5, 2014. *Department of State*



Images (Left) to (Right): (1) Local staff replace a photovoltaic module at the U.S. Embassy in Kigali, Rwanda; (2) Bobbie Griffin of Lockheed Martin, Donna McIntire of State's Bureau of Overseas Buildings Operations, and Ambassador Phyllis Powers break ground for the Energy Savings Performance Contract in Managua; and (3) A photovoltaic system is being installed on the roof of the parking garage at the U.S. Consulate General in Monterrey, Mexico, April 2015. State Magazine

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 2015, the Department was comprised of approximately 73,000 employees.

The U.S. Department of State, with just over one percent of the entire Federal budget, has an outsized impact on Americans' lives at home and abroad. For a relatively small investment, the Department yields a large return in a cost-effective way by advancing U.S. national security, promoting our economic interests, creating jobs, reaching new allies, strengthening old ones, and reaffirming our country's role in the world. The Department's mission impacts American lives in multiple ways.

These impacts include:

1. **We create American jobs.** We directly support 20 million 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.
2. **We support American citizens abroad.** We provided emergency assistance to U.S. citizens in countries experiencing natural disasters or civil unrest. In 2014, the most recent year that figures are available, we assisted in 6,537 international adoptions and worked on more than 1,300 child abduction and access cases – resulting in the return of over 374 American children.



Images (Left) to (Right): (1) Maritime boats in position to assist in transporting another boat for inspection. *U.S. Coast Guard*; (2) U.S. Department of State's Bureau of International Narcotics & Law Enforcement (INL) assists Indonesian officers involved in recovery efforts. *Department of State*; and (3) Assistant Secretary William R. Brownfield visits Royal Bahamas Police Force (RBPF) Marine Support Unit. The INL-funded interceptor boat is the second of four planned vessel procurements to increase the RBPF's operational interdiction capacity as part of Operation Bahamas, Turks and Caicos, June 4, 2015. *Department of State*

FOCUS

Southeast Asia Maritime Law Enforcement Initiative

The waters of Southeast Asia contain some of the world's busiest shipping lanes, and the region plays a crucial role in the movement of U.S. and international goods. Southeast Asian nations confront maritime security challenges such as illicit trafficking of goods, drugs, and persons. The networks and illicit markets supporting traffickers undermine the rule of law and weaken public institutions. They perpetuate corruption and contribute to geopolitical tensions throughout the region.

The Maritime Security Law Enforcement Initiative (MLE) uses a bilateral approach to increase maritime law enforcement capabilities in Indonesia, Malaysia, the Philippines, and Vietnam while working to enhance regional security. MLE facilitates cooperation and interoperability among our partner countries' civilian maritime law enforcement entities to enhance regional responses to criminal activities and threats.

These efforts provide non-lethal equipment and training to identify and address crimes involving the trafficking of persons, weapons, or illicit drugs; detecting and stopping illegal fishing; and combatting wildlife trafficking and environmental crimes. Specific programs are tailored to each country's unique challenges, needs, and existing capabilities.

The Bureau of International Narcotics and Law Enforcement Affairs (INL) is proud to call Indonesia a partner, noting that INL assistance helped build Indonesian capacity to effectively respond to tragedies. The Indonesian joint interagency response team, coordinated by the Indonesian Search and Rescue Agency, includes police divers who were trained under an INL-funded program.

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. Our nonproliferation efforts prevent the spread of weapons of mass destruction – nuclear, biological, chemical, or radiological. The Department has helped over 40 post-conflict countries clear millions of square meters of landmines and unexploded ordnance. Our security assistance programs provide training and equipment to improve the capabilities of partners to meet shared security challenges. We also work with foreign partners to strengthen international aviation and maritime safety and security.
5. **We save lives.** Strong bipartisan support for U.S. global health investments has led to worldwide progress against HIV/AIDS, tuberculosis, malaria, and polio. Better health abroad reduces the risk of instability and enhances our national security.

6. **We help countries feed themselves.** We help other countries plant the right seeds in the right way and get crops to markets to feed more people. Strong agricultural sectors lead to more stable countries.
7. **We help in times of crisis.** From natural disasters to famine to epidemics, our dedicated emergency professionals deliver assistance to those who need it most.
8. **We promote the rule of law and protect human dignity.** We help people in other countries find freedom and shape their own destinies. Reflecting U.S. values, 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 2015, we issued 15.6 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.



For more information, a video on Consular Affairs entitled "Welcoming the World" may be viewed at: <http://video.state.gov/en/video/2761491252001>

The Department's organizational chart appears on page 13. As shown, the Secretary of State (S) is supported by two Deputy Secretaries, 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 Deputy Secretary of State for Management and Resources (D-MR) serves as the Department's Chief Operating Officer.

Did You Know?

Secretary of State John Foster Dulles was the first Secretary to be directly accessible to the media and held the Department's first press conferences. For a complete list of those who have served as U.S. Secretary of State, please refer to Appendix C of this report.



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

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.

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.



For more information, view the video entitled "About the Department" at: <http://video.state.gov/en/video/2761500542001>

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 8,000 passport acceptance facilities worldwide. 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 Appendix D for Department websites of interest.

FOCUS

Increased 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. DS global visa crime investigations and arrests have increased over 36 percent since 2010.



In August 2015, Michael Sestak, the Non-Immigrant Visa Chief assigned to the U.S. Consulate in Ho Chi Minh City, Vietnam, was sentenced to 64 months in prison, three years of supervised release, and ordered to forfeit more than \$6 million in assets. A co-conspirator, Binh Vo, a U.S. citizen who managed a business in Vietnam which conducted business with the U.S. Consulate, was previously sentenced to eight years in prison and ordered to forfeit \$5.1 million in assets. The five-count indictment alleged that Sestak, Vo, and three other defendants conspired to obtain visas to the United States for Vietnamese citizens.

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

UNITED STATES DEPARTMENT OF STATE



Approved March 2014

1. The dotted lines on the Organizational Chart represent the Secretary of State's shared authority with the USAID Administrator and the U.S. Permanent Representative to the U.S. Mission to the United Nations.
2. The Organizational Chart displays two positions as Deputy Secretary of State. The Deputy Secretary of State (D) serves as the principal deputy, adviser, and alter ego to the Secretary of State. The Deputy Secretary of State for Management and Resources (D-MR) serves as the Department's Chief Operating Officer.
3. The Under Secretary for Management (M) serves as Chief Financial Officer of the Department.

Strategic Goals and Government-wide Management Initiatives

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

Strategic planning is a forward-looking management tool to set priorities, focus resources, strengthen operations and ensure all are working toward shared objectives.

The first Quadrennial Diplomacy and Development Review (QDDR) articulated the need to elevate and improve strategic planning, to align budget requests to plans, to create better monitoring and evaluation systems, and to integrate and rationalize these components into a cohesive planning, budgeting, program, and performance management framework. In April 2015, the Department of State and USAID released the second QDDR, which furthered the commitment to strengthen strategic planning and performance management. Building on progress since the 2010 QDDR, the Department will continue to develop the training, technical assistance, and planning and management tools available to our employees. The 2015 QDDR includes recommendations to:

- Strengthen information-sharing and collaboration. Collaboration is essential to the success of strategic planning and programming. At overseas posts the Department will create networks that share information on strategic planning, budgeting, programming, and performance;
- Institute senior-level bureau and mission reviews. Senior Department bureau leaders and chiefs of mission will institute regular reviews to assess progress against strategic objectives, and ensure alignment of policy, planning, resources, and program decision-making;
- Deepen expertise in planning and performance management. Each bureau in the Department will assign at least one full-time, qualified, mid- to senior-level Civil Service employee to bureau planning and performance management, including monitoring and evaluation; and

- Advance adaptive planning and assistance. We will make our strategic planning, program and project design, and monitoring and evaluation processes more adaptive in challenging environments.

The Department's model for strategic planning is integrated with budgeting, monitoring, and evaluation. Strategic planning and resource planning are separate and sequential processes. The Department sets objectives before determining the appropriate funding level, rather than combining strategic and resource planning.



Managing for Results Framework

The *Managing for Results Framework* forms a performance management cycle for programs supporting the current Strategic Plan and influencing future strategic planning efforts and associated budget requests. In short, all of these efforts link strategic, long-term planning with budget planning; institutionalize evidence into planning, program and project design, and budget decision-making; nurture innovative ways to address tight budgets and to prioritize resources; and better inform taxpayers and Congress of our progress in carrying out the Department's mission and goals.

JOINT STATE-USAID STRATEGIC GOALS

In FY 2014, the Department of State and USAID developed the 2014 – 2017 Joint Department of State – USAID Strategic Plan through a consultative process involving the senior leadership of the two agencies. Their deliberations, shaped by Presidential directives and policies, previous strategic planning efforts, and the 2010 Quadrennial Diplomacy and Development Review, produced the strategic goals and strategic objectives for the next four years. Working groups comprised of representatives from both agencies took these goals and objectives and assembled information that describes the programs and activities designed to achieve them.



The Department and USAID have consulted with other Government agencies on the Joint Strategic Plan and also engaged their Congressional oversight committees to explain the goals and objectives of this planning effort. While the Joint Strategic Plan does not capture all the work that the State Department and USAID are doing, it lays out five strategic goals. The Department

of State – USAID Joint Strategic Goal Framework below highlights the Department’s Strategic goals and strategic objectives.



More information on the Joint Strategic Plan can be found at: <http://www.state.gov/documents/organization/223997.pdf>

State-USAID Joint Strategic Goal Framework



Strategic Goal 1: Strengthen America's Economic Reach and Positive Economic Impact

Increasingly, foreign policy is economic policy. To maintain American leadership in an era defined by economic power, we need to shift economics from the periphery to the center of U.S. foreign policy, and keep driving an economic agenda that confronts the major economic challenges of our time. Peace, prosperity, sustainable development, stability, and security are inexorably linked to economic growth and development. Government alone cannot bring about global growth and development; it can only do so with the cooperation of the private sector. Through innovative business models and entrepreneurship, promotion of free markets, human rights, labor rights, rule of law, respect for the environment, and the free exchange of ideas, the Department of State, USAID, and the U.S. private sector directly enhance the ability of our nation to advance security, prosperity, and sustainable economic growth for America and the world.

In a world where 95 percent of consumers live outside the United States, American prosperity depends on strong demand for our goods and services abroad and the free flow of goods and capital. While the private sector does the

trading and investing, the government has an important role in strengthening America's economic reach. State Department and USAID officials work to open foreign markets; advocate on behalf of U.S. firms; foster science, technology, education, and innovation; improve governance, rule of law, and transparency; and advance conditions for private sector-led growth. These actions all promote economic growth and help create jobs in the United States.

In the developing world, inclusive economic growth, in which all members of society share in the benefits of growth, can be transformative by reducing poverty, expanding opportunity, and reducing gender inequality. Development assistance is in our economic interest, in our strategic interest, and is a visible expression of our values. The United States and other countries are helping one billion people out of extreme poverty by 2030 through investments that improve economic opportunity, health, food security, education, stability, and accountable governance. While we cannot stop shocks from happening, we are committed to doing more to help people build the resilience to withstand them. Workforce development programs promote inclusion by providing youth with job-specific skills. Respect for labor rights ensures that workers enjoy a fair share of the benefits of economic growth.

A more innovative world is a more prosperous world and one that can tackle global challenges more effectively. To this end, the United States fosters a positive international environment for creative entrepreneurs. U.S. strength and leadership in technology, research and development, and new methods of doing business are strategic assets that attract international support for U.S. economic policies. The United States champions openness, transparency, non-discrimination, a free and open Internet, broadband access, the protection of intellectual property, and actively assists other countries in these areas. We also promote cross-border scholarly, entrepreneurial, and scientific exchanges and collaboration, including through public-private partnerships.



Under Secretary of State for Economic Growth, Energy, and the Environment Cathi Novelli tests the Saajhi Stepping Pump at the H2info launch exhibit at the U.S. Department of State in Washington, D.C., October 6, 2014. *Department of State*

Strategic Goal 2: Strengthen America's Foreign Policy Impact on our Strategic Challenges

Deploying diplomats and development experts on the frontlines today is cheaper than deploying troops tomorrow. This is why we are acting on several fronts to make investments that strengthen the impact of America's foreign policy on our greatest strategic challenges. We know the difference that the United States can make around the world, and we must continue to deliver diplomatic, security, development, and humanitarian solutions that match the scale of the challenges we face.

The challenges we face are great, many, and span the globe. Whether it be providing care and treatment for HIV/AIDS and malaria in sub-Saharan Africa, strengthening judicial institutions in Latin America, building trust and combating extremism in Afghanistan and Pakistan, or joining with our European partners to deliver humanitarian assistance where disaster strikes, the United States is at work in every region of the world. In all that we do, we are partnering with the United Nations and other international organizations, whose cooperation is critical to our success.

While the men and women of the Department of State and USAID are active worldwide, a few strategic challenges are singled out in this report because they exemplify our commitment to building performance capabilities and to measuring and reporting on our performance. These challenges are: building a new stability in the Middle East and North Africa (MENA); rebalancing to the Asia-Pacific; preventing and responding to crises and conflict, and providing humanitarian assistance to those in need; and combating challenges to global security and health.

Success in building a new stability in the MENA region is essential to U.S. global interests. The region is in the midst of transition and crisis, and poses some of the most immediate challenges for U.S. national security. The United States "rebalance" to the Asia-Pacific reflects a profound recognition that the security and prosperity of our nation will be shaped by developments in that region. Home to two-thirds of the world's people and many of its fastest growing economies, the Asia-Pacific presents both opportunities and challenges for



Deputy Secretary of State Antony "Tony" Blinken participates in the Strategic Track Plenary Session during the U.S.-China Strategic and Economic Dialogue/ Consultation on People-to-People Exchange at the U.S. Department of State in Washington, D.C., June 24, 2015. *Department of State*

U.S. strategic and economic interests. A transatlantic renaissance in relations with European allies and partners is essential to successfully confronting global challenges, as well as shaping and defending international institutions and norms in line with our shared, democratic, free-market values.

In addition, more than 1.5 billion people worldwide live in fragile or conflict-affected states, or in countries trapped in cycles of violence. When states cannot control their territory, protect their people, support sustainable growth, or help those in need, the resulting instability disrupts economic activity and fosters permissive environments for violent extremists and weapons proliferation.

We must meet these and other global security and health challenges that affect international stability and prosperity, and threaten U.S. interests. These challenges include securing the world's most dangerous weapons; investing in rule of law; securing borders and combating transnational organized crime; and countering cyber threats. And we must continue to work with bilateral and multilateral partners to strengthen health systems in developing countries, create an AIDS-free generation, end preventable child and maternal deaths, and reduce the threat of infectious diseases.

Strategic Goal 3: Promote the Transition to a Low-Emission, Climate-Resilient World while Expanding Global Access to Sustainable Energy

Climate change is a real and imminent threat to core U.S. interests and to the global economy. The scientific consensus is that greenhouse gases are causing higher land temperatures, warming oceans, raising average sea levels, and creating more extreme heat waves and storms. These changes are leading to declines in agricultural productivity, exacerbating water scarcity, causing losses of biodiversity, and amplifying humanitarian crises that risk undermining the social, economic, and political stability of our allies and partners. Climate change disproportionately affects the most vulnerable, threatens to reverse hard-won development gains, and works against U.S. interests worldwide – namely peace and stability, poverty alleviation, food security, and economic development. It is in America's vital interest to lead in the global fight against climate change by taking aggressive, smart, and effective action.

Sustainable and secure sources of energy are fundamental to global economic growth, prosperity, and stability. Global energy demand is expected to increase nearly 40 percent by 2030, with more than 90 percent of that increase occurring in developing and emerging market countries. Without effective action, this increasing demand will lead to greater emissions causing further climate change.

Under the President's Climate Action Plan, we are investing at home to cut emissions from power plants, unlocking long-term investment in clean energy innovation, and building resilience to climate change in our communities. Internationally, we are leading efforts to forge a new agreement that applies to all countries starting in 2020. We are encouraging the safe, responsible transition to cleaner fuels such as natural gas, fostering investment, encouraging innovation in renewable technologies, and thereby creating opportunities for U.S. businesses. We are supporting countries in reducing greenhouse gas emissions from their forests and their land. And we are using diplomatic tools and development resources to reduce the likelihood of even more dangerous climate change in the future and to prepare vulnerable nations for climate impacts that will be unavoidable.

For the State Department and USAID, promoting the transition to a low-emission, climate-resilient world while expanding global access to sustainable energy is central to our

mission. We are committed to addressing climate change in a way that permits all countries to prosper. We understand that this requires a fundamental shift in the way the world uses land and produces, consumes, and distributes energy, while maintaining economic growth. We are also working to encourage responsible resource management by promoting global transparency standards to ensure energy producing countries are well-governed.

Energy and climate change shape political, economic, environmental, and security developments within and among countries. The global energy sector is undergoing dramatic change. Technologies such as hydraulic fracturing and horizontal drilling are altering the global energy landscape, with the Western Hemisphere becoming increasingly important as a source of production. Renewable energy costs have plummeted in recent years. Due to burgeoning domestic production of unconventional gas and oil, the United States will become a net exporter of natural gas. Our oil imports are at their lowest level in 20 years. Energy efficiency and conservation programs with strong bipartisan support, such as improvements in vehicle fuel efficiency, continue to reduce our petroleum demand.

Even as the United States reduces its reliance on imported oil and gas and encourages a transition to renewable energy, increased energy demand from emerging markets continues to drive global demand for hydrocarbons. As we seek to transition from traditional energy resources, the world still needs a stable supply of energy, including security to the lines of transportation and a reasonable price for oil and gas. This security underpins stability in the global economy and helps mitigate resource-driven security risks.

Strategic Goal 4: Protect Core U.S. Interests by Advancing Democracy and Human Rights and Strengthening Civil Society

U.S. leadership in advancing democracy and human rights, including labor rights, and strengthening civil society worldwide is a strategic long-term investment in our security, a matter of principle, and a crucial source of our international influence and strength. We commit to these efforts recognizing the likelihood of skepticism, setbacks, and tensions between our long- and short-term objectives, and understanding that progress requires our unwavering dedication to long-term priorities and enduring principles.

The National Security Strategy makes clear that in order to advance our common security, we must address the underlying political and economic deficits that foster instability, enable radicalization and extremism, and ultimately undermine the ability of governments to manage threats within their borders and to be our partners in addressing common challenges. These political and economic deficits often have roots in weak or nonexistent democratic institutions, governmental repression of universal human rights, disengagement of large sectors of the populace including women and youth, and an absence of robust civil society that drives positive change and counterbalances poor policymaking. Our efforts to promote democracy and human rights protect core U.S. interests by combating causes of instability and violent extremism, increasing inclusiveness in the political process, strengthening political and economic partnerships, and ensuring our development assistance contributes to lasting progress. By strengthening civil society, we reinforce a country's ability to examine and identify its own way forward that respects the will of the people and serves their needs.

In addition, U.S. leadership in multilateral fora, most notably the UN Human Rights Council, helps encourage greater attention to human rights crises; action to investigate human rights abuses and abusers; and that human rights defenders receive needed protection and support.

The State Department and USAID communicate our nation's commitment to democratic values and support the democratic aspirations of countries and people around the world. In our daily work, we pursue this National Security Strategy priority in concert with other political and economic imperatives. President Obama pledged at the United Nations: "The United States will at times work with governments that do not meet, at least in our view, the highest international expectations, but who work with us on our core interests. Nevertheless, we will not stop asserting principles that are consistent with our ideals, whether that means opposing the use of violence as a means of suppressing dissent, or supporting the principles embodied in the Universal Declaration of Human Rights."

The United States asserts these principles in frank bilateral dialogue and the provision of technical assistance; by working through regional and multilateral mechanisms and multi-stakeholder initiatives; and by using the leverage of trade agreements and trade preference programs. We condition



Assistant Secretary of State for African Affairs Linda Thomas-Greenfield signs a banner for the Nigerian Women's Platform for Peaceful Elections during her visit to Abuja, Nigeria, March 28, 2015. Department of State

assistance; pursue meaningful sanctions and multilateral interventions; foster people-to-people ties; and partner with businesses and stakeholders to advance responsible business conduct that supports human and labor rights, transparency, and rule of law. We emphasize rule of law; human rights, promoting gender equality, and the increased participation of women in political and public life; the prevention of and response to gender-based violence; freedom from human trafficking; effective democratic institutions; independent media; tolerance; and strong, engaged civil society. By reaching out broadly to underserved audiences, particularly women and youth, we seek to engage many of those people who never make it into the halls of power, yet still press for accountability and progress through public debate and peaceful dissent in the public square, both online and off. Our work on anti-corruption, transparency, accountability, and rule of law strengthens the economic infrastructure vital to fair competition. Activists and organizations in authoritarian countries rely on our support as they work toward peaceful democratic reforms, democratic institutions, respect for minority rights, and dignity for all. In post-conflict states, we stand with those striving for accountability, justice, remediation, and reconciliation. Throughout the world, we work to advance inalienable rights, to share the U.S. democratic experience, and to expand the space for civil society.



U.S. Ambassador to the United Nations Samantha Power listens as Captain Paul Reed, chief medical officer at the Monrovia Medical Unit, explains the operation of the 25-bed field hospital near the Robert International Airport, which will be used for the treatment of health care workers who become infected with the Ebola Virus Disease, in Monrovia, Liberia. Captain Reed further explained that there are separate units for the care of health care workers who are suspected of having Ebola or confirmed to have the disease, October 28, 2014. *Department of State*

Strategic Goal 5: Modernize the Way We do Diplomacy and Development

The Department of State and USAID drive the realization of U.S. foreign policy and assistance objectives through our diplomatic and development activities. In the 21st Century, effective engagement with international partners, stakeholders, customers, and audiences requires fundamental shifts that involve applying new technologies and innovative approaches for strengthening collaboration, coordinated and integrated strategic planning linked to budget priorities, and expanding our internal and external networks. Whether promoting transparency through open and accountable government and open data initiatives, meeting increased customer demand for passports and other consular services, expanding our digital media to reach a rapidly growing audience, or eliminating inefficiencies and reducing costs through business process reform, the Department and USAID are working together to amplify the effectiveness of our diplomatic and development professionals. Modernizing how the Department and USAID operate is key to

bolstering the U.S. Government response to the range and magnitude of foreign policy and development challenges. In accomplishing our mission, we stand committed to becoming more efficient, effective, transparent, and flexible organizations while maintaining accountability to the American people in managing government resources. The Department and USAID will continue efforts to regularly review business practices and processes to identify areas for improvement and innovation.

The Department of State and USAID are pursuing several courses of action to explore balanced, smart, and lean approaches to addressing joint management issues. The Joint Management Board, which was a direct result of Government Accountability Office recommendations, will continue to find ways to drive efficiency into our overseas operations and reduce operating costs. The Department and USAID will continue to adopt balanced, smart, and lean methodologies for continuously improving core business processes. The Department and USAID will also leverage learning from each other to advance efficiency and effectiveness in their contributions to the achievement of Federal Cross-Agency Priority (CAP) Goals.

AGENCY PRIORITY GOALS

A goal is a simple but powerful way to motivate people and communicate priorities. Leaders in states, local governments, Federal programs, and in other countries have demonstrated the power of using specific, challenging goals (combined with frequent measurement, analysis, and follow-up) to improve performance and cut costs. This Administration has embraced the power of goal-setting as a way to improve the Federal Government's performance and accountability to the American people. Federal agencies are using near-term and longer-term goals in a variety of ways to improve their effectiveness and efficiency.

The Federal Government operates more effectively when agency leaders at all levels of the organization set clear measurable goals aligned to achieving better outcomes. It is also vital that they regularly engage their organizations and delivery partners in critical reviews of progress on these goals. This leads to the discovery of what works and what does not.

Federal agency leaders are increasingly using goals and measurement to reinforce priorities, motivate action, and illuminate paths to improvement. Agencies are also using goals in partnership efforts to improve outcomes.

A brief description of the Department's FY 2016-2017 Agency Priority Goals (APGs) follows below. The full APG language, goal leads, collaborating partners, and additional information may be found on www.performance.gov/agency/department-state-and-usaid.

- **Excellence in Consular Service Delivery:** Improve passport and visa application processing. Through September 30, 2017, maintain a 99 percent rate of all passport applications processed within the targeted timeframe and ensure 80 percent of nonimmigrant visa applicants are interviewed within three weeks of the date of application.
- **Climate Change:** Combat global climate change by supporting the transition to high-performing, low-carbon economies. By September 30, 2017, U.S. Government partnerships with developing countries to refine and implement their low emission development strategies (LEDS) and domestic and international contributions to global greenhouse gas reductions will result in achievement of 100 (from a baseline of 45) major country or regional milestones, which contribute to significant, measureable progress toward slowing the growth of greenhouse gas emissions. At least 4,000 developing country government officials and practitioners (from a baseline of 2,000) will strengthen their LEDS capacity through participation in the LEDS Global Partnership, and that capacity will result in 24 strengthened LEDS policies or measures (from a baseline of 0).
- **Outreach to U.S. Business:** Provide U.S. companies with tactical, on-the-ground information critical to market access and decision-making. By September 30, 2017, increase the number of Direct Line calls and webinars by 20 percent and increase the average number of participants on the calls by 20 percent over the FY 2015 baseline to provide U.S. companies with tactical, on-the-ground information critical to market access and decision-making.

CROSS-AGENCY PRIORITY GOALS

Cross-Agency Priority (CAP) goals address longstanding horizontal problems across vertical agency silos. Fifteen CAP goals were announced in the 2015 Budget. These include seven mission-oriented and eight management-focused goals with a four-year time horizon. To establish these goals, OMB solicited nominations from Federal agencies and several congressional committees.

Established by the GPRA Modernization Act of 2010, these CAP goals accelerate progress on a limited number of Presidential priority areas where implementation requires active collaboration between multiple agencies.

To ensure effective leadership and accountability across Federal Government, goals have a named senior leader both within the Executive Office of the President and within key delivery agencies. For example, the National Economic Council, together with the Deputy Secretaries from the Department of Commerce and the U.S. Department of State are leading efforts to encourage foreign direct investment and spur job growth by improving Federal investment tools and resources while increasing interagency coordination. In another example, the Presidential Personnel Office and Office of Personnel Management are teaming up to strengthen our Federal workforce through data-driven efforts to improve employee engagement, hiring reform, and improving our management cadre.

Mission Oriented Cross-Agency Priority Goals

- **Cybersecurity:** Improve cybersecurity performance through ongoing awareness of information security, vulnerabilities, and threats impacting the operating information environment, ensuring that only authorized users have access to resources and information; and the implementation of technologies and processes that reduce the risk of malware.
- **Climate Change:** More than double Federal Government consumption of electricity from renewable sources to 20 percent by 2020 and improve energy efficiency at Federal facilities as part of the wider strategy to reduce the Federal Government's direct greenhouse gas emissions by 40 percent by 2025 (2008 baseline).

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The Department of State and USAID FY 2016 Budget

“ *In the twenty-first century, next door is everywhere. We need to invest in our leadership and by so doing, advance our interests and uphold the values that for more than 200 years have defined our country and that continue today to inspire the world.* ”

— Secretary of State John Kerry

The State Department and USAID budget addresses global challenges by ensuring safety and security for the American people, supporting the global economy and American jobs, and maintaining critical connections to allies through our world-class diplomats. The budget includes assistance that will help counter ISIL, address root causes of migration from Central America, invest in clean energy and sustainable landscapes, and improve food security and economies around the world, as well as strengthen commitments to international organizations and peacekeeping efforts. The budget provides American taxpayers a remarkable return on their investment. The following is a sample of the Department’s priorities that promotes American leadership and national security and development priorities in pursuit of global stability and economic prosperity.



U.S. Secretary of State John Kerry delivers remarks at the Global Counterterrorism Forum Ministerial in New York City on the sidelines of the 70th Regular Session of the UN General Assembly in New York, New York, September 27, 2015. Department of State



An Afghan refugee collects wheat donated by USAID and distributed by the World Food Program in Jalozai refugee camp near Peshawar, Pakistan. The program fed over 100,000 refugees in two weeks. ©AP Image

Peace, Security, and Stability

- Addresses the crisis in Syria, including support for Syria’s neighbors, and confronts and counters ISIL.
- Supports the civilian-led transition in Afghanistan, including support to train, advise, and assist Afghan security forces.

Shared Prosperity in the Global Economy

- Supports international development, including bolstering growth in Africa, global partnerships, and innovation and technology.
- Provides initial funding towards a commitment to the Green Climate Fund, which will help leverage assistance from other donors to combat this global challenge.

Our People and Our Platform

- Supports ongoing operations for essential diplomatic and development personnel and programs around the world to maintain a robust U.S. presence abroad.
- Protects our people and facilities from evolving threats by continuing security protection operations and enhancements, with increased focus on high threat posts, and funds security construction at Accountability Review Board-recommended levels.

- **Insider Threat and Security Clearance Reform:** Mitigate the inherent risks and vulnerabilities posed by personnel with trusted access to government information, facilities, systems, and other personnel.
- **Job-Creating Investment:** Improve Federal investment tools and resources, while also increasing interagency coordination, to encourage foreign direct investment, spurring job growth.
- **Infrastructure Permitting Modernization:** Modernize the Federal permitting and review process for major infrastructure projects to reduce uncertainty for project applicants, reduce the aggregate time it takes to conduct reviews and make permitting decisions by half, and produce measurably better environmental and community outcomes.
- **STEM Education:** Improve Science, Technology, Engineering and Mathematics (STEM) Education by implementing the Federal STEM Education 5-Year Strategic Plan, announced in May 2013.
- **Service Members and Veterans Mental Health:** Improve mental health outcomes for Service Members, Veterans and their Families.

Management Oriented Cross-Agency Priority Goals

- **Customer Service:** Deliver world-class customer services to citizens by making it faster and easier for individuals and businesses to complete transactions and have a positive experience with government.
- **Smarter IT Delivery:** Improve outcomes and customer satisfaction with Federal services through smarter IT delivery and stronger agency accountability for success.
- **Category Management:** Expand the use of high-quality, high-value strategic sourcing solutions in order to improve the government’s buying power and reduce contract duplication.
- **Shared Services:** Strategically expand high-quality, high value shared services to improve performance and efficiency throughout government.
- **Benchmark and Improve Mission-Support Operations:** Improve administrative efficiency and increase the adoption of effective management practices by establishing cost and quality benchmarks of mission-

support operations and giving agency decision-makers better data to compare options, allocate resources, and improve processes.

- **Open Data:** Fuel entrepreneurship and innovation and improve government efficiency and effectiveness by unlocking the value of government data and adopting management approaches that promote interoperability and openness of this data.
- **Lab-to-Market:** Increase the economic impact of Federally-funded research and development by accelerating and improving the transfer of new technologies from the laboratory to the commercial marketplace.
- **People and Culture:** Innovate by unlocking the full potential of the workforce we have today and building the workforce we need for tomorrow.

A hyperlinked table to the Federal CAP goals that the Department contributes to is presented below.

FEDERAL CROSS-AGENCY PRIORITY GOALS	
Priority Goal	performance.gov link
Cybersecurity	http://www.performance.gov/node/3401
Climate Change	http://www.performance.gov/node/3406
Insider Threat and Security Clearance Reform	http://www.performance.gov/node/3407
Job-Creating Investment	http://www.performance.gov/node/3408
Infrastructure Permitting Modernization	http://www.performance.gov/node/3393
STEM Education	http://www.performance.gov/node/3404
Service Members and Veterans Mental Health	http://www.performance.gov/node/3405
Customer Service	http://www.performance.gov/node/3400
Smarter IT Delivery	http://www.performance.gov/node/3403
Category Management	http://www.performance.gov/node/3399
Shared Services	http://www.performance.gov/node/3398
Benchmark and Improve Mission-Support Operations	http://www.performance.gov/node/3397
Open Data	http://www.performance.gov/node/3396
Lab-to-Market	http://www.performance.gov/node/3395
People and Culture	http://www.performance.gov/node/3394

Performance Summary and Highlights

The Department of State plays a unique role as the agency delegated by the President for the conduct of America's foreign affairs, just as the Department of the Treasury leads on economic issues and the Department of Defense guides on defense issues. Because of the increased interconnection between agencies, agencies that lead in some program areas support in others. Although many Federal agencies have international mandates, it is critical that they coordinate with the Department of State to ensure that our relationships are managed effectively and our national objectives are achieved efficiently. As the President's introduction to the National Security Strategy makes clear, the ultimate goal is to "build and integrate the capabilities that can advance our interests."

In an era of tight budgets and constrained resources, investing in civilian power makes sense. In fact, we see investments in civilian power – with its dedication to prevention and avoiding costlier efforts in the future – as a cost-effective necessity in times of fiscal restraint.

In FY 2015, the Department of State continued to increase analytical rigor in strategic planning and performance management by focusing on agency-level, outcome-oriented performance measures that support the strategic goals and agency priority goals. Complete performance information will be featured in the *Annual Performance Report*, scheduled for release in early spring 2016. The following section provides an overview of the seven major program areas. Their relationship to the strategic goals is depicted on page 37.

MAJOR PROGRAM AREAS

Peace and Security

Today, the United States faces diverse and complex security challenges. Hostile nation states, violent extremists, transnational organized crime, unaccountable or abusive governance, weak rule of law, and inter- and intra-state conflict all affect civilian security, international stability and prosperity, and directly threaten U.S. interests and foreign policy objectives. To meet these challenges, we must secure the world's most dangerous weapons and material; prevent the rise of criminal and insurgent groups; mitigate the effects of transnational crime; dismantle terrorist organizations and deny them new recruits; strengthen rule of law globally; counter threats posed in cyberspace; reaffirm and support the balance between individual rights and collective security; and empower women to play an equal role in solving global security problems.

To realize the President's long-term policy to seek the peace and security of a world without nuclear weapons, we must: ensure that weapons-usable nuclear material is

secured worldwide; halt the proliferation of nuclear weapons and their delivery systems; heighten transparency into the capabilities of countries of concern; and develop verification methods and technologies capable of detecting violations of obligations and enforcement methods sufficiently credible to deter such violations.

Democracy, Human Rights and Governance

The United States supports the expansion of democracy abroad because countries with freely elected, accountable governments contribute to a freer, more prosperous, and peaceful world. Democracies are our strongest partners on security, trade, energy, and the environment, in peace and conflict. Our support for democratic ideals supplies a lifeline for 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 benefits all.

FOCUS

Feeding the Accelerator: Building a More Food-Secure Future Through Innovation

The innovation program of the USA Pavilion at Milan EXPO 2015

World fairs have always been about innovation. Milan Expo 2015, with the theme of “Feeding the Future, Energy for Life”, was no exception. As part of U.S. participation in the Expo, the USA Pavilion’s “Feeding the Accelerator” program is explored new possibilities in farming, food distribution, nutrition, community building and knowledge sharing.

Through a competition that began in March, the USA Pavilion selected 10 start-up companies to collaborate with participating partners AtelierSlice and Microsoft, in conjunction with Illy, PepsiCo, FedEx, and Copernico, to find solutions to the challenge of feeding a growing population in a sustainable and healthy way.

The 10 chosen startups interacted virtually with corporate sponsored mentors two months before coming to the Expo in September to pitch their ideas and meet with potential partners and investors. According to USA Pavilion Commissioner General Ambassador Douglas T. Hickey, “The selected teams will play an essential role in uncovering the ideas and people needed to address the global challenge of feeding more than nine billion people by 2050.”

Some of the 10 selected start-ups represent diverse approaches to the challenge of a sustainable future:

- PNAT found new ways of farming through modular floating greenhouses that will allow for intensive cultivation and water purification using solar energy.
- ICE DREAMS established a revolutionary way to produce artisanal Italian gelato that substitutes traditional ingredients such as milk, eggs, and artificial additives, requiring only water.
- FOODTRACE designed new tools for the wholesale marketplace to help farmers and artisans sell their products more efficiently through a cloud-based software platform.
- KALULU developed shorter supply chains that connect farmers directly to local consumers, reducing carbon footprints, and increasing farmer engagement in their community.



The 9,250-square-foot (860-square-meter) Vertical Farm, on the right wall of the U.S. pavillion, which flourishes with 42 different varieties of vegetables, grains, and herbs in automated modules, is pictured at the USA Pavilion at Milan Expo 2015. The crop wall represents a highly integrated approach to agriculture and tells a story of food production for the future, May 1, 2015. *Department of State*

- GNITIA provided a highly accurate location specific weather forecast technology which improves farmers’ everyday decision-making in remote areas of West Africa via SMS.
- MINTSCRAPS built an online platform to help food-centered businesses manage organic waste with analytical data to help save thousands of dollars in monthly food purchasing and waste disposal costs.

In previewing U.S. participation in the Expo a year ago, Secretary Kerry asserted that “Innovation is the lifeblood of the United States. As a global leader in advancing food security, we’re eager to seize the opportunity to get involved in a major way.” “Feeding the Accelerator” is one of many ways we are showcasing innovation at the USA Pavilion in Milan, with the goal of building a more food-secure future.



See more at: <http://blogs.state.gov/stories/2015/07/13/feeding-accelerator-building-more-food-secure-future-through-innovation#sthash.GiP1EQUk>



U.S. Secretary of State John Kerry – flanked by Chief of Staff Jon Finer, Under Secretary of State for Political Affairs Wendy Sherman, U.S. Energy Secretary Dr. Ernest Moniz, National Security Council Senior Director for Iran, Iraq, Syria and the Gulf States Robert Malley, and European Union Deputy Secretary General Helga Schmid listens as Iranian Foreign Minister Javad Zarif makes remarks before resuming negotiations about the future of Iran's nuclear program, in Lausanne, Switzerland, March 19, 2015. *Department of State*

The State Department and USAID therefore work to strengthen democratic institutions and processes including through improved electoral administration, enhanced citizen oversight and civic participation, legislative frameworks that protect fundamental freedoms, and political party-building. 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. Strong, moderate, issues-based democratic parties are particularly integral to ensuring healthy political debate and progress that recognizes the importance of all voices in a society.

However, only a nation itself – its people – can truly bring about sustainable democracy within its borders. Studies show that democratic progress can take decades, and setbacks are common. Consistent U.S. engagement is necessary to contribute to sustainable progress.

Health, Education and Social Services

United States efforts to improve global health advance our broader development goals and national security interests, and are a concrete expression of our humanitarian values. The State

Department and USAID use diplomacy and foreign assistance programs to address U.S. Government goals of creating an AIDS-free generation, ending preventable child and maternal deaths, and reducing the threat of infectious 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. Health is the largest component of U.S. development assistance.

U.S. investments that result in healthier people make for stronger, more prosperous, and more stable countries; they enhance international security and trade; and they ensure a safer, more resilient America. Despite successes in addressing health challenges in recent decades, in some places progress remains far too slow. Much remains to be done to strengthen health systems in developing countries and address HIV/AIDS, tuberculosis, malaria, and maternal and child mortality. Infectious disease outbreaks, whether naturally caused, intentionally produced, or accidentally released, remain among the foremost dangers to human health and the global economy. Many countries have limited capacity to prevent, detect, and rapidly respond to these threats.

Humanitarian, Economic Development and Environment

As one of the world's most competitive and innovative economies, the United States benefits as markets open and trade barriers are lowered. A proven way to open markets and lock in transparent trade and investment rules is through trade negotiations. Doubling down on our already-robust partnership with Europe and linking the eastern and western halves of the Pacific is in our economic and security interest.

Free trade agreements are only part of the story. All around the world, State and USAID work hard to establish clear, 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.

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, helping prepare American undergraduates for global careers, and often lead to longer-term business relationships and economic benefits. The Department encourages their enrollment 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.

International Organizations and Commissions

The United States continued to strengthen its leadership in a host of UN agencies and organizations in support of U.S. national interests and to advance shared objectives. U.S. leadership in these venues is often instrumental in driving important initiatives, highlighting the need for assertive action, and blocking counterproductive initiatives from undemocratic member states. In the absence of active U.S. presence across the international system, including at the United Nations, there is little reason to believe that U.S. national interests would or could be as energetically or successfully protected and promoted.

Only the people of a nation can truly bring about sustainable democracy. U.S. senior officials engage publicly and privately with citizens in countries eager for progress and those burdened by non-democratic forms of governance. The U.S. Government pushes back on attempts to dismantle democratic institutions, and works with like-minded governments such as: the United Nations (UN), particularly the Human Rights Council; the UN General Assembly Third (Social, Humanitarian and Cultural Affairs) Committee; and the UN Special Rapporteurs. The U.S. Government also engages regional mechanisms such as the Organization for Security and Co-operation in Europe and Organization

of American States; and intergovernmental organizations like the Community of Democracies to advance democratic ideals and to deter backsliding by governments.

Diplomatic and Consular Programs

Twenty-first century diplomatic and development challenges demand innovative approaches to create transformational solutions. In an era when information is disseminated instantaneously worldwide, 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. To meet these challenges also requires a flexible, nimble and efficient support platform for our professionals who are representing the United States around the world.

The Department of State and USAID are focusing on improving the security of their respective networks by implementing the U.S. Government's priority cyber security capabilities. Per Homeland Security Presidential Directive 12 (HSPD-12), every U.S. Government department and agency will improve their protection against unauthorized system and facility access through the use of an advanced identity management mechanism. Ensuring that only the right people are allowed on the systems, coupled with an increasingly sophisticated cyber security infrastructure, means that the Department and USAID are able to carry out our mission while maintaining our security. As the number and variety of the Department's activities continue to grow, the Department's ability to keep personnel safe from physical and virtual threats is a top priority. The Department of State and USAID are 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.

Administration of Foreign Affairs

The Department of State and USAID drive the realization of U.S. foreign policy and assistance objectives through our diplomatic and development activities. In the 21st Century, effective engagement with international partners, stakeholders, customers, and audiences requires fundamental shifts that involve applying new technologies and innovative approaches for strengthening collaboration, 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 with the multitude of stakeholders, customers, and audiences is a core competency for our high-performing, motivated professionals. To meet these challenges also requires a flexible, nimble and efficient support platform for our professionals who are representing the United States around the world.

Another focus of the Department's efforts involves transitioning its engagement activities from ones which

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

MAXIMIZING AMERICA'S INVESTMENT THROUGH INNOVATION, EVALUATION, AND BY MEETING MANAGEMENT CHALLENGES

Evidence and Evaluation

The Department continues efforts to strengthen the use of data and evidence to drive better decision making and achieve greater impact. The Department's policy was updated in 2015, to require that all bureaus and independent offices, at a minimum, should undertake at least one evaluation per fiscal year. The policy further specifies that those who receive and directly manage program funds must conduct evaluations of their large programs once in their lifetime. Additionally, pilot programs should be evaluated before replicating.

Over the past year, the Department has provided formal training on managing evaluations to 99 people and has provided formal training in evaluation methods and designs to another 48 people, yielding a growing base of professionals with the tools to commission or conduct evaluations and to use the findings from those evaluations. The Department also began piloting 'hybrid' evaluation teams that build internal skills and maximize resources by pairing bureaus in the conduct of evaluations or by having bureaus contract out independent data collection and conduct the subsequent analysis internally.

For more information on the Department's Evaluation Policy, please visit <http://www.state.gov/s/d/rm/rls/evaluation/2015/236970.htm>.

Overview of Department Progress and Plans

The Department has many success stories this past year on using evidence and evaluation to drive actionable implications on budget, policy, and management. Three of the methods the Department uses to exchange information on evidence and evaluation follow.

Build collection of program monitoring information through the Program and Project Management Community of Practice: The Department's Program and Project Management Community of Practice advances a practical understanding of program and project management at the Department. The community promotes industry standards, including collecting data on performance, facilitating best practices, and sharing templates and techniques to manage a wide variety of projects and programs. It shares best practices with members to advance their knowledge and skills.

Foster knowledge sharing through the Evaluation Community of Practice and special evaluation events: The Department has an Evaluation Community of Practice that meets monthly to discuss policy issues, share best practices and host presentations. The Department also hosts special evaluation events through which the Department's evaluation community shares best practices on how they have used the results of evaluations.



U.S. Secretary of State John Kerry sits with fellow Foreign Ministers and Political Directors from the European Union, P5+1 nations – the United Kingdom, Germany, France, Russia, and China, as well as Iranian Foreign Minister Javad Zarif and his advisers in Lausanne, Switzerland, following negotiations about the future of their country's nuclear program, April 2, 2015. *Department of State*

FOCUS

Nuclear Non-Proliferation Treaty

Amid the drama and promise of the negotiations, it is vital to remember that the basic goal was — and remains — preventing Iran from obtaining a nuclear weapon by bringing Iran back into compliance with its obligations under the Nuclear Non-Proliferation Treaty (NPT).

The NPT is at the heart of the global effort to prevent the spread of nuclear weapons, and it has helped keep the world safe for 45 years. The Treaty is elegant in its simplicity: Under the treaty, parties that do not possess nuclear weapons agree to forego them, parties that possess nuclear weapons agree to work in good faith toward nuclear disarmament, and all parties are able to access peaceful nuclear benefits like nuclear medicine and energy. Nearly every country in the world has joined the NPT. The treaty is the foundation for international efforts to achieve the peace and security of a world without nuclear weapons, a goal repeatedly affirmed by President Barack Obama as part of his ambitious Prague agenda.

The NPT opened the door to reducing the world's stockpiles of nuclear weapons — and reducing the threat of nuclear war. Since the United States signed the NPT in 1968, almost 85 percent of the nuclear arsenal has been cut.

Because of the NPT, peaceful uses of the atom are helping to solve the crises of the day, from climate change to sustainable development.

The United States has been at the forefront of all these efforts.

On September 10, 2015, the U.S. Senate's vote took an important step forward toward the United States and its international partners implementing the agreement reached in Vienna on July 14, 2015, to prevent Iran from obtaining a nuclear weapon.

Equip program managers with more easy to use, accessible tools to simplify management and dissemination of evaluations: The Department seeks to simplify the evaluation process for program managers. It has established a contract vehicle to speed the process of finding independent evaluators and launched a central database to store and share

evaluations. In addition to two evaluation management training courses designed to support program managers and evaluation contract managers, the Department is continuing to introduce educational resources by designing other workshops that go into more depth on specific evaluation approaches. These will be complimented with

on-demand videos that can be used to introduce sub-topics, like Managing for Results. In response to the 2015 QDDR the Department is taking stock of Bureaus and Missions best practices as well as building capacity in performance management to include program evaluation. In conjunction with this, the Department is also assessing the evaluation capacity of each bureau to better prioritize and customize support and technical assistance.

For more information on the summaries of individual evaluations, please visit <http://www.state.gov/fevaluations/all/index.htm>.

From the FY 2014 – FY 2015 Agency Priority Goals, the Department chose Global Climate Change and Consular Services to set targets and measure progress as follows.

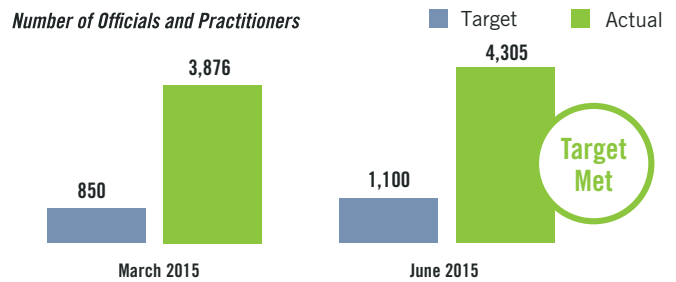
GLOBAL CLIMATE CHANGE

The Department set the following Global Climate Change APG to set targets and measure progress in FY 2014 through FY 2015, and to guide investments.

Goal: Enable economic growth concurrent with significant reductions in national emissions trajectories through 2020 and the longer term by supporting the development and implementation of low emission development strategies (LEDS). By the end of 2015, U.S. bilateral assistance under LEDS will reach at least 25 countries (from the previous baseline of 22 countries) and will result in the achievement of at least 45 major individual country milestones, each reflecting a significant, measureable improvement in that country's development or implementation of LEDS. Also by the end of 2015, at least 1,200 additional developing country government officials and practitioners (from a baseline of 0) will strengthen their LEDS capacity through participation in the LEDS Global Partnership and that capacity will be meaningfully applied to 25 countries (from a baseline of 0).

As reported in FY 2015, the U.S. Government team exceeded its targets for quarter two in FY 2015 and quarter three in FY 2015 for this Agency Priority Goal. The cumulative number of officials and practitioners with strengthened capacity through participation in the Low Emission Development Global Partnership (LEDS GP) was 3,876 in quarter two and 4,305 in quarter three, exceeding the quarterly targets of 850 and 1,100, respectively.

Illustrative Indicator for Global Climate Change APG:



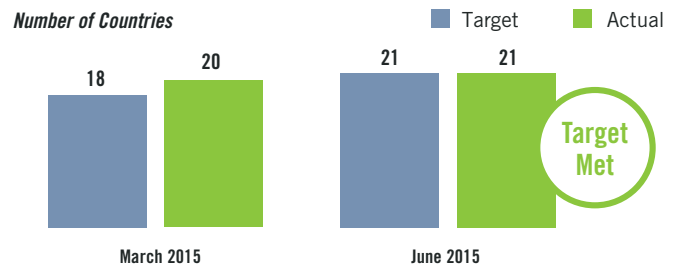
Illustrative Indicator: This indicator represents officials and practitioners for which the U.S. Government has provided one or more person-hours of training or assistance through participation in LEDS Global Partnership activities.

Target Met/Not Met: Target Met.

Data Source: Department of State and USAID, LEDS Partnership Secretariat.

The cumulative number of countries for which we confirmed that capacity strengthened through LEDS GP participation has been meaningfully applied was 20 for quarter two FY 2015 and 21 for quarter three FY 2015, exceeding or meeting the targets of 18 and 21, respectively.

Illustrative Indicator for Global Climate Change APG:



Illustrative Indicator: This indicator represents countries for which U.S. Government support through the LEDS Global Partnership (e.g., trainings, workshops, webinars, technical assistance) has led to one or more strategies, plans, policies, processes, or activities being planned, proposed, strengthened or adopted by a country to support LEDS development and implementation.

Target Met/Not Met: Target Met.

Data Source: Department of State and USAID, LEDS Partnership Secretariat.

The State and USAID climate change teams will continue to use evidence and evaluation to support the implementation strategy for this APG through a series of interagency discussions and regular enhancing capacity LEDS management meetings convened by the USAID Global Climate Change Coordinator and the Deputy Special Envoy for Climate Change.

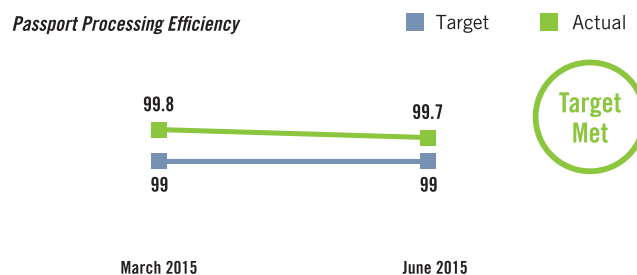
The U.S. Government's work on LEDS has two primary components:

1. Providing targeted technical assistance and capacity building for LEDS. Examples of this assistance include: (1) supporting the development of new strategies and/or enhancing and strengthening existing strategies, (2) working with government and civil society partners to strengthen in-country human and institutional capacity, including through the provision of tools and approaches to assist with LEDS, and (3) supporting the implementation of LEDS. Additional examples of types of technical assistance provided include: greenhouse gas inventory support, emissions and economic modeling and projections, policy analysis, and financing, as well as implementation planning and programs for specific low carbon growth options.
2. Promoting a shared global knowledge base on LEDS through the LEDS Global Partnership. The LEDS Global Partnership – a partnership of more than 100 countries and international programs – enhances coordination, information exchange, and cooperation to advance climate-resilient low emission growth. It does this through three regional platforms for cooperation and more than nine global working groups focused on issues ranging from designing and implementing LEDS, to measuring and assessing the impact of low emissions development pathways, to financing the implementation of low emission development policies and technologies.

Passport Services processed 99.8 percent and 99.7 percent of passport applications within the service level commitment to the American public in quarters two and three, respectively.

During quarter two of FY 2015 and quarter three of FY 2015, the Department continued to meet the goal set out by E.O. 13597 by implementing new efficiencies and process improvements to keep interview wait times for visa appointments to three weeks or less at all posts. As of June 2015, 92.7 percent of visa applicants received an appointment within three weeks of submitting an application.

Illustrative Indicator for Consular Services APG:



Illustrative Indicator: This indicator measures the percentage of passport applications processed within the targeted timeframe, as shown on the Department's website. For this indicator, quarterly data is presented because it is not an annual cumulative measure.

Target Met/Not Met: Target Met.

Data Source: Bureau of Consular Affairs at the Department of State.

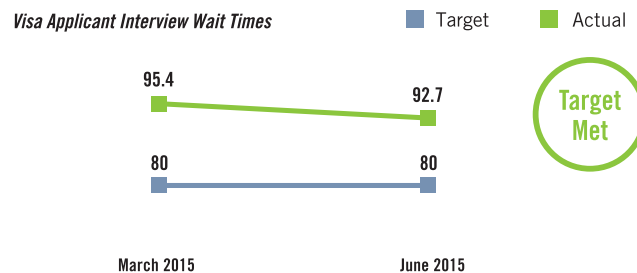
CONSULAR SERVICES

The Department set the following Consular Services APG to set targets and measure progress in FY 2014 through FY 2015, and to guide investments.

Goal. Through September 30, 2015, maintain a 99 percent rate of all passport applications processed within the targeted timeframe and ensure 80 percent of nonimmigrant visa applicants are interviewed within three weeks of the date of application.

During quarter two of FY 2015 and quarter three of FY 2015, the Department continued to exceed its goal of processing 99 percent of passports within the targeted timeframe.

Illustrative Indicator for Consular Services APG:



Illustrative Indicator: This indicator measures the percentage of nonimmigrant visa applicants that are interviewed within three weeks of the receipt of their visa application. For this indicator, quarterly data is presented because it is not an annual cumulative measure.

Target Met/Not Met: Target Met.

Data Source: Bureau of Consular Affairs at the Department of State.

In the face of increasing demand, the Department of State maintains timely and high quality consular service delivery by leveraging technology and building on best practices to ensure that American citizen and visa service delivery to the public is efficient, vigilant, professional, and within the targeted timeframes. The Department continues to exceed its goal of processing 99 percent of passport applications within the targeted timeframe. Passport Services processed 99.9 percent, 99.8 percent, and 99.7 percent of passport applications within the service level commitment to the American public in quarters one, two, and three, respectively.

'Excellence in Consular Service Delivery' provides additional benefits toward the achievement of the Department's goals. The Department's efforts facilitated the travel of 69.8 million visitors to the United States in 2013, who, according to the Department of Commerce, spent \$214 billion in the U.S. International travel supported an estimated 1.1 million jobs in the United States. In addition to the economic benefits, the Department's vigilant adjudication of visa and passport applications contributes to U.S. security by preventing applicants seeking to travel to the United States for illegitimate purposes. ConsularOne is the Department's major information technology initiative to modernize, restructure, and enhance our consular software, as well as improve efficiency, security, and consistency across consular workflows.

ConsularOne comprises a complete consular suite of application services, which will incorporate virtually all the major functions of domestic and overseas consular work into a common, intuitive, and integrated user interface, and improve how information is shared within the Department and across the government. The first phase of ConsularOne will be an online passport renewal, a service, which will enable U.S. citizens to submit passport renewal applications, payments, and photos electronically. Online passport renewal is scheduled to begin deployment in December 2015.

Providing Excellence in Consular Service Delivery provides additional benefits toward the achievement of the Department's goals. The Department's efforts facilitate the travel of 67 million visitors to the United States each year, who, according to the Department of Commerce's 2012 United States Travel and Tourism Statistics, spent \$166 billion, an average of \$2,478 per visitor. An estimated 1.2 million jobs in the United States are supported annually by international travel. In addition to the economic benefits, the visa issuance process is the front-line of ensuring U.S. security through the visa interview process, which can eliminate applicants desiring to travel to the United States for illegitimate purposes.

Management Challenges: Providing an Independent Assessment of the Agency

In the 2015 annual assessment, the Department's Office of Inspector General (OIG) identified the most serious management and performance challenges for the Department. These challenges were identified for the following areas: Protection of People and Facilities; Managing Posts and Programs in Conflict Areas; Management of Contracts and Grants; Information Security and Management; and Financial Management.

The OIG assessment may be found in the Other Information (OI) section of this report (see pages 118-124). 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 brief summary of actions taken and actions remaining may also be found in the OI section.



Images (Left) to (Right): (1) U.S. Secretary of State John Kerry responds to a reporter's question during his joint news conference with Cuban Foreign Minister Bruno Rodríguez at the Hotel Nacional in Havana, Cuba, August 14, 2015; and (2) U.S. Secretary of State John Kerry and Chargé d'Affaires Jeffrey DeLaurentis watch as Marines raise the American flag at the Ambassador's residence in Havana, Cuba, August 14, 2015. Department of State

FOCUS

Re-Establishment of Diplomatic Relations with Cuba

President Obama announced on July 1, 2015, the historic decision to reestablish diplomatic relations between Cuba and the United States of America, effective July 20. The U.S. Department of State also notified Congress of its intent to convert the U.S. Interests Section in Havana, Cuba to the U.S. Embassy Havana, effective on the same date. These are important steps in implementing the new direction in U.S.-Cuba relations announced by President Obama on December 17, 2014.

On July 1, the U.S. and Cuban Interests Sections exchanged presidential letters declaring mutual intent to reestablish diplomatic relations and reopen embassies on July 20, 2015.

The U.S. Embassy will continue to perform the existing functions of the U.S. Interests Section, including consular services, operation of a political and economic section, implementation of a public diplomacy program, and will continue to promote respect for human rights. The U.S. Embassy will allow the United States to more effectively promote our interests and values and increase engagement with the Cuban people.

The U.S. Embassy in Havana will operate like other embassies in restrictive societies around the world, and will operate in sync with our values and the President's policy. Diplomats will be able to meet and exchange opinions with both government and nongovernment entities.

Throughout our diplomatic engagement, the United States will remain focused on empowering the Cuban people and supporting the emergence of a democratic, prosperous, and stable Cuba.

The embargo on Cuba is still in place and legislative action is required to lift it. Additionally, rules for travel to Cuba by U.S. citizens remain in effect. The U.S. Department of the Treasury's Office of Foreign Assets Control will continue to administer the regulations that provide general licenses for the 12 categories of authorized travel to Cuba.

The Administration has no plans to alter current migration policy, including the Cuban Adjustment Act.

Financial Summary and Highlights

The financial summary and highlights that follow provide an overview of the 2015 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, 2015 and 2014, along with the Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statement of Budgetary Resources¹. The Department received an unmodified ("clean") audit opinion on both its 2015 and 2014 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	2015	2014	% Change
Fund Balance with Treasury	\$ 50.0	\$ 47.5	5%
Investments, Net	18.2	17.8	2%
Property and Equipment, Net	20.2	19.0	6%
Cash, Receivables, and Other Assets	2.2	2.5	(12)%
Total Assets	\$ 90.6	\$ 86.8	4%
Accounts Payable	\$ 2.2	\$ 2.4	(8)%
After-Employment Benefit Liability	20.0	19.6	2%
International Organizations Liability	1.6	1.7	(6)%
Other Liabilities	1.6	1.4	14%
Total Liabilities	\$ 25.4	\$ 25.1	1%
Unexpended Appropriations	39.8	38.4	4%
Cumulative Results of Operations	25.4	23.3	9%
Total Net Position	\$ 65.2	\$ 61.7	6%
Total Liabilities and Net Position	\$ 90.6	\$ 86.8	4%
Summary Consolidated Statement of Net Cost Data			
Total Cost and Loss/Gain on Assumption Changes	\$ 33.4	\$ 32.0	4%
Total Revenue	(7.8)	(7.0)	11%
Total Net Cost	\$ 25.6	\$ 25.0	2%
Summary Combined Statement of Budgetary Resources Data			
Unobligated Balance Brought Forward	\$ 21.3	\$ 21.9	(3)%
Appropriations	31.2	30.4	3%
Spending Authority from Offsetting Collections	12.1	11.1	9%
Other Resources (Adjustments)	1.3	1.1	18%
Total Budgetary Resources	\$ 65.9	\$ 64.5	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:

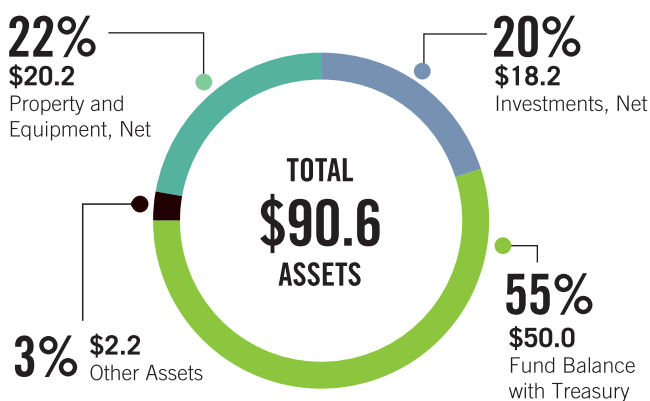
- Balance Sheet: Overview of Financial Position,
- Statement of Net Cost: Yearly Results of Operations,
- Statement of Changes in Net Position: Cumulative Overview,
- Combined Statement of Budgetary Resources: Advancing America's Interests Through Global Leadership and Diplomacy,
- The Department's Budgetary Position,
- Financial 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 \$90.6 billion at September 30, 2015, an increase of \$3.8 billion (4 percent) over the 2014 total. Other assets decreased \$371 million as a result of a decrease in reimbursable agreements with the Department of Defense, USAID, Department of Energy, and U.S. Army Corps of Engineers. Cash and other monetary assets increased by \$8 million. This was a result of contributions exceeding payments out to Foreign Service National retirees. Investments consist almost entirely of U.S. Government securities held in the Foreign Service

ASSETS BY TYPE 2015 (dollars in billions)



Retirement and Disability Fund (FSRDF); Government agencies are, for the most part, precluded from making any other type of investment. Investments were up \$357 million because contributions and appropriations received to support the FSRDF were greater than benefit payments; the excess is required to be invested for future benefit payments. Receivables increased \$28 million due to outstanding receivables in the Diplomatic and Consular Programs and Overseas Buildings Operations Funds.

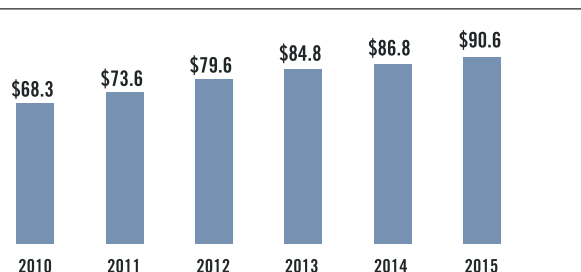
Real Property Projects – 2015 Cost Activity (dollars in millions)

Project Name	Amount
London, United Kingdom	\$ 159
Kabul, Afghanistan (New Annex Facility and Housing)	142
Islamabad, Pakistan	95
Oslo, Norway	82
Kabul, Afghanistan (Security)	65
Jerusalem, Israel	61
Paramaribo, Suriname	61
Nouakchott, Mauritania	60
Jeddah, Saudi Arabia	56
The Hague, Netherlands	56
TOTAL	\$ 837

Property and equipment increased by \$1.3 billion due to capital improvements to diplomatic facilities and the construction of new overseas embassy compounds. The table above shows the real property projects with the largest activity in 2015. They account for \$837 million of this increase. In addition, land increased by \$56 million primarily due to an acquisition in Jerusalem, Israel for \$51 million.

Fund Balance with Treasury, Investments, and Property and Equipment comprise 97 percent of total assets for 2015 and 2014. The six-year trend in the Department's total assets is presented in the figure below.

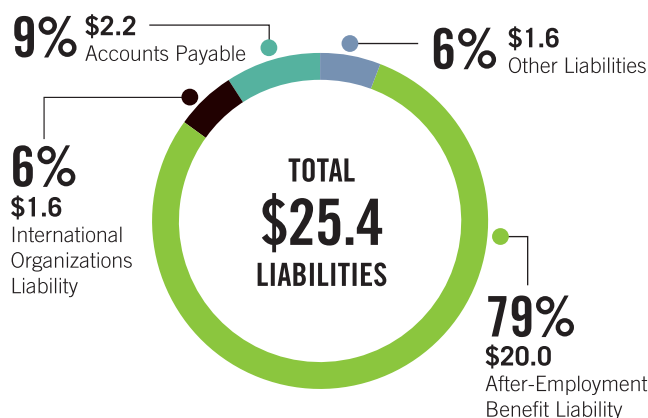
TREND IN TOTAL ASSETS (2010 – 2015) (dollars in billions)



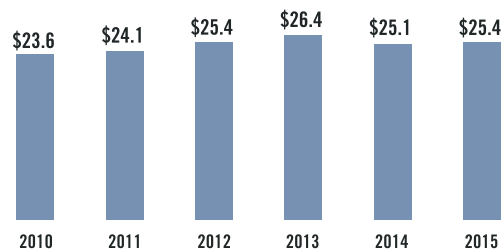
Many Heritage Assets, including art, historic American furnishings, rare books and cultural objects, are not reflected in assets on the Department's Balance Sheet. Federal accounting standards attempt to match costs to accomplishments in operating performance, and have deemed that the allocation of historical 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. The standards require only the maintenance cost of these heritage assets be expensed, 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 \$25.4 billion at September 30, 2015, up \$338 million (1 percent) between 2014 and 2015. The liability for future benefit payments to retired Foreign Service officers included in the After-Employment Benefit Liability comprises 79 percent of total liabilities. The After-Employment Benefit Liability increased \$441 million (2 percent) mainly as a result of an increase in FSRDF normal cost offset by payments to beneficiaries and the \$139 million increase due to the annual updating of economic assumptions pursuant to SFFAS No. 33. Also included in this total are other after-employment benefits for Foreign Service Nationals. Other Liabilities increased by \$185 million (14 percent).

LIABILITIES BY TYPE 2015 (dollars in billions)



TREND IN TOTAL LIABILITIES (2010 – 2015)
(dollars in billions)



Ending Net Position. The Department's net position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, increased \$3.5 billion (6 percent) between 2014 and 2015. Unexpended Appropriations were up \$1.4 billion, appropriations received in 2015 increased by \$254 million. Cumulative Results of Operations were up \$2.1 billion due in part to the budgetary financing sources used to purchase property and equipment.

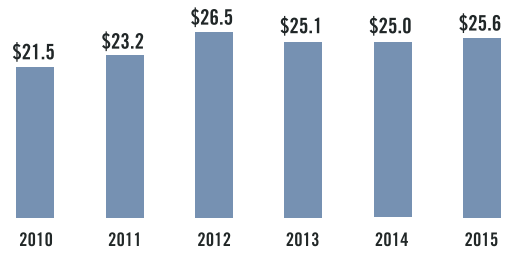
**STATEMENT OF NET COST:
YEARLY RESULTS OF OPERATIONS**

Commencing in 2014, 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, the GPRA Modernization Act of 2010, and the Department's Quadrennial Diplomacy and Development Review. As discussed in the Strategic Goals and Government-wide Management Initiatives section, the Department established new strategic goals and strategic priorities for 2014. The total net cost of operations in 2015 equaled \$25.6 billion, an increase of \$633 million (2 percent) from 2014. This increase of net costs was mainly due to increases in the FSRDF actuarial liability due to pension assumption changes and increases in spending for humanitarian efforts and security.

The figure below shows the relationship between the Department's strategic goals described in the Strategic Plan and the major programs used to present the Statement of Net Cost and related disclosures.

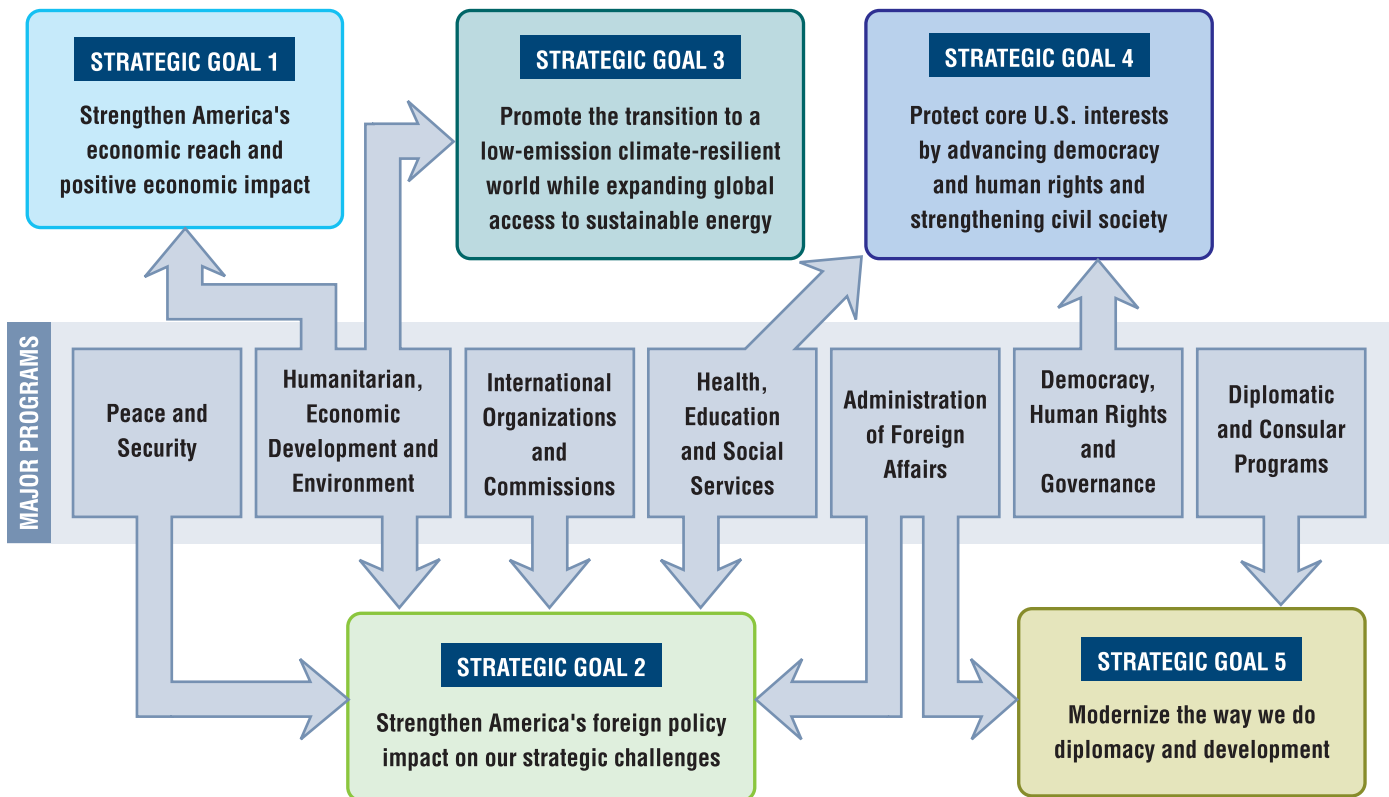
The six-year trend in the Department's net cost of operations from 2010 through 2015 is presented in the figure to the right. The \$4.1 billion (19 percent) overall increase since 2010 generally reflects costs associated with new program areas related to countering security threats and sustaining stable states, as well as the higher cost of day-to-day operations.

TREND IN NET COST OF OPERATIONS (2010 – 2015)
(dollars in billions)

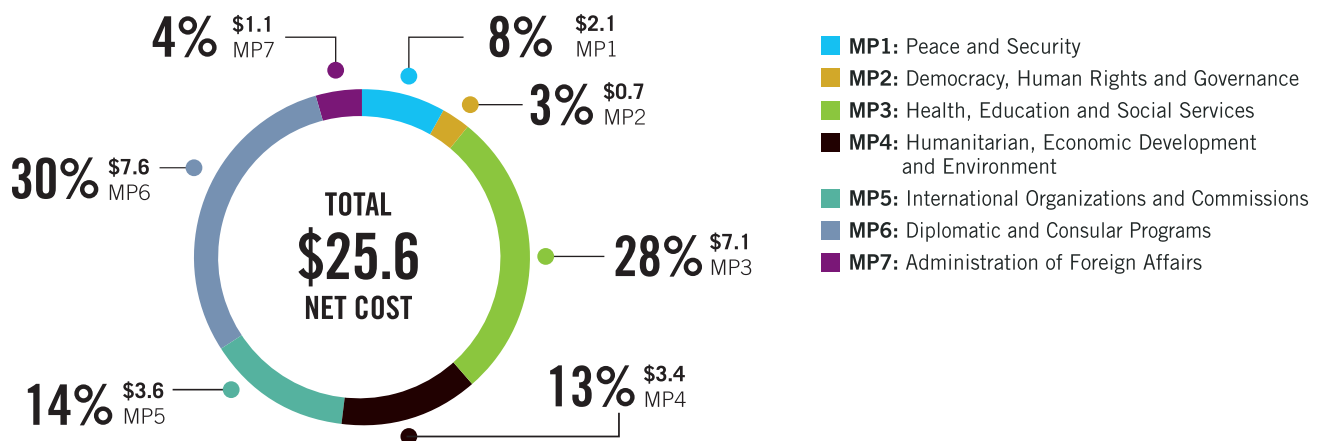


The figure on the next page illustrates the comparative results of operations by major program, as reported on the Statement of Net Cost. As shown, net costs associated with major programs three (Health, Education and Social Services) and six (Diplomatic and Consular Programs) represents the largest net costs in 2015 – a combined \$14.7 billion (58 percent). These net costs are down from 2014 amounts for these two programs – \$16.6 billion (66 percent).

RELATIONSHIP BETWEEN STRATEGIC GOALS AND MAJOR PROGRAMS



NET COST OF OPERATIONS BY MAJOR PROGRAM 2015
(dollars in billions)

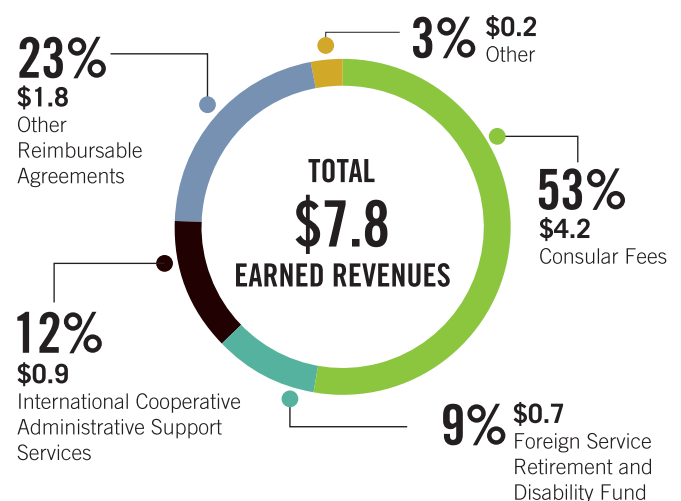


Earned Revenues

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

Earned revenues totaled \$7.8 billion for the fiscal year ending September 30, 2015, and are depicted, by program source, in the figure to the right. The major sources of revenue were from consular fees (\$4.2 billion or 53 percent), reimbursable agreements (\$1.8 billion or 23 percent) and ICASS earnings (\$0.9 billion or 12 percent). These revenue sources totaled \$6.9 billion (88 percent). Overall, revenue increased by 11 percent – \$743 million from 2014 to 2015. This increase is primarily a result of an increase in fees from machine readable visas and other consular fees.

EARNED REVENUES BY PROGRAM 2015 *(dollars in billions)*



STATEMENT OF CHANGES IN NET POSITION: CUMULATIVE OVERVIEW

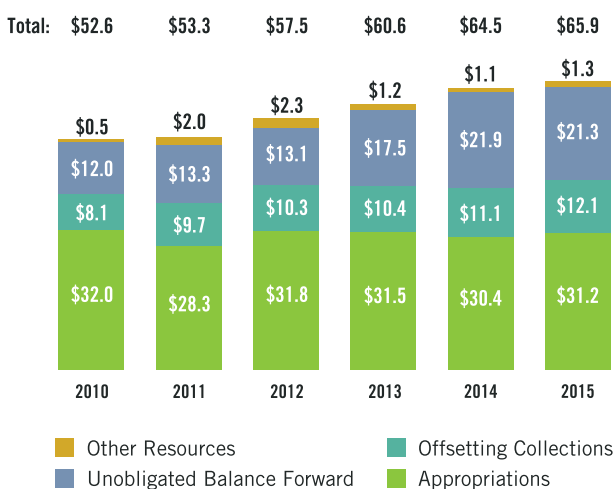
The Statement of Changes in Net Position identifies all financing sources available to, or used by, the Department to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals the Net Position at year-end. The Department's net position at the end of 2015 was \$65.2 billion, a \$3.5 billion (6 percent) increase from the prior fiscal year. This change primarily resulted from the \$1.4 billion increase in Unexpended Appropriations and a \$2.1 billion increase in Cumulative Results of Operations.

COMBINED STATEMENT OF BUDGETARY RESOURCES: ADVANCING AMERICA'S INTERESTS THROUGH GLOBAL LEADERSHIP AND DIPLOMACY

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 figure below highlights the budgetary trend over the fiscal years 2010 through 2015. A comparison of the two most recent years shows a \$1.4 billion (2 percent) increase in total resources since 2014. This change resulted mainly from increases in appropriations (\$0.8 billion), offsetting collections (\$1.0 billion) and other resources (\$0.2 billion), net of a decrease in unobligated balances (\$0.6 billion).

TREND IN TOTAL BUDGETARY RESOURCES (2010 – 2015)
(dollars in billions)



THE DEPARTMENT'S BUDGETARY POSITION

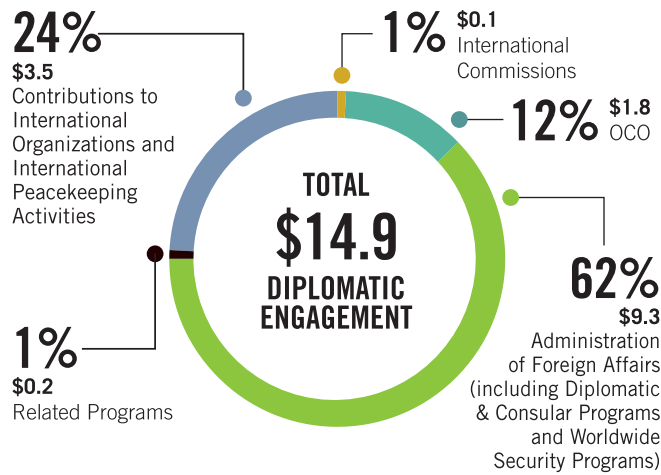
The FY 2015 budget for the Department was funded by the FY 2015 Omnibus Appropriation (Public Law 113-235). The Department's budget is separated into two components: Enduring and Overseas Contingency Operations (OCO), which addresses the extraordinary and temporary costs associated with operations in Iraq, Afghanistan, Pakistan, and Areas of Unrest. 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.

Budgetary Position for Diplomatic Engagement

The FY 2015 Diplomatic Engagement budget totaled \$14.9 billion. This includes \$9.3 billion for Administration of Foreign Affairs, which constitutes the Department's operational funding. This funding supports the people and programs which carry out U.S. foreign policy and advance U.S. national security, political, and economic interests at more than 270 posts in over 180 countries around the world. These funds also build, maintain, and secure the infrastructure of the U.S. diplomatic platform, from which most U.S. Government agencies operate overseas. Appropriations within the Administration of Foreign Affairs category enduring operations include Diplomatic and Consular Programs (D&CP), the Capital Investment Fund, and Embassy Security, Construction, and Maintenance (ESCM) and Other Administration of Foreign Affairs appropriations. The remainder of the Diplomatic Engagement enduring operations budget is comprised of Contributions to International Organizations and International Peacekeeping Activities (\$3.5 billion), Related Programs (\$169.2 million), and International Commissions (\$123 million) appropriations.

Diplomatic Engagement also included \$1.8 billion in OCO funding for D&CP, ESCM, Conflict Stabilization Operations (CSO), the Office of Inspector General (OIG), and International Organizations. OCO funding supports a range of temporary and/or extraordinary activities in areas of conflict and unrest. Separating OCO from enduring expenses makes the Department's budget more transparent, identifying extraordinary requirements that are intended to sunset over

DIPLOMATIC ENGAGEMENT BUDGET FY 2015
(dollars in billions)



time, while at the same time providing greater predictability by preventing base programs from being eroded in response to emergent crises.

In addition to appropriated funds, the Department earns 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 Program. The Border Security Program provides protection to U.S. citizens overseas and contributes to national security and economic growth. It is a core element of the national effort to deny individuals who threaten the country entry into the United States while assisting and facilitating the entry of legitimate travelers, and promoting tourism.

For FY 2015, D&CP, the Department's principal operating appropriation, was funded at \$7.8 billion for both enduring and OCO. Major elements of this funding included \$820.5 million to support operations of the U.S. Mission in Iraq; \$708.4 million for activities in Afghanistan; \$101.4 million for key programs and activities in Pakistan; \$3.1 billion for 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; and \$501.3 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 2015 investments in IT was \$292.1 million. This included \$63.2 million from the Capital Investment Fund appropriation and \$228.9 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 and information and projects to facilitate collaboration and data sharing internally and with other agencies.

The ESCM appropriation was funded at \$2.3 billion to provide U.S. missions overseas with secure, safe, and functional facilities. This supported maintenance and repairs of the Department's real estate portfolio, which exceeds \$80 billion in replacement value and includes over 23,000 properties. It included \$124 million to support compound security projects and \$1.1 billion to support the Capital Security Construction program, which was expanded in FY 2012 to include the maintenance cost sharing program. Other agencies with overseas staff under Chief of Mission authority also contributed \$999.3 million to capital security cost-sharing reimbursements for the construction of new diplomatic facilities.

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at \$589.9 million. A key element of the Department's public diplomacy strategy are the educational and cultural exchange programs that engage foreign audiences to develop mutual understanding and build foundations for international cooperation. Major highlights of FY 2015 funding included: \$331.6 million for academic programs, such as the J. William Fulbright Scholarship Program and English language teaching, including \$20 million in new initiatives aimed at young leaders in Africa and Southeast Asia; and \$195.2 million for professional and cultural exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program. This appropriation also funds over 400 employees of the Bureau of Educational and Cultural Affairs.

Looking ahead, the Department's FY 2016 budget request supports comprehensive U.S. engagement and implements the vision of U.S. global leadership articulated in the National Security Strategy. The FY 2016 Diplomatic Engagement enduring and OCO budget request totals \$16.6 billion. The enduring portion represents the Department's ongoing

investment necessary to advance the U.S.'s security and economic interests around the world. It includes increases for D&CP's WSP program to meet new challenges in preventing terrorist attacks at our posts, and for ECE to strengthen the exchanges component of public diplomacy. The \$1.9 billion OCO request includes \$1.6 billion for diplomatic and security operations, \$150 million for a proposed Peace Operations Response Mechanism (PORM), and \$56.9 million for Special Inspector General for Afghanistan Reconstruction. The majority of the OCO request continues to support the unique operating environment in Iraq, and the transition to a Kabul-centric presence in Afghanistan. The PORM request would enable the United States to meet unanticipated funding commitments to UN peacekeeping mission that are established or expanded subsequent to the release of the President's Budget.

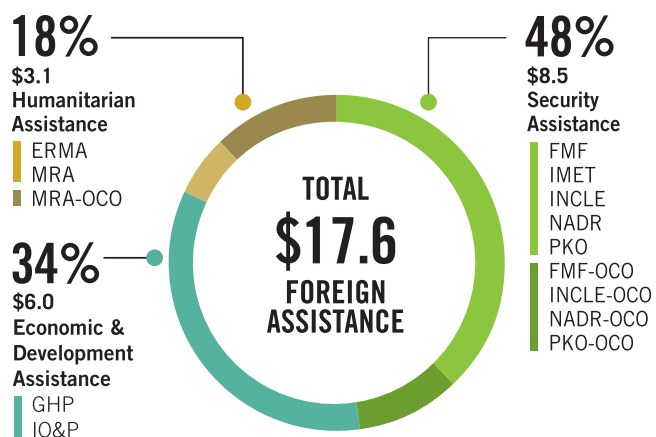
To maximize our efficiency, the Department continues to focus on improving the way it does business and concentrates on innovative solutions and building cross-agency partnerships to achieve measurable results. In sum, the FY 2016 request will continue our diplomatic operations, programs, and initiatives that constitute an integrated strategy for renewing the U.S.'s global leadership and advancing vital U.S. national interests. With these resources, the United States can, must, and will continue to lead in the 21st Century.

Budgetary Position for Foreign Assistance

The FY 2015 Department of State Foreign Assistance budget totaled \$17.6 billion. Foreign Assistance programs enable the U.S. Government to promote stability in key countries and regions, advance economic transformations, confront security challenges, respond to humanitarian crises, and encourage better governance, policies, and institutions.

Foreign Assistance programs under the purview of the Department of State are the Democracy Fund; Foreign Military Financing; Global Health Programs; the Global Security Contingency Fund; International Military Education and Training; International Narcotics Control and Law Enforcement; International Organizations and Programs; Migration and Refugee Assistance; U.S. Emergency Refugee and Migration Assistance; Nonproliferation, Antiterrorism, Demining, and Related Programs; and Peacekeeping

FOREIGN ASSISTANCE BUDGET FY 2015 (dollars in billions)



Operations. The Department also implements funds from the Economic Support Fund account.

An important aspect of the Department's FY 2015 budget is the Overseas Contingency Operations (OCO) component. OCO funds the extraordinary, but temporary, costs of the Department and USAID operations in Iraq, Afghanistan, and Pakistan, as well as other extraordinary contingency costs in places like Yemen, Syria, and Central African Republic. The Department's Foreign Assistance portion of the FY 2015 budget for OCO totaled \$3.9 billion in Foreign Military Financing (FMF), International Narcotics Control and Law Enforcement (INCLE), Migration and Refugee Assistance (MRA), Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR), and Peacekeeping Operations (PKO).

The Democracy Fund appropriation totaled \$130.5 million in FY 2015; the funds were split, however, between the Department and USAID. The Department was allocated \$75.5 million to promote democracy in priority countries where egregious human rights violations occur, democracy and human rights advocates are under pressure, governments are not democratic or are in transition, where there is growing demand for human rights and democracy, and for programs promoting Internet Freedom.

The FY 2015 FMF appropriation totaled \$5.9 billion, of which \$0.9 billion is designated as OCO-related and \$5 billion supports core programs. FMF furthers U.S.



Deputy Secretary of State Antony "Tony" Blinken speaks with United Nations Special Envoy on Global Education Gordon Brown prior to delivering remarks at the Global Business Coalition for Education Breakfast on the sidelines of the 70th Regular Session of the UN General Assembly in New York, New York, September 29, 2015. *Department of State*

interests around the world by training and equipping coalition partners and friendly foreign governments that are working to achieve common security goals and shared burdens in joint missions. While the greatest proportion of FMF in FY 2015 was allocated to Israel, Egypt, Iraq, Jordan, and Pakistan, the remaining funds were allocated strategically within regions to support ongoing efforts to incorporate the most recent North Atlantic Treaty Organization (NATO) members into the organization, support prospective NATO members and Coalition partners, and assist critical Coalition partners in Afghanistan.

In FY 2015, 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 (PEPFAR), the largest effort made by any nation to combat a single disease. These funds are used to achieve prevention, care, and treatment goals while also strengthening health systems, including new health care worker goals, and emphasizing

country ownership to build a long-term sustainable response to the epidemic. The majority of the funds (\$3.6 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.

For FY 2015, the Department did not receive a direct appropriation for the Global Security Contingency Fund appropriation, nor has it transferred funds into the account yet. The account is used to support the Department's initiative which streamlines the way the U.S. Government provides assistance to military forces and other security forces responsible for conducting border and maritime security, internal security, and counterterrorism operations, as well as the government agencies responsible for such forces in response to emergent challenges or opportunities. As decisions are made to fund particular programs, the Departments of State and Defense will transfer funds to the account for implementation.

The FY 2015 International Military Education and Training (IMET) appropriation totaled \$106.1 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 2015 totaled \$1.3 billion, of which \$443.2 million is OCO-related and \$853.1 million is for core programs. INCLE supports bilateral and global programs critical to combating transnational crime and illicit threats, including efforts against terrorist networks in the illegal drug trade and illicit enterprises. INCLE programs strengthen law enforcement jurisdictions and institutions. In FY 2015, many INCLE resources were focused where security situations were most dire and where U.S. resources were used in tandem with host-country government strategies to maximize impact. INCLE resources were also targeted to countries having specific challenges in establishing a secure and stable environment.

The FY 2015 International Organizations and Programs appropriation totaled \$344.2 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 2015, the MRA appropriation totaled \$3.1 billion, of which \$2.1 billion was OCO and \$931.1 million was for core programs. These funds provided humanitarian assistance and resettlement opportunities for refugees and conflict victims around the globe. In FY 2015, MRA contributed to key international humanitarian organizations and non-governmental organizations to address international humanitarian needs and refugee resettlement in the United States. A significant amount of funding was provided for assistance to Syrian refugees throughout the Middle East and North Africa.

The FY 2015 U.S. Emergency Refugee and Migration Assistance (ERMA) appropriation totaled \$50 million. ERMA serves as a contingency fund from which the President can draw in order to respond effectively to humanitarian crises in an ever-changing international environment.

The NADR appropriation in FY 2015 totaled \$685.5 million, of which \$99.2 million is OCO-related and \$586.3 million supported core programs. NADR funding is used to support U.S. strategic and humanitarian priority efforts, 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 \$473.7 million, of which \$328.7 million was OCO and \$145 million supported core programs. PKO is used to enhance international support for voluntary multinational stabilization efforts, including

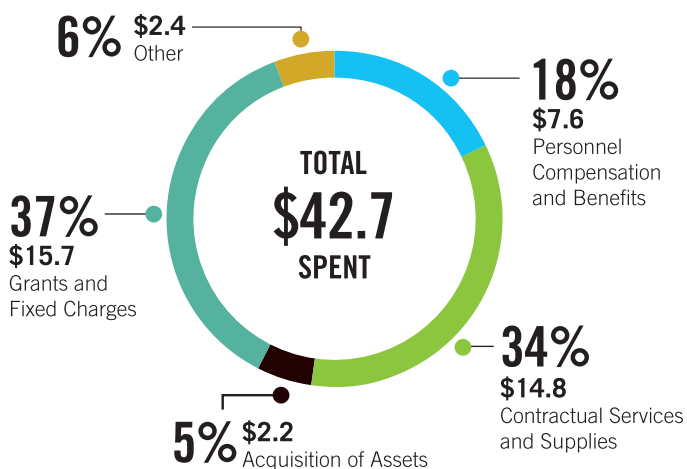
international missions not supported by the United Nations, and U.S. conflict-resolution activities. In FY 2015, the PKO program supported ongoing requirements for the Global Peace Operations Initiative, security sector reform in the newly independent Republic of South Sudan, as well as multinational peacekeeping and regional stability operations, particularly in Somalia and Mali.

The Department of State's FY 2016 budget request for Foreign Assistance is currently under congressional consideration. The request is for \$16.8 billion, of which \$14.7 billion supports core programs and another \$2.1 billion is for OCO funding.

Budgetary Spending

The figure below presents the use of budgetary funds representing 2015 total obligations incurred, as reflected on the SBR. It shows how resources were spent in 2015, by category. As illustrated, the categories contractual services \$14.8 billion (34 percent), grants and fixed charges \$15.7 billion (37 percent), and personnel compensation and benefits \$7.6 billion (18 percent) represent 89 percent of the agency's spending.

HOW WAS THE AGENCY'S MONEY SPENT 2015
(dollars in billions)

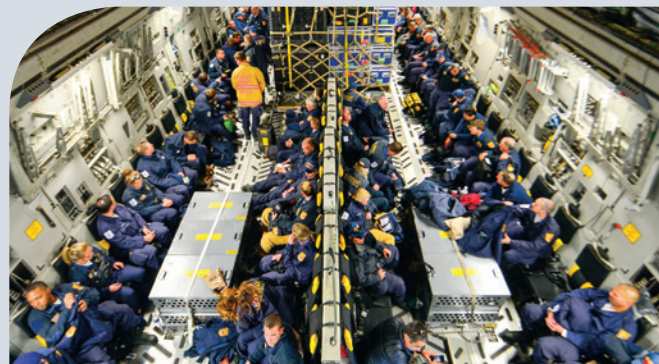


FOCUS

Some Facts You Should Know About ForeignAssistance.gov

- **History** – The first U.S. aid program took shape after World War II when the American Government provided significant aid to Europe to assist the continent in rebuilding its infrastructure, strengthening its economy, and stabilizing the region.
- **Value** – The Foreign Affairs budget, which includes Foreign Assistance, is one percent of overall Federal spending, but provides support in over 100 countries to further America's foreign policy interests on issues ranging from expanding free markets, combating extremism, ensuring stable democracies, and addressing the root causes of poverty.
- **Agencies** – Some of the largest ten contributing agencies to the foreign assistance portfolio are the U.S. Department of State, the U.S. Agency for International Development, and the Millennium Challenge Corporation.
- **Transparency** – *ForeignAssistance.gov* is the U.S. Government's main tool for improving transparency in U.S. foreign assistance spending. Transparency supports the accountability, effectiveness, and improved coordination of our foreign aid programs and enables the public to better understand U.S. foreign assistance investments around the world.
- **Data** – *ForeignAssistance.gov* is updated regularly with new data from across the government to incorporate budget, financial, and award information in a standard format.

In April 2015, an earthquake devastated Nepal killing over 9,000 people and injuring more than 23,000. The United States donated an additional \$9 million in assistance for Nepal,



Sixty-nine members of the Fairfax County Urban Search and Rescue Team await takeoff on a C-17 Globemaster III. The specially trained team and approximately 70,000 pounds of their supplies went to Nepal to assist with rescue operations after the country was struck by a 7.8-magnitude earthquake, Dover Air Force Base, Delaware, April 26, 2015. U.S. Air Force

bringing the total to \$10 million through the U.S. Agency for International Development (USAID). In addition, search-and-rescue teams, along with 45 tons of supplies were dispatched to Nepal as part of USAID's disaster-assistance response team.

One hundred twenty personnel, including a USAID Disaster Assistance Response Team, the Fairfax County Urban Search and Rescue team, Los Angeles urban search and rescue team, several journalists and working dogs, along with 45 square tons of cargo were sent to search for survivors, provide humanitarian relief, and determine levels of future aid.

FINANCIAL MANAGEMENT SYSTEMS SUMMARY

Section III: Other Information of this *Agency Financial Report* provides an overview of the Department's current and future financial 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 financial 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 establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The Department conducted its assessment of the effectiveness of internal control over the efficiency and effectiveness of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Department can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations and financial management systems met the objectives of FMFIA as of September 30.

In addition, management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. 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 as of June 30 was operating effectively and the Department found no material weaknesses in the design or operation of the internal control over financial reporting. Further, subsequent procedures and testing through September 30 did not identify any material changes in key financial reporting internal controls.

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.



John F. Kerry
Secretary of State
November 13, 2015

DEPARTMENTAL GOVERNANCE

Management Control Program

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish internal control and financial systems that provide reasonable assurance that the following objectives are achieved:

- Effective and efficient operations,
- Compliance with applicable laws and regulations, and
- Financial reporting reliability.

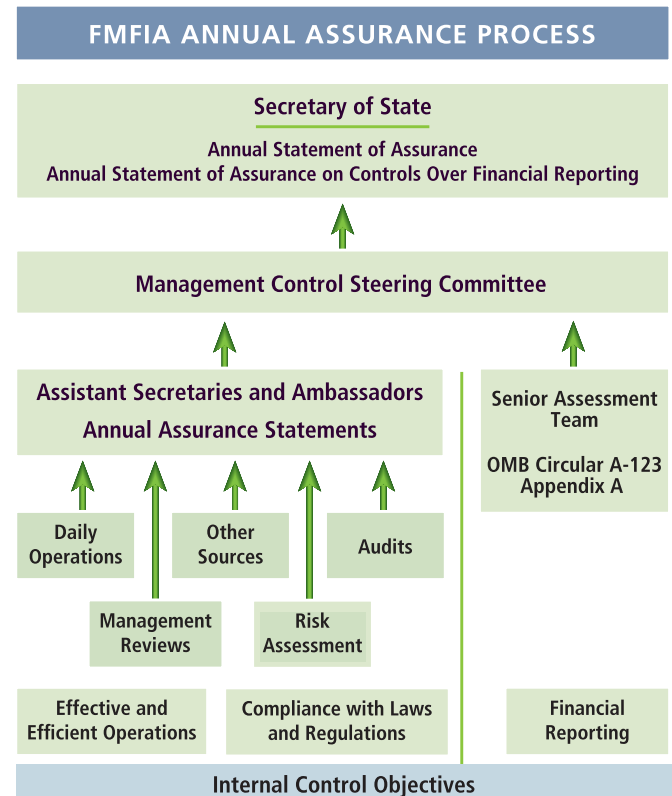
It also requires that the head of the agency, based on an evaluation, provide an annual Statement of Assurance on whether the agency has met this requirement. OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the FMFIA and defines management's responsibility for internal control in Federal agencies.

The Circular A-123 also requires that the agency head provide a separate assurance statement on the effectiveness of internal control over financial reporting (ICOFR). This is an addition to and a component of the overall FMFIA assurance statement. Appendix A of Circular A-123 was added to improve governance and accountability for internal control over financial reporting in Federal entities similar to the internal control requirements for publicly-traded companies contained in the Sarbanes-Oxley Act of 2002.

The Secretary of State's 2015 Statement of Assurance for FMFIA and ICOFR 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 High-Risk List issued in February 2015.

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 nine Assistant Secretaries [including the Inspector General (non-voting)], 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, and the Director for the Office of Overseas Buildings Operations. Individual assurance statements from Ambassadors assigned overseas and Assistant Secretaries in Washington, D.C. serve as the primary basis for the Department's FMFIA assurance issued by the Secretary. The assurance statements are based on information gathered from various sources including the 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.



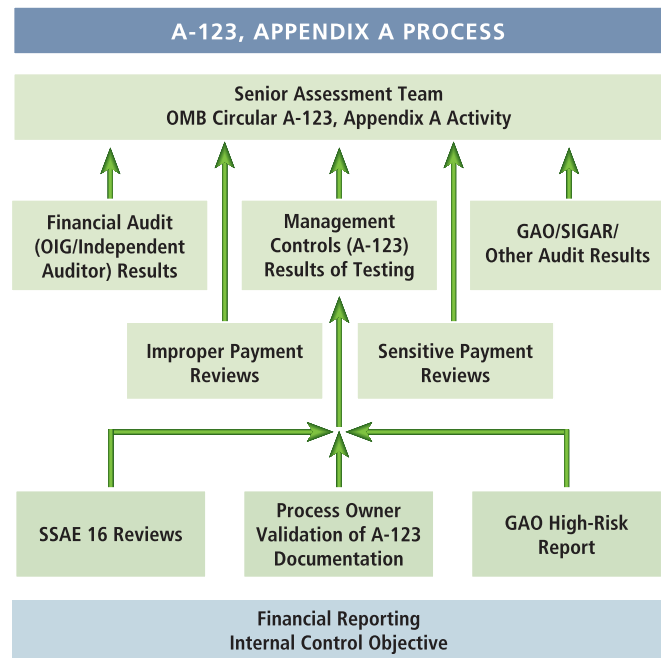
The Senior Assessment Team (SAT) provided oversight during 2015 for the ICOFR program in place to meet Appendix A requirements. The SAT reports to the MCSC and is comprised of 16 senior executives from bureaus that have significant responsibilities relative to the Department's financial resources, processes, and reporting, and the Office of the Legal Adviser. An executive from the Office

of Inspector General is also a non-voting member of the SAT. 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), 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 2015 Appendix A assessment did not identify any material weaknesses in the design or operation of the internal control over financial reporting. The assessment did identify several significant deficiencies in internal control over financial reporting that management is closely monitoring.

The Department'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. 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 assurance statements and Appendix A assessments, provides 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 fiscal year 2015, the Department took important steps to transform how the Department approaches risk management and develop the foundation for an Enterprise Risk Management 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) published the Department Risk Management Policy in March 2015. M/PRI is currently working on an implementation plan with tools, training, and communication components that will establish a more structured approach to Risk Management.

In response to the new *Standards for Internal Control in the Federal Government* issued by GAO in September 2014, OMB



plans to issue an update to Circular A-123, *Management's Responsibility for Internal Control* during fiscal year 2016. The revision is expected to incorporate updates provided in the GAO standards, recognize the need to focus on risk management, and to emphasize that internal control is broader than financial reporting. The Department will implement the new requirements 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.

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.

To assess conformance with FFMIA, the Department uses FFMIA implementation guidance issued by OMB (September 2013 Memorandum to Executive Department Heads), 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 reported that the Department's financial management systems did not substantially comply with certain Federal 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. 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. Effective for FY 2014, OMB's Appendix D provides a revised compliance model that entails a risk- and outcome-based approach to assess FFMIA compliance. The Department will continue to work with the Independent Auditor in 2016 and beyond to resolve these weaknesses.

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.

The Office of the Inspector General (OIG) performs an annual evaluation of the Department's compliance with FISMA requirements. Consistent with the prior year, the Department developed a 2015 corrective action plan to address information security goals which align with the areas described in the FISMA report. The Department made progress toward many of the goals and notes efforts in the following four FISMA areas:

Risk Management and Systems Authorization: The Department added mission owners at the Deputy Assistant Secretary Level to its systems authorization letters to jointly accept, along with the Department's Authorizing Official, the risk arising from the operation of their systems in cases where personally identifiable information is employed. Additionally, as of August 2015 the Department is able to report a significant improvement in the percentage of High Impact systems and Moderate Impact systems that are authorized to operate.

Plans of Action and Milestones (POA&Ms): The Department has faced challenges in replacing its POA&M management system. The ComplyVision system continues to be employed while a review is underway to seek an approach that will better position the Department as it improves POA&M handling for the future. The Department has increased its capture of POA&Ms from audits and penetration testing to augment those that result from independent system assessments.

Continuous Monitoring: The Department was recently notified that the contract for integration and implementation of the Department of Homeland Security's Continuous Diagnostics and Mitigation Program for the Department of State was awarded. This will introduce several new capabilities and augment others currently in use to improve the Department's ability to manage its cyber hygiene. In addition, for 2016, the Department's implementation of the National Institute of Standards and Technology's Risk Management framework will be reviewed for improvements and transition to ongoing authorization.

Security Configuration Management: The Bureau of Information Resource Management and the Bureau of Diplomatic Security are synchronizing the process of updating applicable sections of policy to develop consistent guidance for the Department. When completed, this process will reflect the Department's emphasis in organizing IT policies and implementation under a single authority.

Simultaneously, while working toward resolution of corrective action plan tasks, the Department redirected substantial resources to address new initiatives mandated by the Office of Management and Budget and the Department of Homeland Security to accelerate implementation of specific protection strategies and capabilities. The Department took meaningful and deliberative steps to improve our ability to detect and deter potential attacks, implemented two-factor authenticated access for all general and privileged users domestically, implemented requirements for mission owners to jointly accept risk to their operations when relying on systems employing personally identifiable information, and have begun implementation of data at rest encryption for all moderate and high impact systems. Policies on the use of demilitarized zones, cloud services, and dedicated Internet networks were issued this year and the Department accelerated segmentation for our network to improve security for specific sensitive information.

In the FISMA report and the Inspector General's Assessment of Management and Performance Challenges (located in the Other Information section of this AFR), the OIG cited significant weaknesses to enterprise-wide security. The OIG's position is that collectively these weaknesses equate to a material weakness under FMFIA. The Department acknowledges the weaknesses identified by the OIG in its FISMA review but disputes 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 has taken the ever-changing systems security environment into consideration, as well as mandates directed by OMB and Department of Homeland Security that required the Department to evaluate and expend resources to remediate systems security issues that existed outside the FISMA evaluation criteria during 2015. The Department agrees the FISMA issues are important and will continue to remediate them, but does not believe they constitute a severity level that requires immediate corrective action or rises to a level that requires reporting a material weakness, which represent conditions that significantly restrict the capability of the agency to carry out its mission or compromises the security of its information, information systems, personnel, or other resources, operations, or assets. For 2016, a new corrective action plan is under development to continue efforts to address each weakness in a prioritized manner based upon the risk and impact posed to the Department's security posture.



U.S. Secretary of State John Kerry greets workers as he tours the Boeing Co.'s 737 Airplane Factory in advance of delivering a speech focused on U.S. and Pacific regional trade policy, in Renton, Washington, May 19, 2015. *Department of State*

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.



Images (Above) and (Right): (1) U.S. Secretary of State John Kerry greets the three veteran Marines – Mike East, James “Jim” Tracy, and Larris Morris who lowered the American flag at U.S. Embassy Havana in 1961, during the flag-raising ceremony in Havana, Cuba. Secretary Kerry presided over the flag-raising ceremony at the newly re-opened U.S. Embassy in Havana. This is the first time the American flag was raised over U.S. Embassy Havana in 54 years, August 14, 2015; and (2) James “Jim” Tracy, Secretary Kerry, Larris Morris, and Mike East at the flag-raising ceremony over the newly re-opened U.S. Embassy Havana, August 14, 2015. Department of State



SECTION II:

Financial Section

Message from the Comptroller

On behalf of the Department of State, it is my privilege to present the Fiscal Year (FY) 2015 Agency Financial Report (AFR), including this year's audited Financial Statements. The AFR is more than a document with facts and figures. It is the cornerstone of our efforts to disclose our financial status and stewardship of the assets and resources entrusted to us. The financial information herein truly reflects the size and scope of our vital global foreign affairs mission. It also represents the Department's commitment to transparently demonstrate our effective management and accountability to the American public over finite resources. 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*.

I always feel compelled to note the immense scale and complexity of the Department's global operations and corresponding financial management programs and activities. It helps put into context our performance and challenges on the annual audit and the extraordinary work of our dedicated financial management professionals around the globe, in some of the most difficult environments. We operate in over 270 embassies and consulates, located in more than 180 countries around the world. We conduct business on a 24/7 basis in over 135 foreign currencies, account for more than 500 separate fiscal funds, maintain 214 bank accounts around the world, and manage real property assets with historical costs of more than \$26 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 each month. These financial activities support our ability to address a broad range of ongoing foreign policy challenges and engagements that demand our attention, as underscored in the Message from the Secretary.

To further these global efforts, the Department's corporate finance Bureau, the Bureau of the Comptroller and Global Financial Services (CGFS), continues to wisely implement a vision built on priority investments in modern transformative resource management systems; standardized enterprise-wide financial business processes; and providing accurate, timely, and actionable enterprise financial data. As an organization, we have emphasized our obligation to meet our day-to-day global financial services in disbursing, accounting, and compensation to our customers by our commitment to ISO-9001 certified operations and a Capability Maturity Model Integration (CMMI) standard for financial systems development. We have also strived to smartly integrate the ever-increasing audit and compliance requirements driven by OMB, Treasury, and the Congress. In doing so, we have worked to strengthen our ability to work with partners across the Department's global platform to promote an environment and culture of improved financial performance.

The President has challenged us to deliver a government that serves the needs of the American people and delivers programs in effective, efficient, and innovative ways. Improving Federal financial management is a key area, and we are working

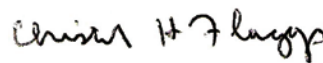
hard to meet this challenge. The Department does not have any programs at risk for making significant improper payments. Since 2012, we have implemented new initiatives for conducting payment risk assessments and recapture audits, as well as verifications against Treasury's Do Not Pay databases. In their annual assessment, the OIG found the Department's improper payments program to be in substantial compliance with IPIA and IPERA. We received high marks on our financial survey benchmark, implemented by OMB as part of their Government-wide core agency operations benchmarking. In support of the President's Management Agenda, we have accelerated our payments to businesses and continue to expand our use of the travel and procurement charge card programs. Over the next few years, the use of data as a resource will be central to our transformation efforts. This, together with strengthening the cybersecurity of our financial systems and data, are two of the most critical challenges we face. This September, in compliance with the Digital Accountability and Transparency Act of 2014, Public Law No. 113-110 (the DATA Act) and OMB Memorandum 15-12 "Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable," we submitted our DATA Act Implementation Plan to OMB, which will further enhance our commitment to deliver integrated and detailed data on Department global operations.

The external annual audit process is another essential part of our commitment to strong corporate governance and financial management diligence. 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, we fully recognize and appreciate the importance of this annual diligence. I would like to thank both parties for their collaborative and professional efforts throughout the audit process. In addition, I would like to sincerely thank the Department's financial professionals, globally, who also support this process and are the foundation for our success and strong financial stewardship.

To this end, I am pleased to report that the Department has received an unmodified ("clean") audit opinion on its FY 2015 Financial Statements, with no material weaknesses in internal control over financial reporting identified by the Independent Auditor. In addition, the Department maintains a robust system of internal controls that are validated by senior leadership. For FY 2015, no material weaknesses in internal controls were identified by senior leadership and no material weaknesses in internal control 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 control and the internal control over financial reporting in accordance with the Federal Managers' Financial Integrity Act.

While we are pleased with what has been accomplished this year, we fully recognize that there are a number of items noted in the AFR and the Independent Auditor's Report that will require our continued attention and diligence. Having been a part of the Department's financial management team and financial audit process for more than two decades, I know there are always new requirements, issues, and opportunities for improvement to tackle. 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. Nevertheless, we are committed to addressing these recurring and new challenges as we strive to be the most efficient and effective stewards of the Department's limited resources in support of our vital mission.

Sincerely,



Christopher H. Flaggs


Comptroller

November 16, 2015



November 16, 2015

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Steve A. Linick 

SUBJECT: Independent Auditor’s Report on the U.S. Department of State 2015
 and 2014 Financial Statements (AUD-FM-16-09)

An independent certified public accounting firm, Kearney & Company, P.C., was engaged to audit the consolidated financial statements of the U.S. Department of State (Department) as of September 30, 2015 and 2014, 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 2015 and 2014 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, 2015 and 2014, 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 weaknesses¹ in internal control over financial reporting;

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.

- five significant deficiencies² in internal control over financial reporting, specifically in the areas of financial reporting, property and equipment, budgetary accounting, validity and accuracy of unliquidated obligations, and information technology; and
- three instances of reportable noncompliance with laws, regulations, contracts, and grant agreements tested, specifically the Antideficiency Act, the Prompt Payment Act, and FFMIA.

Kearney & Company is responsible for the attached auditor's report, which includes the Independent Auditor's Report, the Report on Internal Control Over Financial Reporting, and the Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements, dated November 16, 2015, 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

² A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.



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INDEPENDENT AUDITOR'S REPORT AUD-FM-16-09

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, 2015 and 2014, 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. 15-02, “Audit Requirements for Federal Financial Statements.” Those standards and OMB Bulletin No. 15-02 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.



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, 2015 and 2014, 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, condition assessments of Heritage Assets, Combining Statement of Budgetary Resources, and Deferred Maintenance (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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the Message from the Secretary, the Message from the Comptroller, the Introduction, Appendices, and the Other Information Section, as listed in the Table of Contents of the Department's Agency Financial Report, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on the information.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02, we have also issued reports, dated November 16, 2015, 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, 2015. 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. 15-02 and should be considered in assessing the results of our audits.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 16, 2015



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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, 2015, and have issued our report thereon dated November 16, 2015. 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. 15-02, "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. 15-02. 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.



Significant Deficiencies

I. Financial Reporting

Weaknesses in controls over financial reporting have been reported as either a material weakness or a significant deficiency since the audit of the Department's FY 2009 financial statements. The Department has addressed certain control deficiencies reported in prior financial statement audit reports related to financial reporting and improved underlying data. However, financial reporting continues to be a significant deficiency because of issues with the preparation of the Statement of Budgetary Resources (SBR).

The SBR is derived predominately from an entity's budgetary general ledger in accordance with budgetary accounting rules. Information on the SBR should reconcile to budget execution information reported to the Department of the Treasury on Standard Form (SF) 133, Report on Budget Execution and Budgetary Resources, and with information reported in the Budget of the U.S. Government to ensure the integrity of the number presented. Agencies must submit their financial information, including budgetary data, to the Treasury using the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

We found that the Department had made numerous adjustments related to budgetary resources outside of the financial system, most of which were needed to pass GTAS automated edit checks. Further, audit adjustments were required to be made to the SBR and related footnotes as a result of the audit procedures performed on the Department's SBR reporting process.

The Department did not use the full functionality of its accounting systems to capture all budgetary accounting events and to automate SBR reporting procedures. In addition, the Department did not formalize or implement sufficient controls to ensure all manual budgetary adjustments were supported or that adjustments were consistently recorded when preparing the SBR. Manual adjustments require an increased measure of internal control and review, reduce the Department's ability to produce statements timely, and increase the likelihood of errors in the statements.

II. Property and Equipment

The Department reported over \$20 billion in net property and equipment on its FY 2015 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 2015, 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 in order to centrally account for the acquisition, disposal, and transfer of personal property. We noted a significant number of prior year personal property transactions 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. The Department's control structure did not ensure that personal property acquisitions, disposals, and transfers were recorded timely and accurately. In addition, the Department's monitoring activities were not always effective to ensure proper financial reporting for personal property. The errors resulted in misstatements to the Department's consolidated financial statements. The lack of effective control may result in the loss of accountability for asset custodianship, which could lead to undetected theft or waste.
- Accounting for Leases – The Department manages over 16,700 real property leases throughout the world. The majority of the Department's leases are short-term operating leases. The Department must disclose the future minimum lease payments (FMLP) related to the Department's operating lease obligations in the footnotes to the consolidated financial statements. We found numerous recorded lease terms that did not agree with supporting documentation. We also 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 process to monitor lease information provided by posts was not always effective. The discrepancies identified in the Department's FMLP calculation methodology led to multiple errors in the Department's footnote disclosure.
- Incomplete Reporting of Software in Development – Federal agencies use various types of software, such as applications for operating a program or administrative applications. Applications in the development phase are considered software in development (SID). Agencies are required to report software as general property in the financial statements. We identified three projects that met the criteria to be capitalized; however, the spending relating to the projects was excluded from the Department's SID listing. Although the Department performs a quarterly data call to obtain SID costs from bureau project managers, this process was not sufficient because it relied on the responsiveness and understanding of individual project managers. Additionally, the Department does not have an effective process to confirm that information provided during the quarterly data call is complete. However, without an effective process to obtain information pertaining to SID projects, the Department may understate its property balances and overstate its expenses in future periods.
- Incomplete Real Property Records – The Foreign Missions Act¹ established the Office of Foreign Missions (OFM) within the Department to review and control the operations of foreign missions in the United States. OFM manages all acquisitions, including leases,

¹ 22 U.S.C 4301-4316.



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. During FY 2015, the Department notified us of 13 Department-owned properties used by foreign missions for diplomatic purposes that were not included in the Department's financial system. We performed additional work to confirm the completeness of the list of properties and identified one additional unreported property. OFM officials were unaware of the requirement to report Department-owned property in the Department's financial system. In addition, officials that prepare the financial statements were unaware that OFM owned real property. Until this situation was identified by the Department, the Department's annual financial statements were incomplete. Without a process to consolidate property information, planned future acquisitions or disposals of property by OFM will not be reflected in the Department's financial statements.

III. 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 2015, the audit continued to identify control limitations, and we concluded that the combination of control deficiencies remained a significant deficiency. The individual deficiencies we identified are summarized as follows:

- **Support of Obligations** – Obligations are definite commitments that create a legal liability of the Government for payment. The Department should record only legitimate obligations, which would 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 were not always recording 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 but effectively bypassed system controls. The continued use of this practice could lead to a violation of the Antideficiency Act, and it 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 15 days of execution of the obligating document and obligations that were posted subsequent to the receipt of goods and services. We also identified obligations that were recorded in the financial management systems 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 obligated leases on an annual basis rather than 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, which allowed officials to exceed allotments. Department systems did not have an automated control to prevent users from recording obligations that exceeded allotment amounts. Department management stated that 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 identify instances in which an obligation exceeded a domestic allotment; however, this process does not include overseas allotments. Additionally, the process does not adequately confirm whether the override was consistent with Department policy, including whether the allotment holder determined whether sufficient funds were available or obtained approval from authorized officials or whether the override was acceptable under the circumstances. Overriding allotment controls could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

IV. 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 amount 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 not effective to ensure that ULOs were consistently and systematically evaluated for validity and deobligation. As a result of the invalid ULOs, the Department's consolidated financial statements were misstated. 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.



V. Information Technology

The Department's IT internal control structure, both for the general support system and critical financial reporting applications, exhibited limitations in several areas, including risk management strategies and user account management. The National Institute of Standards and Technology and the Government Accountability Office's Federal Information System Controls Audit Manual provide control objectives and evaluation techniques that we used during our audit. Weaknesses in IT controls have been reported as a financial statement significant deficiency since the audit of the Department's FY 2009 consolidated financial statements.

In accordance with the Federal Information Security Modernization Act of 2014 (FISMA), the Office of Inspector General (OIG) performed a review of the Department's information security program for FY 2015, including controls related to the Department's general support system.² The Department's general support system is the gateway for all of the Department's systems, including its financial management systems. Generally, control deficiencies noted in the support system are inherited by the other systems that reside on it. We did not perform additional work on the controls related to the general support system but instead relied on the work performed by OIG.

Overall, OIG found that the Department had made progress during FY 2015 in addressing IT deficiencies identified in prior FISMA reports, but OIG continued to identify weaknesses in the Department's information security program. OIG had found that the Department was not in compliance with Federal laws, regulations, and information security standards. The FISMA audit identified deficiencies in configuration management, identity and access management, incident response and reporting, security training, plans of action and milestones, contingency planning, and contractor systems. Collectively, the control deficiencies identified represented a significant deficiency to organization-wide security. Specifically, ineffective IT security controls increase the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered either accidentally or intentionally. IT weaknesses increase the risk that the Department will be unable to report financial data accurately.

The focus of our IT-related audit work was primarily on financial system-specific deficiencies that could lead to significant misstatements of or corruption to the Department's financial data. Based on IT deficiencies with the general support system identified by OIG, we developed additional risk-based audit procedures to substantively test financial management system inputs and outputs. In addition, we tested and confirmed certain compensating controls that would mitigate some of the risks that were attributable to the general support system deficiencies. Our IT-related audit procedures identified a financial system control deficiency with the Global Employment Management System (GEMS), which is the Department's human resource system. We identified instances where users had access to security administration and human resources business activities—a combination generally considered incompatible. Although the Department indicated that the combination of these incompatible roles for the aforementioned individuals were required to perform job functions, the Department did not provide evidence of compensating controls to address these conflicts. The Department created a Corrective Action

² OIG, *Audit of the Department of State Information Security Program* (AUD-IT-16-16, Nov. 2015).



Plan in FY 2015 that outlined procedures the Department would implement to mitigate the deficiencies identified by the prior year audit; however, the plan had not been fully implemented prior to our audit. Inadequate segregation of duties contributes to an overall weakening of the internal control environment for GEMS and increases the risk that errors and irregularities could occur and remain undetected.

The weaknesses identified by OIG during the FISMA audit and by us during the financial statement audit are considered to be a significant deficiency within the scope of our financial statement audit.

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 2014 financial statements,³ we noted several issues that were related to internal control over financial reporting. The status of the FY 2014 internal control findings are summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2014 Status	FY 2015 Status
Financial Reporting	Significant Deficiency	Significant Deficiency
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

³ OIG, *Independent Auditor’s Report on the U.S. Department of State 2014 and 2013 Financial Statements* (AUD-FM-15-07, Nov. 2014).



Department's Response to Findings

Department management has 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. 15-02, in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 16, 2015



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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, 2015, and have issued our report thereon dated November 16, 2015. 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. 15-02, "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. 15-02 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; and (3) making obligations or expenditures in excess of an apportionment or reappportionment, 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. In addition, the Department identified and was required to report an Antideficiency Act violation in the current year. 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. The Department did not always make payments within 30 days, as required. Additionally, we found that the Department did not consistently pay interest penalties for domestic and overseas payments in accordance with the Prompt Payment Act. 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 financial reporting, 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 Management Act, the Department's Office of Inspector General (OIG) identified weaknesses with computer security that it reported collectively as representing a significant deficiency.¹
- The Department did not maintain effective administrative control of funds. Specifically, obligations were not created in a timely manner or were recorded in advance of an executed obligating document. In addition, there were systemic issues identified in the Department's use of allotment overrides.
- The Department was required to report an Antideficiency Act violation in the current year. Specifically, the Department obligated and expended funds for specific Congressionally notified projects without the proper apportionment.
- The Department did not always minimize waste, loss, unauthorized use, or misappropriation of Federal funds. For example, OIG reported more than \$209 million in questioned costs and funds put to better use during FY 2015.
- Interest was not always paid on overdue domestic and overseas payments.

¹ OIG, *Audit of the Department of State Information Security Program* (AUD-IT-16-16, Nov. 2015).



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. We have reported that the Department did not substantially comply with FFMIA annually since our FY 2009 audit.

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

Department's Response to Findings

Department management has provided its response to our findings in a separate 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. 15-02, in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company".

Alexandria, Virginia
November 16, 2015



United States Department of State

Washington, D.C. 20520

November 16, 2015

UNCLASSIFIED

MEMORANDUM

TO: OIG – Steve A. Linick

FROM: 
CGFS – Christopher H. Flaggs

SUBJECT: Draft Report on the Department of State’s Fiscal Year 2015 Financial Statements

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

As the OIG is aware, the Department operates in over 270 locations and 180 countries in some of the most challenging environments. The scale and complexity of Department activities and corresponding financial management operations and requirements are immense. We understand and take this dynamic into account as we pursue an efficient, accountable, and transparent financial management platform that supports the Department’s and broader U.S. Government’s foreign affairs mission. Part of our accountability is the essential discipline of the annual external audit process and the issuance of the Department’s annual audited financial statements. Few outside the financial community likely realize the time and effort that go into producing the audit and the Agency Financial Report, as we all work to demonstrate our commitment to strong financial management and to producing meaningful financial statements. It is a rigorous and exhaustive process.

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 2015 and FY 2014 principal financial statements, and with no material weaknesses reported by the Independent Auditor.

We remain committed to strong corporate governance and internal controls as demonstrated by our robust system of internal controls overseen by our Senior Assessment Team (SAT), Management Control Steering Committee (MCSC), and validated by senior leadership. We appreciate the OIG participation in both the SAT and MCSC forums. For FY 2015, no material management control issues or material weaknesses in internal controls over financial reporting were identified by senior leadership. As a result, the Secretary was able to provide an unqualified Statement of Assurance for the Department's overall internal controls and internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act.

We fully recognize that there is more to be done and that the items identified in the Draft Report will require our continued attention, action, and improvement. We look forward to working with you, Kearney & Company, and other stakeholders on addressing these issues in the coming year.

Introducing the Principal Financial Statements

The Principal Financial Statements (Statements) have been prepared to report the financial position and results of operations of the U.S. Department of State (Department). The Statements have been prepared from the books and records of the Department in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, *Financial Reporting Requirements*, revised. The Statements are in addition to financial reports prepared by the Department in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Department has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for 2014 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	2015	2014
ASSETS	2		
Intragovernmental Assets:			
Fund Balance with Treasury	3	\$ 50,049	\$ 47,497
Investments, Net	4	18,193	17,836
Interest Receivable	4	149	157
Accounts Receivable, Net	5	145	119
Other Assets	8	957	1,329
Total Intragovernmental Assets		69,493	66,938
Accounts and Loans Receivable, Net	5	124	114
Cash and Other Monetary Assets	6	180	172
Property and Equipment, Net	7	20,227	18,954
Other Assets	8	611	610
Total Assets		\$ 90,635	\$ 86,788
Stewardship Property and Equipment; Heritage Assets	7		
LIABILITIES	9		
Intragovernmental Liabilities:			
Accounts Payable		\$ 207	\$ 220
Other Liabilities		218	252
Total Intragovernmental Liabilities		425	472
Accounts Payable		2,033	2,140
After-Employment Benefit Liability	10	20,030	19,589
International Organizations Liability	11	1,573	1,741
Other Liabilities	9,12	1,360	1,141
Total Liabilities		25,421	25,083
Contingencies and Commitments	13		
NET POSITION			
Unexpended Appropriations – Funds From Dedicated Collections		—	—
Unexpended Appropriations – Other Funds		39,827	38,428
Cumulative Results of Operations – Funds From Dedicated Collections	14	323	317
Cumulative Results of Operations – Other Funds		25,064	22,960
Total Net Position		65,214	61,705
Total Liabilities and Net Position		\$ 90,635	\$ 86,788

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,	2015	2014
Peace and Security		
Total Cost	\$ 2,208	\$ 2,017
Earned Revenue	(47)	(93)
Net Program Costs	2,161	1,924
Democracy, Human Rights and Governance		
Total Cost	661	686
Earned Revenue	(6)	(26)
Net Program Costs	655	660
Health, Education and Social Services		
Total Cost	7,126	8,370
Earned Revenue	(4)	(1)
Net Program Costs	7,122	8,369
Humanitarian, Economic Development and Environment		
Total Cost	3,424	3,168
Earned Revenue	—	—
Net Program Costs	3,424	3,168
International Organizations and Commissions		
Total Cost	3,572	3,177
Earned Revenue	(11)	(8)
Net Program Costs	3,561	3,169
Diplomatic and Consular Programs		
Total Cost	13,488	13,385
Earned Revenue	(5,882)	(5,127)
Net Program Costs	7,606	8,258
Administration of Foreign Affairs		
Total Cost	2,748	2,575
Earned Revenue	(1,776)	(1,728)
Net Program Costs Before Assumption Changes	972	847
Actuarial Loss/(Gain) on Pension Assumption Changes (Notes 1 and 10)	140	(1,387)
Net Program Costs	1,112	(540)
Total Cost and Loss/Gain on Assumption Changes	33,367	31,991
Total Revenue	(7,726)	(6,983)
Total Net Cost	\$ 25,641	\$ 25,008

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,	2015			2014
	Funds From Dedicated Collections	All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	\$ 317	\$ 22,960	\$ 23,277	\$ 20,160
Adjustments	—	—	—	—
Beginning Balances, as adjusted	317	22,960	23,277	20,160
Budgetary Financing Sources:				
Appropriations Used	—	28,363	28,363	28,579
Non-exchange Revenue	1	—	1	58
Donations	25	—	25	32
Transfers in(out) without Reimbursement	47	(16)	31	65
Other Financing Sources:				
Donations	—	—	—	—
Imputed Financing from Costs Absorbed by Others	—	150	150	161
Non-entity Collections	—	(819)	(819)	(770)
Total Financing Sources	73	27,678	27,751	28,125
Net Cost of Operations	(67)	(25,574)	(25,641)	(25,008)
Net Change	6	2,104	2,110	3,117
Total Cumulative Results of Operations	323	25,064	25,387	23,277
Unexpended Appropriations				
Beginning Balances	\$ —	\$ 38,428	\$ 38,428	\$ 38,212
Budgetary Financing Sources:				
Appropriations Received	—	30,018	30,018	29,764
Appropriations Transferred in(out)	—	(62)	(62)	(277)
Rescissions and Canceling Funds	—	(194)	(194)	(692)
Appropriations Used	—	(28,363)	(28,363)	(28,579)
Total Budgetary Financing Sources	—	1,399	1,399	216
Total Unexpended Appropriations	—	39,827	39,827	38,428
Net Position	\$ 323	\$ 64,891	\$ 65,214	\$ 61,705

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,**

	2015	2014
Budgetary Resources:		
Unobligated balance, brought forward, October 1	\$ 21,344	\$ 21,873
Adjustment to unobligated balance brought forward, October 1 (+ or -)	(1)	22
Unobligated balance brought forward, October 1, as adjusted	21,343	21,895
Recoveries of prior year unpaid obligations	1,677	1,670
Other changes in unobligated balance (+ or -)	(339)	(583)
Unobligated balance from prior year budget authority, net	22,681	22,982
Appropriations (discretionary and mandatory)	31,159	30,424
Borrowing authority (discretionary and mandatory)	1	1
Spending authority from offsetting collections (discretionary and mandatory)	12,057	11,064
Total Budgetary Resources	\$ 65,898	\$ 64,471
Status of Budgetary Resources:		
Obligations incurred	\$ 42,672	\$ 43,127
Unobligated balance, end of year:		
Apportioned	21,319	19,512
Exempt from apportionment	2	3
Unapportioned	1,905	1,829
Total unobligated balance, end of year	23,226	21,344
Total Budgetary Resources	\$ 65,898	\$ 64,471
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1 (gross)	\$ 26,711	\$ 26,664
Adjustments to unpaid obligations, start of year (+ or -)	1	(71)
Obligations incurred	42,672	43,127
Outlays (gross) (-)	(40,363)	(41,339)
Actual transfers, unpaid obligations (net) (+ or -)	—	—
Recoveries of prior year unpaid obligations (-)	(1,677)	(1,670)
Unpaid obligations, end of year	\$ 27,344	\$ 26,711
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, October 1 (-)	(379)	(872)
Adjustment to uncollected payments, Federal sources, start of year (+ or -)	1	4
Change in uncollected payments, Federal sources (+ or -)	(110)	489
Actual transfers, uncollected payments from Federal source (net) (+ or -)	—	—
Uncollected payments, Federal sources, end of year (-)	\$ (488)	\$ (379)
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -)	\$ 26,334	\$ 25,725
Obligated balance, end of year (net)	\$ 26,856	\$ 26,332
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	\$ 43,217	\$ 41,489
Actual offsetting collections (discretionary and mandatory) (-)	(11,947)	(11,520)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(110)	489
Budget authority, net (discretionary and mandatory)	\$ 31,160	\$ 30,458
Outlays, gross (discretionary and mandatory)	40,363	41,339
Actual offsetting collections (discretionary and mandatory) (-)	(11,947)	(11,520)
Outlays, net (discretionary and mandatory)	28,416	29,819
Distributed offsetting receipts (-)	(408)	(388)
Agency outlays, net (discretionary and mandatory)	\$ 28,008	\$ 29,431

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.



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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year

Unless otherwise designated all use of a year indicates fiscal year, e.g., 2015 equals Fiscal Year 2015.

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.

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 a transfer-out of 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 OMB apportionment as well as congressional restrictions. For financial statement purposes, appropriations are recorded as a financing source (i.e., Appropriations Used) and reported on the Statement of Changes in Net Position at the time they are recognized as expenditures. Appropriations expended for capitalized property and equipment are recognized when the asset is purchased.

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

The Department is authorized to collect and retain certain user fees for machine-readable visas, expedited passport



Assistant Secretary of State for International Narcotics and Law Enforcement Affairs William R. Brownfield participates in a Facebook Q&A on Combating Wildlife Trafficking at the U.S. Department of State in Washington, D.C., March 6, 2015. *Department of State*

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 available to pay accrued liabilities and 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, Office of Foreign Missions, Foreign Service National Defined Contributions Retirement Fund, and the International Center. 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

Intragovernmental Accounts Receivable are due principally from other Federal agencies for ICASS services, reimbursable agreements, and Working Capital Fund services. Accounts and Loans Receivable from non-Federal entities are primarily the result of repatriation loans and IBWC receivables for Mexico's share of IBWC activities. 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 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. 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, and Middle Eastern-Western Dialogue accounts are in U.S. Treasury securities. Interest on these investments is paid semi-annually at various rates. These investments are reported at acquisition cost, which equals the face value net of unamortized discounts or premiums. Discounts and premiums are amortized over the life of the security using the straight-line method for Gift Funds investments, and effective interest method for the other accounts. Additional information on Investments can be found in Note 4.

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



Mont Blanc in France, foreground, and the Matterhorn in Switzerland, background, as seen from U.S. Secretary of State John Kerry's aircraft, as he flew from Geneva, Switzerland, to Riyadh, Saudi Arabia, following negotiations with Iranian officials about the future of their nuclear program and en route to a meeting with King Salman of Saudi Arabia and members of the Gulf Cooperation Council, March 4, 2015.

Department of State

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 completed, 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 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' Payments Management System; or grantees submit invoices. In both cases, the expense is recorded upon disbursement.

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 of their salary, with the Department making contributions of 11.2 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 (FEGSIP). FEGSIP 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 FEGSIP 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.

The changes resulting from the 2014 study are described later in this note. Also see Note 10, *After-Employment Benefit Liability*, for the Department's accounting policy for FSRDF retirement-related benefits and the associated actuarial present value of projected plan benefits.

Foreign Service Nationals' After-Employment Benefits

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

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 Standard (IAS) No. 19, *Employee Benefits*. IAS No. 19 provides a better structure for the reporting of these plans which are established in accordance with local practices in countries overseas.

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

International Organizations Liability

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

appropriated by Congress. For financial reporting purposes, the amounts assessed, pledged, and unpaid are reported as liabilities of the Department. Additional information is disclosed in Note 11.

Contingent Liabilities

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

Net Position

The Department's net position contains the following components:

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



U.S. Secretary of State John Kerry and South African Foreign Minister Maite Nkoana-Mashabane hold a joint press conference following the U.S.-South Africa Strategic Dialogue at the U.S. Department of State in Washington, D.C., September 16, 2015.

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budgetary resources. As obligations for goods or services are incurred, the available balance is reduced.

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

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

Foreign Currency

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

Fiduciary Activities

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

Change in Accounting Estimate

The *Foreign Service Retirement Plans Actuarial Experience Study 2008 – 2013*, mentioned earlier in this note, resulted in significant actuarial assumptions changes, both economic and demographic. These changes to the assumptions used to project the valuation of the FSRDF actuarial liability resulted in an actuarial gain in 2014 as noted on the Statement of Net Cost. For a further description and itemization, see Note 10.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, and exercise judgment that affects the reported amounts of assets, liabilities, net position, and disclosure of contingent liabilities as of the date of the financial statements, and the reported amounts of revenues, financing sources, expenses, and obligations incurred during the reporting period. These estimates are based on management’s best knowledge of current events, historical experience, actions the Department may take in the future, and various other assumptions that are believed to be reasonable under the circumstances. Due to the size and complexity of many of the Department’s programs, the estimates are subject to a wide range of variables, including assumptions on future economic and financial events. Accordingly, actual results could differ from those estimates.

Comparative Data

Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

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 both

September 30, 2015 and 2014, were \$15 million, for amounts in the Chancery Development Trust Account. These items are included in Cash and Other Monetary Assets (See Note 6, *Cash and Other Monetary Assets* for further information).

3 FUND BALANCE WITH TREASURY

Fund Balance with Treasury at September 30, 2015 and 2014, is summarized below (*dollars in millions*).

Fund Balances	2015	2014	Status of Fund Balance with Treasury	2015	2014
Appropriated Funds	\$ 46,747	\$ 44,550	Unobligated Balances Available	\$ 21,321	\$ 19,515
Revolving Funds	2,590	2,397	Unobligated Balances Unavailable	1,905	1,829
Trust Funds	415	413	Obligated Balances not yet Disbursed	26,691	26,180
Special Funds	165	164	Total Unobligated and Obligated	49,917	47,524
Deposit & Receipt Accounts	132	(27)	Deposit and Receipt Funds	132	(27)
Total	\$ 50,049	\$ 47,497	Total	\$ 50,049	\$ 47,497



Spaso House is the residence of the U.S. Ambassador in Moscow. Spaso House is a listed Neoclassical Revival building at No. 10 Spasopeskovskaya Square in Moscow. It was originally built in 1913 as the mansion of the textile industrialist Nikolay Vtorov. It has been (since 1933) the residence of the U.S. Ambassador to the Soviet Union and (since 1991) to the Russian Federation. *Department of State*

4 INVESTMENTS

Investments at September 30, 2015 and 2014, are summarized below (*dollars in millions*). All investments are classified as Intragovernmental Securities.

At September 30, 2015:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	\$ 18,144	\$ 18,144	2016–2028	1.375% – 5.625%	\$ 149
Subtotal	18,144	18,144			149
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2017–2018	0.750%	—
Eisenhower Exchange Fellowship Fund	8	8	2016–2019	4.750% – 8.875%	—
Middle Eastern-Western Dialogue Fund	15	15	2015–2019	1.250%	—
Gift Funds, Treasury Bills	21	21	2016–2018	1.125% – 1.375%	—
Subtotal	49	49			—
Total Investments	\$ 18,193	\$ 18,193			\$ 149

At September 30, 2014:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	\$ 17,792	\$ 17,792	2015–2028	1.375%–6.500%	\$ 157
Subtotal	17,792	17,792			157
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2015	0.250%	—
Eisenhower Exchange Fellowship Fund	8	8	2015–2019	3.000% – 8.875%	—
Middle Eastern-Western Dialogue Fund	15	15	2014–2019	0.250% – 1.250%	—
Gift Funds, Treasury Bills	16	16	2014–2017	0.750% – 3.125%	—
Subtotal	44	44			—
Total Investments	\$ 17,836	\$ 17,836			\$ 157

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, 2015 and 2014, are summarized here (dollars in millions). All are entity receivables.

	2015			2014		
	Entity Receivables	Allowance for Uncollectible	Net Receivables	Entity Receivables	Allowance for Uncollectible	Net Receivables
Intragovernmental Accounts Receivable	\$ 175	\$ (30)	\$ 145	\$ 174	\$ (55)	\$ 119
Non-Intragovernmental Accounts and Loans Receivable	161	(37)	124	150	(36)	114
Total Receivables	\$ 336	\$ (67)	\$ 269	\$ 324	\$ (91)	\$ 233

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 2015, net of allowance for uncollectible accounts, is \$269 million. This balance consists of \$175 million in Federal intragovernmental reimbursable agreements for providing goods and services to other Federal agencies. The \$161 million in accounts and loans receivables due from non-Federal entities consists of \$2 million in repatriation loans and associated administration fees. Repatriation Loans enable destitute American citizens overseas to return to the United States. The remaining \$159 million consist mainly of civil monetary fines and penalties and Value Added Taxes (VAT). 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. Ambassador to Vietnam's residence is located in Hanoi, Vietnam. The United States opened a Liaison Office in Hanoi on January 28, 1995. Diplomatic relations were established July 11, 1995, and Embassy Hanoi was established with L. Desaix Anderson as Chargé d'Affaires ad interim. The house was designed by M. LaCollogne, Principal Architect and Chief of Civil Construction Service in Tonkin and built in 1921 by Indochina Public Property. Department of State

6 CASH AND OTHER MONETARY ASSETS

The Cash and Other Monetary Assets at September 30, 2015 and 2014, are summarized below (*dollars in millions*). There are no restrictions on entity cash. Non-entity cash is restricted as discussed below.

	2015			2014		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
After-Employment Benefit Assets	\$ 159	\$ —	\$ 159	\$ 150	\$ —	\$ 150
Emergencies in the Diplomatic and Consular Service	6	—	6	6	—	6
Chancery Development Trust Accounts:						
Treasury Bills, at par	—	15	15	—	15	15
Unamortized Discount	—	—	—	—	—	—
Other	—	—	—	1	—	1
Total	\$ 165	\$ 15	\$ 180	\$ 157	\$ 15	\$ 172

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 \$159 million and \$150 million as of September 30, 2015 and 2014, 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.

7 PROPERTY AND EQUIPMENT, NET

Property and Equipment, Net balances at September 30, 2015 and 2014, are shown in the following table (*dollars in millions*).

Major Classes	2015			2014		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
Real Property:						
Overseas –						
Land and Land Improvements	\$ 2,450	\$ (73)	\$ 2,377	\$ 2,403	\$ (62)	\$ 2,341
Buildings and Structures	18,384	(6,825)	11,559	16,415	(6,201)	10,214
Construction-in-Progress	3,276	—	3,276	3,396	—	3,396
Assets Under Capital Lease	146	(41)	105	110	(33)	77
Leasehold Improvements	537	(331)	206	548	(306)	242
Domestic –						
Structures, Facilities and Leaseholds	1,355	(451)	904	1,332	(417)	915
Construction-in-Progress	153	—	153	111	—	111
Land and Land Improvements	81	(8)	73	81	(7)	74
Total – Real Property	26,382	(7,729)	18,653	24,396	(7,026)	17,370
Personal Property:						
Aircraft	887	(422)	465	856	(368)	488
Vehicles	991	(538)	453	1,031	(502)	529
Communication Equipment	28	(19)	9	25	(19)	6
ADP Equipment	188	(110)	78	150	(96)	54
Reproduction Equipment	9	(6)	3	10	(6)	4
Security Equipment	239	(89)	150	207	(86)	121
Internal Use Software	455	(381)	74	432	(349)	83
Software-in-Development	160	—	160	119	—	119
Other Equipment	302	(120)	182	291	(111)	180
Total – Personal Property	3,259	(1,685)	1,574	3,121	(1,537)	1,584
Total Property and Equipment, Net	\$ 29,641	\$ (9,414)	\$ 20,227	\$ 27,517	\$ (8,563)	\$ 18,954

(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, purchased using donated or appropriated funds, or on loan from individuals, organizations and museums. 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, 2014 and 2015					
	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 – 9/30/2013	1,782	2,425	1,054	17,900	1,061
Acquisitions	13	75	16	68	53
Adjustments	6		1	355	
Disposals	69		1	117	2
Number of Assets – 9/30/2014	1,732	2,500	1,070	18,206	1,112
Deferred Maintenance – 9/30/2014	N/A	N/A	N/A	N/A	N/A
Acquisitions	14	54	17	126	19
Adjustments	104			235	
Disposals	26		18	158	1
Number of Assets – 9/30/2015	1,824	2,554	1,069	18,409	1,130
Deferred Maintenance – 9/30/2015	N/A	N/A	N/A	N/A	N/A

(continued on next page)

The U.S. Ambassador's residence and U.S. Embassy is located in Tokyo, Japan. In 1995, the residence was renovated and in January 2001, the U.S. Department of State authorized it to be labeled an important cultural asset. *Department of State*



HERITAGE ASSETS (continued)
For the Years Ended September 30, 2014 and 2015

	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 – 9/30/2013	25	2,827	2,616	
Acquisitions	1	252	2	
Adjustments		11	1	
Disposals		2		
Number of Assets – 9/30/2014	26	3,088	2,619	
Deferred Maintenance – 9/30/2014	\$2,555,000	N/A	N/A	
Acquisitions		184	4	
Adjustments		9	1	
Disposals			10	
Number of Assets – 9/30/2015	26	3,281	2,614	140
Deferred Maintenance – 9/30/2015	\$3,679,000	N/A	N/A	\$278,485

NOTE: International Boundary and Water Commission was not included in the prior year AFR. The adjustments represent items that existed prior to FY 2015.

8 ADVANCES, PREPAYMENTS, AND OTHER ASSETS

The Department's Other Assets include advances and prepayments in support of programs including HIV/AIDS, Child Health and Survival, Diplomatic and Consular, and Overseas Buildings Operations plus salary/travel advances to employees and inventory. The Department's Other Assets as of September 30, 2015 and 2014, are summarized to the right (*dollars in millions*).

	2015	2014
Intragovernmental Assets:		
Other Advances and Prepayments	\$ 957	\$ 1,329
Non-Intragovernmental Advances:		
Salary Advances	8	10
Travel Advances	13	13
Other Advances and Prepayments	573	572
Inventory	17	15
Total Other Assets	\$ 1,568	\$ 1,939

9 OTHER LIABILITIES

The Department's Other Liabilities at September 30, 2015 and 2014, are summarized below (*dollars in millions*).

	2015			2014		
	Current	Non-Current	Total	Current	Non-Current	Total
Intragovernmental						
Deferred Revenue	\$ 154	\$ —	\$ 154	\$ 177	\$ —	\$ 177
Custodial Liability	16	—	16	28	—	28
Other Liabilities	48	—	48	47	—	47
Total Intragovernmental	218	—	218	252	—	252
Federal Employees Compensation Act Benefits	88	—	88	97	—	97
Capital Lease Liability	15	83	98	12	86	98
Accrued Salaries Payable	288	—	288	268	—	268
Contingent Liability	—	13	13	—	10	10
Pension Benefits Payable	61	—	61	60	—	60
Accrued Annual Leave	—	369	369	—	366	366
Funds Held in Trust and Deposit Accounts	—	15	15	—	15	15
Environmental Liability	—	130	130	—	146	146
Other Liabilities	267	—	267	79	—	79
Deferred Revenues	31	—	31	2	—	2
Subtotal	750	610	1,360	518	623	1,141
Total Other Liabilities	\$ 968	\$ 610	\$ 1,578	\$ 770	\$ 623	\$ 1,393

Environmental Liability associated with Asbestos Cleanup and Other

The Department has estimated both friable, \$8 million, and nonfriable, \$121 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, 2015, 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, 2015 and 2014 are summarized in the Schedule of Liabilities Not Covered by Budgetary Resources (*dollars in millions*).

Liabilities Not Covered by Budgetary Resources	2015	2014
Intragovernmental Liabilities		
Unfunded FECA Liability	\$ 20	\$ 21
Custodial Liability	16	28
Total Intragovernmental Liabilities	36	49
International Organizations Liability	1,112	1,136
After-Employment Benefit Liability:		
Foreign Service Retirement Actuarial Liability	1,262	1,197
Foreign Service Nationals (FSN):		
Defined Contributions Fund	160	147
Defined Benefit Plans	68	51
Lump Sum Retirement and Voluntary Severance	301	300
Total After-Employment Benefit Liability	1,791	1,695
Accrued Annual Leave	369	366
Environmental Liability	130	146
Capital Lease Liability	98	98
Contingent Liability	13	10
Other Liabilities	93	79
Total Liabilities Not Covered By Budgetary Resources	3,642	3,579
Total Liabilities Covered By Budgetary Resources	21,779	21,504
Total Liabilities	\$ 25,421	\$ 25,083

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,	2015	2014
Foreign Service Officer		
Foreign Service Retirement and Disability Fund	\$ 19,501	\$ 19,091
Foreign Service Nationals		
Defined Contributions Fund	160	147
Defined Benefit Plans	68	51
Lump Sum Retirement and Voluntary Severance	301	300
Total FSN	529	498
Total After-Employment Benefit Liability	\$ 20,030	\$ 19,589

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 2015 and 2014.

Normal Cost:	2015	2014
FSRDS	35.28%	35.14%
FSPS	26.12%	25.07%

As discussed in Note 1 sections *Foreign Service Retirement and Disability Fund* and *Changes in Accounting Estimate* there was a significant actuarial gain in 2014 resulting from assumption changes determined appropriate by an experience study performed by actuaries retained by the Department. The *Foreign Service Retirement Plans Actuarial Experience Study 2008 – 2013* describes extensive assumption changes, both economic and demographic. The economic assumption change related to merit salary growth experience. The merit salary increase is the portion of the overall annual pay increase that is over and above the annual general salary and locality pay increases, i.e., the salary increase derived from career longevity and promotions.

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

The demographic assumption changes included 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 actuarial gain of \$1,343 million, recognized in 2014, resulting from these demographic assumption changes can be seen in the table on the following page.

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 2015 and 2014 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, 2015 and 2014 (*dollars in millions*).

For the Year Ended September 30,	2015	2014
Pension Actuarial Liability, Beginning of Year	\$ 19,091	\$ 20,067
Pension Expense:		
Normal Cost	442	554
Interest on Pension Liability	786	845
Actuarial (Gains) or Losses:		
From Experience	(31)	(69)
From Assumption Changes		
Interest Rate	443	193
Experience Study	—	(1,343)
Other	(303)	(237)
Prior Year Service Costs	—	—
Other	(1)	1
Total Pension Expense	1,336	(56)
Less Payments to Beneficiaries	926	920
Pension Actuarial Liability, End of Year	19,501	19,091
Less: Net Assets Available for Benefits	18,239	17,894
Actuarial Pension Liability – Unfunded	\$ 1,262	\$ 1,197
Actuarial Assumptions:		
Rate of Return on Investments	3.99%	4.17%
Rate of Inflation	2.13%	2.31%
Salary Increase	2.38%	2.56%

Net Assets Available for Benefits at September 30, 2015 and 2014, consist of the following (*dollars in millions*).

At September 30,	2015	2014
Fund Balance with Treasury	\$ —	\$ —
Accounts and Interest Receivable	173	178
Investments in U.S. Government Securities	18,144	17,792
Total Assets	18,317	17,970
Less: Liabilities Other Than Actuarial	78	76
Net Assets Available for Benefits	\$ 18,239	\$ 17,894

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 49,000, 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, 2015, approximately 13,000 FSNs in 30 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 2015 and 2014 were \$25.0 million and \$22.4 million, respectively. Total liability reported for the FSN DCF is \$160 million and \$147 million as of September 30, 2015 and 2014, respectively.

Local Defined Contribution Plans

In 52 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 2015 and 2014 were \$23.1 million and \$22.7 million, respectively.

Defined Benefit Plans

In 12 countries, involving over 3,500 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 \$68 million and \$51 million as of September 30, 2015 and 2014, respectively. The change was an increase of \$17 million in 2015 and a decrease of \$28 million in 2014.

The material FSN defined benefit plans include plans in Germany and the United Kingdom (UK) which represent 79 percent of total assets, 81 percent of total projected benefit obligations, and 89 percent of the net defined benefit liability as of September 30, 2015. The Germany Plan's most recent evaluation report, dated August 21, 2015, is as of July 1, 2015. The UK Plan's most recent evaluation, dated October 22, 2015, is as of April 6, 2015.

For the Germany Plan, the change in the net defined benefit liability was a decrease of \$12 million in 2015 and \$7 million in 2014, while for the UK Plan, the change was an increase of \$31 million in 2015 and a decrease of \$22 million in 2014.

For Germany in 2015, the decrease in the net defined benefit liability was primarily due to an increase in the retirement age assumption from 63 to 65 years of age. The decrease in 2014 was primarily due to a one-time employer deficit contribution of \$3.3 million.

For the UK Plan in 2015, the increase in net defined benefit liability was primarily due to changes in the financial assumptions, mainly the discount rate. The decrease in 2014 was due to a combination of returns on plan assets and gains on changes in actuarial assumptions.

The tables below show the changes in the projected benefit obligation and plan assets during 2015 and 2014 for the Germany and UK plans (*dollars in millions*).

Change in Benefit Obligations:	2015	2014
Benefit obligation beginning of year	\$ 322	\$ 327
Service Cost	3	2
Interest Cost	6	6
Actuarial (gain) loss on assumption change	—	—
Other actuarial (gain) loss	—	—
Value of New Benefit	—	—
Other	10	(13)
Benefit obligation end of year	\$ 341	\$ 322

Change in Plan Assets:	2015	2014
Fair value of plan assets beginning of year	\$ 285	\$ 260
Return on plan assets	18	18
Contributions less Benefits Paid	6	9
Other	(27)	(2)
Fair value of plan assets end of year	282	285
Net Defined Benefit Liability	\$ 59	\$ 37

The table below shows the allocation of the plan assets by category during 2015 and 2014 for the German and UK plans.

	2015	2014
Insurance Policies	37%	41%
Equity Securities	33%	27%
Money Market and Cash	7%	6%
Debt Securities	23%	26%
Mixed (Debt & Equity Securities)	—	—
Property	—	—
Total	100%	100%

The principal actuarial assumptions used for 2015 and 2014 for the Germany and UK plans are presented below:

Actuarial Assumptions:	2015	2014
Discount Rate	3.40% – 5.20%	3.50% – 6.40%
Salary Increase Rate	2.25% – 4.50%	2.25% – 4.80%
Pension Increase Rate	1.75% – 3.20%	2.00% – 3.50%

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, 2015, approximately 23,000 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 withdrawals, 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, 2015, 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, 2015 and 2014, are:

	2015	2014
Discount Rate	3.48%	3.68%
Rate of inflation	2.07%	2.31%
Salary Increase	3.26%	4.18%

Based upon the projection, the total liability reported for the Retirement and Voluntary Severance Lump Sum Payment is \$301 million and \$300 million as of September 30, 2015 and 2014, respectively, as shown below (*dollars in millions*):

At September 30,	2015	2014
Retirement	\$ 94	\$ 94
Voluntary Severance	207	206
Total	\$ 301	\$ 300

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 Nation (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 Accounts (IO&P).

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 of dues payments 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 this Note 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, 2015 and 2014.

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

As of September 30,	2015	2014
Regular Membership Assessments Payable to UN	\$ 813	\$ 799
Dues Payable to UN Peacekeeping Missions	369	349
International Organizations Liability	1,081	1,306
	2,263	2,454
Less Amounts not Authorized to be Paid	690	713
International Organizations Liability	\$ 1,573	\$ 1,741
Funded Amounts	\$ 461	\$ 605
Unfunded Amounts	1,112	1,136
Total International Organizations Liability	\$ 1,573	\$ 1,741

12 LEASES

The Department is committed to over 10,000 leases, which cover office and functional properties, and residential units at diplomatic missions overseas. The majority of these leases are short-term operating leases. In most cases, management expects that the leases will be renewed or replaced by other leases. Personnel from other U.S. Government agencies occupy some of the leased facilities (both residential and non-residential). These agencies reimburse the Department for the use of the properties. Reimbursements are received for approximately \$95.7 million of the lease costs.

Capital Leases

The Department has various leases for overseas 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, 2015 and 2014 (*dollars in millions*). Lease liabilities are not covered by budgetary resources.

	2015	2014
Net Assets Under Capital Leases:		
Buildings	\$ 146	\$ 110
Accumulated Depreciation	(41)	(33)
Net Assets under Capital Leases	\$ 105	\$ 77

Future Minimum Lease Payments:

2015	
Fiscal Year	Lease Payments
2016	\$ 15
2017	13
2018	13
2019	13
2020	14
2021 and thereafter	163
Total Minimum Lease Payments	231
Less: Amount Representing Interest	(133)
Liabilities under Capital Leases	\$ 98

2014	
Fiscal Year	Lease Payments
2015	\$ 12
2016	15
2017	13
2018	12
2019	13
2020 and thereafter	174
Total Minimum Lease Payments	239
Less: Amount Representing Interest	(141)
Liabilities under Capital Leases	\$ 98

Operating Leases

The Department leases real property in overseas locations 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, 2015 and 2014 for each of the next 5 years and in aggregate are as follows (*dollars in millions*):

Year Ended September 30, 2015	Operating Lease Amounts
2016	\$ 423
2017	293
2018	209
2019	144
2020	102
2021 and thereafter	338
Total Minimum Future Lease Payments	\$ 1,509

Year Ended September 30, 2014	Operating Lease Amounts
2015	\$ 422
2016	309
2017	189
2018	126
2019	87
2020 and thereafter	259
Total Minimum Future Lease Payments	\$ 1,392

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 \$2 to \$42 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 2015 and 2014 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 \$981 million. Under the programs, we have paid out \$235 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.



Turning in a terrorist is risky.

It also has its rewards!

Turning in a terrorist to the authorities can provide you with a way to improve your life – as well as save the lives of innocent victims. You also can save those involved with a terrorist plot, who often are killed by the consequences of their acts. If you have information about a future terrorist act, your phone call, letter, visit, or e-mail may reward you and save other lives.

The U.S. Government has already paid millions of dollars to individuals who provided information that resulted in the arrest of someone who attempted or committed a terrorist act against U.S. persons or property. Individuals who provided such information have had their identities changed and been relocated with their families.

Individuals providing information may be eligible for a reward of up to \$5 million, protection of their identities, and relocation with their families. If you have information, please contact the nearest U.S. embassy or consulate or write:

REWARDS FOR JUSTICE

Post Office Box 96781
Washington, D.C. 20522-0303 U.S.A.
www.rewardsforjustice.net
1-800-877-3927

Up To \$5 Million Reward • Responses Kept Strictly Confidential

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, 2015 and 2014 (*dollars in millions*).

	2015	2014
Balance Sheet as of September 30		
Assets:		
Fund Balance with Treasury	\$ 179	\$ 176
Investments	48	44
Other Assets	96	97
Total Assets	\$ 323	\$ 317
Net Position:		
Cumulative Results of Operations	\$ 323	\$ 317
Total Liabilities and Net Position	\$ 323	\$ 317
Statement of Net Cost for the Year Ended September 30		
Gross Program Costs	\$ 67	\$ 46
Less: Earned Revenues	—	—
Net Program Costs	67	46
Net Cost of Operations	\$ 67	\$ 46
Statement of Changes in Net Position for the Year Ended September 30		
Net Position Beginning of Period	\$ 317	\$ 286
Budgetary Financing Sources	73	77
Net Cost of Operations	(67)	(46)
Change in Net Position	6	31
Net Position End of Period	\$ 323	\$ 317

15 STATEMENT OF NET COST

Commencing in 2014, 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. In the Financial Summary and Highlights section of the Management Discussion and Analysis, a table is presented to show the relationship between the Department's strategic goals described in the Strategic Plan and the major programs used to present the Consolidated Statement of Net Cost and related disclosures.

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, 2015

(dollars in millions)

MAJOR PROGRAM	Under Secretary for							Total
	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	
Peace and Security								
Total Cost	\$ 758	\$ —	\$ 903	\$ 554	\$ —	\$ —	\$ (7)	\$ 2,208
Earned Revenue	(39)	—	(16)	1	—	—	7	(47)
Net Program Costs	719	—	887	555	—	—	—	2,161
Democracy, Human Rights and Governance								
Total Cost	—	—	643	23	—	—	(5)	661
Earned Revenue	—	—	(11)	—	—	—	5	(6)
Net Program Costs	—	—	632	23	—	—	—	655
Health, Education and Social Services								
Total Cost	—	—	699	6,427	—	—	—	7,126
Earned Revenue	—	—	—	(4)	—	—	—	(4)
Net Program Costs	—	—	699	6,423	—	—	—	7,122
Humanitarian, Economic Development and Environment								
Total Cost	—	—	3,268	156	—	—	—	3,424
Earned Revenue	—	—	—	—	—	—	—	—
Net Program Costs	—	—	3,268	156	—	—	—	3,424
International Organizations and Commissions								
Total Cost	—	37	—	3,535	—	—	—	3,572
Earned Revenue	—	—	—	(11)	—	—	—	(11)
Net Program Costs	—	37	—	3,524	—	—	—	3,561
Diplomatic and Consular Programs								
Total Cost	240	94	112	8,010	301	6,730	(1,999)	13,488
Earned Revenue	(94)	(1)	(1)	(827)	(17)	(6,886)	1,944	(5,882)
Net Program Costs	146	93	111	7,183	284	(156)	(55)	7,606
Administration of Foreign Affairs								
Total Cost	—	—	470	4,725	1,748	29	(4,224)	2,748
Earned Revenue	(3)	—	(1,595)	(1,060)	(2,708)	(626)	4,216	(1,776)
Net Program Costs Before Assumption Changes	(3)	—	(1,125)	3,665	(960)	(597)	(8)	972
Actuarial Loss on Pension Assumption Changes								
Assumption Changes	—	—	9	95	35	1	—	140
Net Program Costs	(3)	—	(1,116)	3,760	(925)	(596)	(8)	1,112
Total Cost	998	131	6,104	23,525	2,084	6,760	(6,235)	33,367
Total Revenue	(136)	(1)	(1,623)	(1,901)	(2,725)	(7,512)	6,172	(7,726)
Total Net Cost	\$ 862	\$ 130	\$ 4,481	\$21,624	\$ (641)	\$ (752)	\$ (63)	\$25,641

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 were updated in 2014 and 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, 2015 and 2014, these consist of costs and earned revenue summarized below (*dollars in millions*):

Administration of Foreign Affairs	2015			2014		
	Total Prior to Eliminations	Intra-Departmental Eliminations	Total	Total Prior to Eliminations	Intra-Departmental Eliminations	Total
Costs:						
Administration of Foreign Affairs – Other	\$ 1,405	\$ 60	\$ 1,345	\$ 1,453	\$ 71	\$ 1,382
FSRDF	1,196	571	625	1,331	614	717
ICASS	3,088	2,431	657	2,747	2,313	434
Working Capital Fund	1,283	1,162	121	1,169	1,127	42
Total Costs	6,972	4,224	2,748	6,700	4,125	2,575
Less Earned Revenue:						
Administration of Foreign Affairs – Other	67	59	8	76	68	8
FSRDF	1,272	571	701	1,339	614	725
ICASS	3,311	2,425	886	3,167	2,297	870
Working Capital Fund	1,342	1,161	181	1,252	1,127	125
Total Earned Revenue	5,992	4,216	1,776	5,834	4,106	1,728
Actuarial Loss/(Gain) on Pension Assumption Changes	140	—	140	(1,387)	—	(1,387)
Total Net Cost for Administration of Foreign Affairs	\$ 1,120	\$ 8	\$ 1,112	\$ (521)	\$ 19	\$ (540)

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, 2015 and 2014, these consist of costs and earned revenue summarized below (*dollars in millions*):

Diplomatic and Consular Programs	2015			2014		
	Total Prior to Eliminations	Intra-Departmental Eliminations	Total	Total Prior to Eliminations	Intra-Departmental Eliminations	Total
Costs:						
Diplomatic Programs and Other	\$ 4,300	\$ 1,598	\$ 2,702	\$ 5,345	\$ 1,776	\$ 3,569
Overseas Buildings Operations	1,597	360	1,237	1,528	208	1,320
Central Salaries and Benefits	4,299	—	4,299	4,017	—	4,017
Diplomatic Security	3,452	15	3,437	2,825	105	2,720
Consular Affairs	1,839	26	1,813	1,760	1	1,759
Total Costs	15,487	1,999	13,488	15,475	2,090	13,385
Less Earned Revenue:						
Diplomatic Programs and Other	2,138	1,545	593	2,216	1,642	574
Overseas Buildings Operations	1,410	358	1,052	1,000	203	797
Diplomatic Security	208	15	193	275	105	170
Consular Affairs	4,070	26	4,044	3,588	2	3,586
Total Earned Revenue	7,826	1,944	5,882	7,079	1,952	5,127
Total Net Cost for Diplomatic and Consular Programs	\$ 7,661	\$ 55	\$ 7,606	\$ 8,396	\$ 138	\$ 8,258



Assistant Secretary of State for Democracy, Human Rights and Labor Tom Malinowski briefs reporters following the U.S.-China Human Rights Dialogue at the U.S. Department of State in Washington, D.C., August 13, 2015. *Department of State*

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 2015 and 2014 was as follows (*dollars in millions*):

Under Secretary	2015	2014
Political Affairs	\$ 15,162	\$ 16,236
Management (Consular Affairs)	4,910	4,205
Public Diplomacy and Public Affairs	1,353	977
Arms Control, International Security Affairs	245	222
Civilian Security, Democracy and Human Rights	1,091	464
Economic Growth, Energy and Environment	68	57
Total	\$ 22,829	\$ 22,161

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, 2015 and 2014 (*dollars in millions*):

Inter-Entity Costs	2015	2014
Other Post-Employment Benefits:		
Civil Service Retirement Program	\$ 29	\$ 46
Federal Employees Health Benefits Program	120	114
Federal Employees Group Life Insurance Program	1	1
Litigation funded by Treasury Judgment Fund	—	—
Subtotal – Imputed Financing Source	150	161
Future Workers' Compensation Benefits	18	19
Total Inter-Entity Costs	\$ 168	\$ 180

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, 2015 and 2014, intragovernmental costs and earned revenues were as follows (*dollars in millions*):

	2015	2014
Gross Cost:		
Intragovernmental	\$ 3,094	\$ 3,071
With the Public	30,273	28,920
Total Gross Cost	33,367	31,991
Less Earned Revenue:		
Intragovernmental	3,441	3,232
With the Public	4,285	3,751
Total Earned Revenue	7,726	6,983
Total Net Cost of Operations	\$25,641	\$25,008

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, 2015 and 2014, consist of the following (*dollars in millions*):

Earned Revenues	2015			2014		
	Total Prior to Eliminations	Intra-Departmental Eliminations	Total	Total Prior to Eliminations	Intra-Departmental Eliminations	Total
Consular Fees:						
Passport, Visa and Other Consular Fees	\$ 863	\$ —	\$ 863	\$ 735	\$ —	\$ 735
Machine Readable Visa	2,102	—	2,102	1,901	—	1,901
Expedited Passport	207	—	207	184	—	184
Passport, Visa and Other Surcharges	939	—	939	836	—	836
Fingerprint Processing, Diversity Lottery, and Affidavit of Support	19	—	19	21	—	21
Subtotal – Consular Fees	4,130	—	4,130	3,677	—	3,677
FSRDF	1,272	571	701	1,339	614	725
ICASS	3,311	2,425	886	3,167	2,297	870
Other Reimbursable Agreements	3,760	1,967	1,793	3,498	1,963	1,535
Working Capital Fund	1,342	1,161	181	1,252	1,127	125
Other	83	48	35	107	56	51
Total	\$ 13,898	\$ 6,172	\$ 7,726	\$ 13,040	\$ 6,057	\$ 6,983

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 2015 and 2014 were \$368 million and \$357 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 2015 and 2014 were \$283 million and \$334 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2015 and 2014 were \$620 million and \$648 million, respectively.

Did You Know?

Secretary of State Cyrus Roberts Vance helped negotiate the Israel-Egypt Peace Treaty, the first peace treaty between Israel and an Arab neighbor. For a complete list of those who have served as U.S. Secretary of State, please refer to Appendix C of this report.



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, 2015 and 2014. 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, 2015 and 2014, the Department received approximately \$65.9 billion and \$64.5 billion in budgetary resources, respectively, primarily consisting of the following:

Source of Budgetary Resources (dollars in billions)

	2015	2014
Budget Authority:		
Direct or related appropriations	\$ 30.2	\$ 29.4
Authority financed from Trust Funds	1.0	1.0
Spending authority from providing goods and services	12.1	11.1
Unobligated Balances – Beginning of Year	21.3	21.9
Other	1.3	1.1
Total Budgetary Resources	\$ 65.9	\$ 64.5

Apportionment Categories of Obligations Incurred (dollars in millions)

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2015			
Obligations Apportioned Under			
Category A	\$ 4,546	\$ 3,853	\$ 8,399
Category B	25,222	7,018	32,240
Category A/B	—	811	811
Exempt from Apportionment	1,222	—	1,222
Total	\$ 30,990	\$ 11,682	\$ 42,672

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2014			
Obligations Apportioned Under			
Category A	\$ 4,045	\$ 3,673	\$ 7,718
Category B	26,661	6,628	33,289
Category A/B	—	839	839
Exempt from Apportionment	1,281	—	1,281
Total	\$ 31,987	\$ 11,140	\$ 43,127

Per OMB Circular A-11, Category A, *Preparation, Submission and Execution of the Budget*, revised, 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, 2015 and 2014, was approximately \$25.4 billion and \$25.0 billion, respectively. This includes amounts of \$1.6 billion for September 30, 2015, and \$1.9 billion for September 30, 2014, 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 \$124.0 million and \$174.8 million for 2015 and 2014, 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, 2014 is presented in the table below. Since these financial statements are published before the Budget,

this reconciliation is based on the FY 2014 Combined Statement of Budgetary Resources because actual amounts for FY 2014 are in the most recently published Budget (i.e., FY 2016). The Budget with actual numbers for September 30, 2015 will be published in the FY 2017 Budget and available in early February 2016. The Department of State's Budget Appendix includes this information and is available on OMB's website (<http://www.whitehouse.gov/omb/budget>).

For the Fiscal Year Ended September 30, 2014 (dollars in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (SBR)	\$ 64,471	\$ 43,127	\$ 388	\$ 29,431
Distributed Offsetting Receipts			(388)	388
Funds not Reported in the Budget:				
Expired Funds	(1,219)	—	—	—
International Assistance Program	(2,587)	(1,600)	—	(1,980)
Undelivered Orders Adjustment	(265)	—	—	—
Other and Rounding errors	—	43	—	(6)
Budget of the United States	\$ 60,400	\$ 41,570	\$ —	\$ 27,833

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.

17 CUSTODIAL ACTIVITY

The Department administers certain 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. 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 2015 and 2014, the Department collected \$22 million and \$59 million, respectively, in custodial revenues that were transferred to Treasury.

18 RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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 the 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)*

	2015	2014
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 42,672	\$ 43,127
Spending Authority from Offsetting Collections and Recoveries	(13,734)	(12,734)
Offsetting Receipts	(408)	(388)
Net Obligations	28,530	30,005
Imputed Financing	150	161
Other Resources	5	247
Total Resources Used to Finance Activities	28,685	30,413
Resources Used to Finance Items not Part of Net Cost:		
Resources Obligated for Future Costs – goods ordered but not yet provided	275	(460)
Resources that Finance the Acquisition of Assets	(2,373)	(2,296)
Resources that Fund Expenses Recognized in Prior Periods	(938)	(1,124)
Other	(25)	(33)
Total Resources Used to Finance Items not Part of Net Cost	(3,061)	(3,913)
Total Resources Used to Finance the Net Cost of Operations	25,624	26,500
Components of the Net Cost of Operations that will not require or generate Resources in the Current Period:		
Increase in Actuarial Liability	410	(976)
Passport Fees Reported as Revenue Returned to Treasury General Fund	(819)	(770)
Depreciation and Amortization	985	883
Interest Income of Trust Funds	(621)	(648)
Other	62	19
Total Components of the Net Cost of Operations that will not require or generate Resources in the Current Period	17	(1,492)
Net Cost of Operations	\$ 25,641	\$ 25,008

19 FIDUCIARY ACTIVITIES

The Resolution of the Iraqi Claims deposit fund 19X6038, Libyan Claims deposit fund 19X6224, and the Saudi Arabia Claims deposit fund 19X6225 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, and Saudi Arabia. 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)

	2015				2014			
	19X6038	19X6224	19X6225	Total	19X6038	19X6224	19X6225	Total
Fiduciary Net Assets, Beginning of Year	\$ 102	\$ —	\$ 31	\$ 133	\$ 103	\$ —	\$ 1	\$ 104
Contributions	—	—	57	57	—	—	87	87
Disbursements to and on behalf of beneficiaries	(1)	—	(86)	(87)	(1)	—	(57)	(58)
Increases/(Decreases) in Fiduciary Net Assets	(1)	—	(29)	(30)	(1)	—	30	29
Fiduciary Net Assets, End of Year	\$ 101	\$ —	\$ 2	\$ 103	\$ 102	\$ —	\$ 31	\$ 133

Fiduciary Net Assets

As of September 30,
(dollars in millions)

Fiduciary Assets	2015				2014			
	19X6038	19X6224	19X6225	Total	19X6038	19X6224	19X6225	Total
Cash & Cash Equivalents	\$ 3	\$ —	\$ 2	\$ 5	\$ 4	\$ —	\$ 31	\$ 35
Investments	98	—	—	98	98	—	—	98
Total Fiduciary Net Assets	\$ 101	\$ —	\$ 2	\$ 103	\$ 102	\$ —	\$ 31	\$ 133



Images (Left) to (Right): (1) President Barack Obama shakes hands with guests after speaking during a reception. The reception was to celebrate the recent signing into law of the African Growth and Opportunity Act (AGOA), the East Room of the White House in Washington, D.C., July 22, 2015; and (2) Lawmakers observe U.S. President Barack Obama signing legislation, which includes reauthorizing AGOA, granting him fast track trade negotiation authority, the East Room in Washington, D.C., June, 29 2015. ©AP Image

FOCUS

The African Growth and Opportunity Act Forum

“ AGOA has served as a catalyst for greater trade and prosperity. ”
 — Secretary of State John Kerry

On August 24-27, 2015, the government of Gabon and the United States co-hosted the 2015 African Growth and Opportunity Act (AGOA) Forum in Libreville, under the theme “AGOA at 15: Charting a Course for a Sustainable U.S.-Africa Trade and Investment Partnership.” Gabon was the first central African country to host the AGOA Forum.

AGOA Ministerial Forum

AGOA legislation mandates that the United States and member countries regularly engage in trade and investment policy discussions at the annual AGOA Forum. This event brings together senior officials from the United States and the 39 AGOA member countries, business leaders, entrepreneurs — including youth and women — civil society actors, and private sector stakeholders to discuss a broad range of trade and investment-related issues. The private sector and civil society organizations have a particularly important role in the promotion of good governance, the

elimination of barriers to trade and investment, and the adherence to the founding AGOA eligibility criteria.

The Role of AGOA

In both Africa and the United States, there is growing consensus that open trade and increased international investment are critical to spurring economic development and reducing poverty in Africa. AGOA has succeeded in helping eligible nations grow, diversify their exports to the United States, and create employment and inclusive economic growth.

AGOA Results

To date, eligible countries have exported nearly \$480 billion worth of goods to the United States under AGOA and the Generalized System of Preferences program. In 2014, non-oil AGOA trade was valued at \$4.4 billion, a 250 percent increase from 2001, the first full year of AGOA.

Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2015 (dollars in millions)

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budgetary Resources:						
Unobligated balance brought forward, October 1	\$ 10,511	\$ 180	\$ 69	\$ 986	\$ 9,598	\$ 21,344
Adjustment to unobligated balance brought forward, October 1	—	—	—	—	(1)	(1)
Unobligated balance brought forward, October 1, as adjusted	10,511	180	69	986	9,597	21,343
Recoveries of prior year unpaid obligations	1,103	10	17	211	336	1,677
Other changes in unobligated balance	2	(4)	(2)	(76)	(259)	(339)
Unobligated balance from prior year budget authority, net	11,616	186	84	1,121	9,674	22,681
Appropriations (discretionary and mandatory)	12,365	3,615	124	1,569	13,486	31,159
Borrowing authority (discretionary and mandatory)	1	—	—	—	—	1
Spending authority from offsetting collections (discretionary and mandatory)	11,949	—	8	58	42	12,057
Total Budgetary Resources	\$ 35,931	\$ 3,801	\$ 216	\$ 2,748	\$ 23,202	\$ 65,898
Status of Budgetary Resources:						
Obligations incurred	\$ 24,619	\$ 3,472	\$ 123	\$ 1,602	\$ 12,856	\$ 42,672
Unobligated balance, end of year:						
Apportioned	9,989	318	76	883	10,053	21,319
Exempt from apportionment	2	—	—	—	—	2
Unapportioned	1,321	11	17	263	293	1,905
Unobligated balance, end of year	11,312	329	93	1,146	10,346	23,226
Total Status of Budgetary Resources	\$ 35,931	\$ 3,801	\$ 216	\$ 2,748	\$ 23,202	\$ 65,898
Change in Obligated Balance:						
Unpaid Obligations:						
Unpaid obligations, brought forward, Oct 1 (gross)	\$ 13,297	\$ 262	\$ 92	\$ 1,420	\$ 11,640	\$ 26,711
Adjustments to unpaid obligations, start of year (+ or -)	—	—	(1)	—	2	1
Obligations incurred	24,619	3,472	123	1,602	12,856	42,672
Outlays (gross) (-)	(23,246)	(3,602)	(133)	(1,513)	(11,869)	(40,363)
Actual transfers, unpaid obligations (net) (+ or -)	—	—	—	—	—	—
Recoveries of prior year unpaid obligations (-)	(1,103)	(10)	(17)	(211)	(336)	(1,677)
Unpaid obligations, end of year (gross)	\$ 13,567	\$ 122	\$ 64	\$ 1,298	\$ 12,293	\$ 27,344
Uncollected payments:						
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	\$ (324)	\$ —	\$ (4)	\$ (1)	\$ (50)	\$ (379)
Adjustments to uncollected payments, Federal sources, start of year (+ or -) (Note 28)	—	—	1	—	—	1
Change in uncollected customer payments from Federal sources (+ or -)	(111)	—	2	—	(1)	(110)
Actual transfers, uncollected payments from Federal source (net) (+ or -)	—	—	—	—	—	—
Uncollected customer payments from Federal sources, end of year (-)	\$ (435)	\$ —	\$ (1)	\$ (1)	\$ (51)	\$ (488)
Memorandum (non-add) entries:						
Obligated balance, start of year (+ or -)	12,973	262	88	1,419	11,592	26,334
Obligated balance, end of year (+ or -)	13,132	122	63	1,297	12,242	26,856

(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)	\$ 24,315	\$ 3,615	\$ 132	\$ 1,627	\$ 13,528	\$ 43,217
Actual offsetting collections (discretionary and mandatory) (-)	(11,838)	—	(10)	(58)	(41)	(11,947)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(111)	—	2	—	(1)	(110)
Budget authority, net (discretionary and mandatory)	12,366	3,615	124	1,569	13,486	31,160
Outlays, gross (discretionary and mandatory)	23,246	3,602	133	1,513	11,869	40,363
Actual offsetting collections (discretionary and mandatory) (-)	(11,838)	—	(10)	(58)	(41)	(11,947)
Outlays, net (discretionary and mandatory)	11,408	3,602	123	1,455	11,828	28,416
Distributed offsetting receipts (-)	(408)	—	—	—	—	(408)
Agency outlays, net (discretionary and mandatory)	\$ 11,000	\$ 3,602	\$ 123	\$ 1,455	\$ 11,828	\$ 28,008

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, 2015

Category	Number of Assets	Condition
Diplomatic Reception Rooms Collection	1,824	Good to Excellent
Art Bank Program	2,554	Good to Excellent
Art in Embassies Program	1,069	Good to Excellent
Cultural Heritage Collection	18,409	Good to Excellent
Library Rare & Special Book Collection	1,130	Poor to Good
Secretary of State's Register of Culturally Significant Property	26	Poor to Excellent
U.S. Diplomacy Center	3,281	Good to Excellent
Blair House	2,614	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	2015 Ending Balance DM&R	2015 Beginning Balance DM&R
General PP&E	\$ 184	\$ 177
Heritage Assets	4	3
Total	\$ 188	\$ 180



Images (Left) to (Right): (1) U.S. Secretary of State John Kerry greets a venerable monk with a traditional fruit basket at the Kelaniya Temple in Colombo, Sri Lanka, May 2, 2015; and (2) U.S. Secretary of State John Kerry greets Pope Francis after the Pontiff arrived at Andrews Air Force Base in Camp Springs, Maryland, for a flight to New York, N.Y., September 24, 2015. *Department of State*

FOCUS

Religion and Global Affairs

Religion has a significant impact on a range of U.S. foreign policy priorities, making it critical in continuing and strengthening efforts to assess religious dynamics and engage religious actors while pursuing our diplomacy and development objectives. With 84 percent of people around the world identifying with a religious group, religion is a powerful force in global politics and civil society.

Religious Leader and Faith Community Engagement: A Presidential Priority

In July 2013, the White House issued a National Strategy on Religious Leader and Faith Community Engagement. The National Strategy calls for advancing U.S. foreign policy by engaging religious actors and institutions on three priority issue areas:

- Promoting sustainable development and more effective humanitarian assistance;
- Advancing pluralism and human rights, including the protection of religious freedom; and
- Preventing, mitigating, and resolving violent conflict and contributing to local and regional stability and security.

Building Capacity at the State Department: The Office of Religion and Global Affairs

Secretary of State John Kerry created the Office of Religion and Global Affairs (formerly the Office of Faith-Based Community Initiatives) with Shawn Casey as the U.S. Special Representative. The office:

- Advises the Secretary on policy matters as they relate to religion;
- Assists Posts and Bureaus in their efforts to assess religious dynamics and engage with religious actors; and
- Serves as a first point of entry for individuals, both religious and secular, who would like to engage the State Department in Washington on matters of religion and global affairs.

To maximize strategic collaboration, the Secretary consolidated a number of existing offices within the Office of Religion and Global Affairs. This office complements the work of the Ambassador-at-Large for International Religious Freedom and the Office of International Religious Freedom in the Bureau of Democracy, Human Rights, and Labor, which will continue to execute their Congressional mandate to monitor, report on, and promote the human right to religious freedom.



Deputy Secretary of State for Management and Resources Heather Higginbottom meets with the Missionary Sisters of the Sacred Heart Women's Empowerment Training Facility in Boera, Papua New Guinea, September 10, 2015. *Department of State*

SECTION III: Other Information

Combined Schedule of Spending

The Combined Schedule of Spending (SOS) presents an overview of how much money is available to spend and how or on what that money was spent. The term “spend”, as used in this report, means obligated. Obligation means a legally binding agreement that will result in outlays, immediately or in the future. In layman’s terms, obligations are incurred when you place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another. It does not equate to expenses as reported in the Statement of Net Cost. The data used to prepare this report is the same underlying data used to prepare the Combined Statement of Budgetary Resources (SBR).

The Office of Management and Budget (OMB) makes available a searchable website, www.USAspending.gov, that provides information on Federal awards of contracts and grants and is accessible to the public at no cost. When comparing USAspending.gov data to the SOS one must take into account that the website has a fundamentally different purpose and, as such, there are differences that include but are not limited to personnel compensation, travel, utilities and leases, intra-departmental and interagency spending, and various other categories of financial awards. As a result, USAspending.gov data will differ from the Combined Schedule of Spending.

The Department’s total resources for the year were \$65.9 billion of which \$42.7 billion were spent as below.

COMBINED SCHEDULE OF SPENDING (dollars in millions)

For the Year Ended September 30,	2015						2014
	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total	Total
What Money is Available to Spend?							
Total Resources	\$ 35,931	\$ 3,801	\$ 216	\$ 2,748	\$ 23,202	\$ 65,898	\$ 64,471
Less Amount Available but Not Agreed to be Spent	9,991	318	76	883	10,053	21,321	19,515
Less Amount Not Available to be Spent	1,321	11	17	263	293	1,905	1,829
Total Amounts Agreed to be Spent	\$ 24,619	\$ 3,472	\$ 123	\$ 1,602	\$ 12,856	\$ 42,672	\$ 43,127
How was the Money Spent/Issued?							
Personnel Compensation & Benefits	\$ 7,223	\$ —	\$ 26	\$ 10	\$ 298	\$ 7,557	\$ 7,097
Contractual Services & Supplies	11,989	—	59	614	2,173	14,835	14,768
Acquisition of Assets	2,101	—	—	5	116	2,222	2,776
Grants and Fixed Charges	1,773	3,461	37	850	9,552	15,673	16,717
Other	1,533	11	1	123	717	2,385	1,769
Total Amounts Agreed to be Spent	\$ 24,619	\$ 3,472	\$ 123	\$ 1,602	\$ 12,856	\$ 42,672	\$ 43,127
Who did the Money Go To?							
Federal Agencies	\$ 9,272	\$ —	\$ 7	\$ 285	\$ 1,164	\$ 10,728	\$ 14,757
For Profit	6,872	18	49	419	284	7,642	8,721
Grantees and Non Profits	1,018	3,454	37	870	9,536	14,915	13,748
Individuals	4,213	—	4	10	304	4,531	4,842
Other	3,244	—	26	18	1,568	4,856	1,059
Total Amounts Agreed to be Spent	\$ 24,619	\$ 3,472	\$ 123	\$ 1,602	\$ 12,856	\$ 42,672	\$ 43,127

Inspector General's Assessment of Management and Performance Challenges

The *Reports Consolidation Act of 2000*¹ requires that the Department's Performance and Accountability Report include a statement by the Inspector General that summarizes the most serious management and performance challenges facing the Department and briefly assesses the progress in addressing them. The Office of Inspector General (OIG) considers the most serious management and performance challenges for the Department to be in the following areas:



Inspector General,
Steve A. Linick

1. Protection of People and Facilities
2. Managing Posts and Programs in Conflict Areas
3. Management of Contracts and Grants
4. Information Security and Management
5. Financial Management

1 PROTECTION OF PEOPLE AND FACILITIES

Protecting overseas personnel and facilities continues to be a major management challenge for the Department. In 2014, there were 20 attacks on embassy facilities or personnel, including assaults on U.S. employees, small arms and rocket-propelled grenade attacks, and a suicide bombing at the Kabul International Airport that took the life of an embassy local staff member.²

Notwithstanding the steps the Department has taken to improve security since the September 2012 attack on the U.S. Special Mission in Benghazi, Libya, OIG continues to find security deficiencies at a significant number of U.S. diplomatic facilities abroad.³ Among the 27 U.S. diplomatic posts (“posts”

includes both embassies and their constituent posts) that OIG inspected in FY 2015, 18 were found to have physical security deficiencies at mission facilities or official residences. While some of these deficiencies were due to mission growth and the lack of sufficient work space in protected areas, many resulted from long-standing vulnerabilities that have not been addressed due to limited funds or mismanagement. While a process exists for seeking waivers or exceptions where security standards cannot be met, none of the OIG-identified security deficiencies had valid waivers or exceptions.

During FY 2015, OIG issued four reports related to the Accountability Review Board (ARB) report⁴ on the Benghazi attack. The *Compliance Follow-up Review of the Special Review of the Accountability Review Board Process*⁵ included one re-issued recommendation, which calls for the Department to develop minimum security standards that must be met prior to occupying facilities in Department-designated high-threat, high-risk locations. Additionally, a classified *Review of the Implementation of the Benghazi Accountability Review Board Recommendations*⁶ examined the current state of implementation of the 29 recommendations from the classified ARB report. OIG concluded the Department completed the implementation of 13 recommendations; implementation was ongoing for ten and open-ended for six.

Two other OIG reports grew out of recommendations in the ARB report. After Benghazi, the Department developed an annual risk assessment process – the vital presence validation process (VP2) – under which senior Department officials assess whether posts in high-threat, high-risk locations

¹ Public Law No. 106-531, 114 Stat. 2537 (2000).

² Department of State, Bureau of Diplomatic Security, *2014 Year in Review – Finding the Balance*.

³ All of the reports are classified.

⁴ Department of State, *Accountability Review Board Report* (December 2014).

⁵ OIG, *Compliance Follow-up Review of the Special Review of the Accountability Review Board Process* (ISP-C-15-33, August 2015).

⁶ OIG, *Review of the Implementation of the Benghazi Accountability Review Board Recommendations* (ISP-S-15-34, August 2015).

should be opened, closed, or re-opened, and whether staffing levels are appropriate. In FY 2015, OIG reviewed VP2⁷ and concluded it met the intent of the ARB recommendation and included information related to defining and prioritizing missions, assessing the risks and costs, explicitly identifying the risks and costs that cannot be mitigated, and having discussions on the need for constant attention to changes in the situation. However, VP2 did not explicitly address the ARB recommendation that such a process also assess the attainability of the posts' missions or the likelihood of the posts' achieving goals. Following up on another of the recommendations of the ARB, OIG conducted a special review of the storage at overseas facilities of fire accelerants and other weapons of opportunity and made recommendations to help better ensure their proper storage.⁸

During FY 2015, OIG found security deficiencies at residences of overseas personnel.⁹ These deficiencies occurred for reasons that included the following: the Bureau of Diplomatic Security did not notify posts about substantial revisions to the Department's residential security program requirements in a timely manner and Regional Security Officers lacked sufficient understanding of these requirements and did not provide adequate oversight of post-specific residential security programs.

OIG also found weaknesses in emergency action planning at overseas posts. In a series of audits and management alerts on emergency action planning and responses at high-threat overseas posts, OIG found that posts generally had developed, and the Department had approved, plans for responding to emergency situations. However, not all posts routinely trained staff on the plans or practiced responding to potential emergencies as required. In addition, neither the posts nor the responsible bureaus ensured that posts had sufficient resources to respond to all types of emergencies or prolonged periods of crisis.¹⁰ The failure to properly plan and practice emergency responses hampered the posts' responses to emergencies at high-threat posts, thereby increasing the potential for harm

to U.S. Government employees and facilities and the loss of critical information.

2 MANAGING POSTS AND PROGRAMS IN CONFLICT AREAS

The Department faces major challenges in responding to a broadening range of security and humanitarian crises in conflict zones. As of December 2014, more than 900 Foreign Service positions overseas were designated as unaccompanied tours of duty. On February 11, 2015, the Department suspended operations at Embassy Sana'a, Yemen, amid deteriorating security conditions. Missions in countries such as Iraq, Afghanistan, and Pakistan are at the forefront of U.S. engagement to counter terrorism, stabilize fragile states, and respond to regional conflicts. The Department's FY 2016 congressional budget justification requested \$7 billion in Overseas Contingency Operations funds to address the rise of the Islamic State in Iraq and the Levant, among other emerging challenges. The Department also expended \$3.05 billion in FY 2014 Migration and Refugee Assistance funds to respond to humanitarian crises.

Recognizing that managing posts and programs in conflict areas remains a challenge for the Department, OIG continued its series of audits examining the complex issue of providing security for embassy personnel. During FY 2015, OIG examined a contract awarded to Aegis Defense Services (Aegis) for security support at Embassy Kabul. Awarded as Task Order 10 under the Worldwide Protective Services (WPS) contract, the task order had cost the Department \$224 million at the time of the audit report's publication.¹¹ In the audit report, OIG found that the Department did not ensure that Aegis maintained records documenting contract-required training and security screening for employees working on the task order or time-and-attendance records to ensure that labor services billed to the U.S. Government were properly supported. OIG also found that invoices approved by the Contracting Officer's Representative contained more than \$8.6 million

⁷ OIG, *Audit of the Department of State Implementation of the Vital Presence Validation Process* (AUD-SI-15-37, August 2015).

⁸ OIG, *Management Assistance Report – Importance of Securing Fire Accelerants and Similar Weapons of Opportunity* (ISP-S-15-06, January 2015).

⁹ OIG, *Management Assistance Report: Residential Security Concerns at U.S. Embassy Ankara, Turkey* (AUD-CGI-15-38, July 2015); OIG, *Management Assistance Report: Residential Security Concerns at U.S. Embassy Manila, Philippines* (AUD-CGI-15-29, May 2015).

¹⁰ OIG, *Audit of Emergency Action Plans for U.S. Mission Pakistan* (AUD-MERO-14-08, December 2013).

¹¹ OIG, *Audit of the Bureau of Diplomatic Security Worldwide Protective Services Contract Task Order 10, Kabul Embassy Security Force* (AUD-MERO-15-03, October 2014).

in questioned costs. With respect to the security support at Embassy Baghdad, OIG will audit WPS Task Order 3, awarded to SOC LLC; the report will be issued during the first quarter of 2016.

OIG found that management support platforms were under stress at a number of posts where security concerns and growing workloads often drive staffing decisions. At one post in the Middle East, OIG recommended the Department address these issues, as political circumstances had transformed a formerly mid-size embassy into a large, front-line operation.¹² OIG observed that growth in the management support staff had not kept pace with the substantial increase in mission staffing, resulting in the need for extensive overtime and workload-related stress. OIG concurred with the post's request for five additional U.S. management positions, as well as an increase in local support staff.

A contributing factor to the stress on management support platforms is the practice among some non-Department agencies of using a series of long-term temporary-duty personnel to fulfill duties at embassies. In recent years, OIG has found that these temporary-duty personnel may receive management support services from the embassy, but the Department is not fully recovering costs, as required by 6 FAH-5 H-360, "Official Visits and Temporary Duty (TDY)."

The turbulent conditions in and around conflict areas make appropriate management of resources more difficult. An audit¹³ found that 26 armored vehicles from Embassy Tripoli, Libya, that embassy personnel had used to evacuate to Tunis, Tunisia, remained stored and unused at Embassy Tunis, which had no need for them. The excess vehicles, valued at approximately \$5 million, were left stored in a grass and dirt lot on the embassy compound. OIG recommended that Embassy Tunis, in coordination with the Bureau of Near Eastern Affairs and the Bureau of Diplomatic Security, develop and implement a plan to redistribute and use the vehicles.

OIG found weaknesses in the design and oversight of assistance programs to Department programs in Syria and Pakistan. In its audit of humanitarian assistance programs in response to the Syrian crisis,¹⁴ OIG found that, with respect to some programs, the Bureau of Population, Refugees and Migration neither conducted adequate risk assessments prior to an award nor conducted post-award monitoring. OIG documented problems with both the programs' performance and financial monitoring. OIG also found that grants policy directives for monitoring assistance awards to public international organizations may have been confusing for Department staff, leading to uncertainty on the requirements to manage and oversee these awards. Similarly, an audit of non-lethal aid provided to address the Syrian crisis¹⁵ found weaknesses in monitoring and oversight, leaving foreign assistance vulnerable to waste, fraud, and abuse.

An audit of the Bureau of International Narcotics and Law Enforcement Affairs (INL) police training program in Pakistan¹⁶ found that INL could not show that its training program was meeting the goal of enhancing the professionalism of the Pakistani police or increasing the capability of the Pakistani police to maintain peace and security. Moreover, INL could not determine whether the equipment provided by the program improved the survivability, mobility, and communications capacity of the Pakistani police. The audit also found that only 29 of 68 planned infrastructure projects were completed on schedule and that far fewer Pakistani police were trained by the program than had originally been planned. As a result, OIG identified more than \$86 million in funds that could be reprogrammed for other uses.

3 MANAGEMENT OF CONTRACTS AND GRANTS (INCLUDING FOREIGN ASSISTANCE OVERSIGHT)

Each year since 2008, OIG has identified the Department's management of contracts and grants as a management challenge; this area continued to be a challenge in FY 2015.

¹² OIG, *Inspection of Embassy Amman, Jordan* (ISP-I-15-29A, June 2015).

¹³ OIG, *Management Assistance Report: Embassy Tripoli Armored Vehicles Available for Redistribution and Use* (AUD-MERO-15-28, May 2015).

¹⁴ OIG, *Audit of Department of State Humanitarian Assistance in Response to the Syrian Crisis* (AUD-MERO-15-22, March 2015).

¹⁵ OIG, *Audit of Department of State's Management and Oversight of Non-Lethal Assistance to Address the Syrian Crisis* (AUD-MERO-15-39, September 2015).

¹⁶ OIG, *Audit of the Bureau of International Narcotics and Law Enforcement Affairs Law Enforcement Reform Program in Pakistan* (AUD-MERO-15-04, October 2014).

Contract Management

In March 2014, OIG issued a management alert on contract file deficiencies, noting repeated and widespread examples of poor contract file administration within the Department.¹⁷ Despite that alert, inspection and audit teams continued to find problems, including the lack of annual procurement plans; incomplete files that lacked required documentation; and failure to properly designate, train, and certify Contracting Officer and Grants Officer Representatives (CORs and GORs).¹⁸ In FY 2015, audits, inspections, and investigations placed heavy emphasis on these and other areas to which OIG attributed significant shortcomings identified in the administration and oversight of Department awards.

Examples of weaknesses in contract administration and oversight were included in a report on an audit of the New Embassy Compound in London,¹⁹ which determined that the Contracting Officer did not obtain sufficient data when negotiating the final price for the construction portion of the contract. As a result, the contractor was not required to explain the approximately \$42 million difference between the initial proposal (submitted in 2012) and the final proposal (submitted in 2013). OIG concluded that improper price negotiations left the Department vulnerable to funds being wasted or misused.

OIG also audited the Aviation Support Services Contract in Iraq²⁰ and questioned costs of almost \$1 million that were not identified by the Department because of insufficient invoice review processes, methodologies, and staffing. The audit also questioned another \$25.9 million associated with employer and employee Iraqi personal income tax reimbursements approved by the Department. As a result of this audit, OIG recommended the Department review the questioned costs and made additional recommendations for improving contract management and oversight.

In addition, OIG audited the Medical Support Services Contract in Iraq²¹ and found that the Department had only one COR to monitor all 15 task orders under the contract valued at \$1 billion. The lack of government oversight personnel is an issue frequently found in OIG's work. OIG issued both a management alert and an audit report expressing concerns that, in the absence of a COR, various embassy personnel were directing the contractor to perform work outside the scope of the contract. The report concluded that these actions exposed the Department to unauthorized commitments and claims made by contractors.

Contract closeout, which is the final phase in a contract's life cycle, is a key step in ensuring that the Department has received the appropriate goods and services at the agreed-upon price. During a review to determine whether the Department had effectively and efficiently closed out contracts supporting the U.S. Mission in Afghanistan,²² OIG learned that the Department did not consistently meet government- and Department-wide contract management and closeout requirements for the 87 Afghanistan-related task orders included in OIG's review. Some of the issues identified included contract closeout timelines that were not being met for 32 percent of the contracts reviewed and contract files that were lost, prematurely destroyed, or incomplete. As a result, files for \$68 million in contracts could not be located or were prematurely destroyed, \$6.3 million in funding had not been de-obligated and had expired, and up to \$52 million in funding was available for de-obligation.

Grant Management

The Department's ongoing challenge with the administration and oversight of grants was the subject of several OIG audits, including an audit of GORs that identified instances where GORs did not execute their oversight responsibilities or

¹⁷ OIG, *Management Alert – Contract File Management Deficiencies* (MA-A-0002, March 2014).

¹⁸ OIG, *Inspection of Embassy Antananarivo, Madagascar* (ISP-I-15-20A, May 2015).

¹⁹ OIG, *Audit of the Construction Contract Award and Security Evaluation of the New Embassy Compound London* (AUD-CGI-15-31, July 2015).

²⁰ OIG, *Audit of the Bureau of International Narcotics and Law Enforcement Affairs Aviation Support Services Contract in Iraq* (AUD-MERO-15-35, July 2015).

²¹ OIG, *Audit of the Bureau of International Narcotics and Law Enforcement Affairs Aviation Support Services Contract in Iraq* (AUD-MERO-15-35, July 2015); OIG, *Management Assistance Report—Concerns With the Oversight of Medical Support Service Iraq Contract No. SAQMMA11D0073* (AUD-MERO-15-20, December 2014).

²² OIG, *Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Afghanistan* (AUD-MERO-15-14, November 2014).

comply with grant monitoring requirements.²³ OIG also reported improprieties of one grantee,²⁴ including instances of non-adherence with Federal procurement requirements. In this report, OIG recommended the Department assess the allowability of more than \$1.5 million in payments made to the grantee.

In FY 2015, OIG inspections teams issued 35 formal recommendations to improve monitoring, justification for sole-source procurement, reporting, documentation, training, and overall grants management. In one inspection of a domestic bureau,²⁵ all 31 grant files inspected (totaling \$38 million) lacked monitoring plans. Twenty-three were sole-sourced and five of those did not contain the required justifications. The remaining 18 had poor justifications and cited an incorrect statutory authority for the sole-sourced procurement.

During an audit²⁶ of the National Endowment for Democracy (NED), OIG found that, from FY 2006 through FY 2014, the Department awarded more than \$963 million to NED but had not conducted required audits of NED financial transactions. Further, the terms and conditions of the annual grant to NED did not include the language related to the audit requirement. OIG also found that the Department did not comply with other requirements for monitoring NED, including reconciling submitted financial reports with the grant awards and maintaining sufficient grant files. OIG recommended the Department conduct required audits of NED financial transactions and amend its grant agreement with NED to include the terms of the audit requirement in order to decrease the risk that funds dedicated to promoting democracy were misapplied.

Grants management was specifically a challenge for Public Diplomacy Officers at embassies. OIG identified grant management deficiencies in 8 of the 11 Public Affairs Sections at overseas missions inspected in FY 2015. The most

common deficiencies were lack of documentation or failure to enter timely information in the database management system and lack of monitoring activities, which created uncertainty about the status of the grants and made it difficult to document the completion and closeout of the grants. Further deficiencies include the absence of trained and accredited grants management personnel, resulting in the inability to provide accountability for proper disbursements and program evaluations.

An audit of the Export Control and Border Security (EXBS) program²⁷ found that headquarters personnel did not adequately administer and oversee foreign assistance funding dedicated to certain EXBS programs. As a result, headquarters personnel could not ensure that the award's purposes were being achieved, and they could not demonstrate that they had safeguarded the integrity of funds or reduced financial risk to the EXBS program. OIG recommended that the Department's Office of Export Control Cooperation establish and implement a process to monitor contractor and grantee files, improve award administration and oversight, establish and maintain program files, and conduct end-use monitoring. Similar issues were identified in the audit of the Global Threat Reduction program.²⁸

4 INFORMATION SECURITY AND MANAGEMENT

The Department spent about \$1.4 billion on information technology in FY 2015. The same year, a number of cybersecurity incidents illustrated deficiencies in the Department's efforts to protect its computer networks. Malicious actors exploited vulnerabilities, causing potential compromise of sensitive information and significant downtime to normal business operations.

In 25 overseas and domestic inspections conducted from May 2014 through June 2015, OIG found 37 shortcomings

²³ OIG, *Audit of Department of State Oversight Responsibilities, Selection, and Training of Grants Officer Representatives* (AUD-CG-15-33, June 2015).

²⁴ OIG, *Management Assistance Report—Grant Improprieties by Nour International Relief Aid* (AUD-CG-15-19, January 2015).

²⁵ OIG, *Inspection of the Bureau of Political-Military Affairs* (ISP-I-15-27, June 2015).

²⁶ OIG, *Management Assistance Report: Oversight of Grants to the National Endowment for Democracy* (AUD-SI-15-34, June 2015).

²⁷ OIG, *Audit of Bureau of International Security and Nonproliferation Administration and Oversight of Foreign Assistance Funds Related to the Export Control and Related Border Security Program* (AUD-SI-15-23, April 2015).

²⁸ OIG, *Audit of the Bureau of International Security and Nonproliferation Administration and Oversight of Foreign Assistance Funds Related to the Global Threat Reduction Program* (AUD-SI-15-41, September 2015).

in cybersecurity, concerning issues including access controls, configuration management, and encryption. Inadequate performance of information systems security officer (ISSO) duties was the most common finding; OIG found poor or inconsistent performance of ISSO duties in 10 of 25 inspections. ISSO responsibilities include reviewing event logs, randomly checking user libraries, and reminding users of security awareness. Failure to carry out these tasks can leave a system vulnerable to a wide range of threats, such as spear-phishing attacks. Many of the cybersecurity findings were remedied during the inspections and OIG issued 18 recommendations to address remaining weaknesses.

The Department also continues to face difficulties meeting the requirements of the FISMA and implementing a fully effective information security management program. During the FY 2014 FISMA audit,²⁹ OIG identified security control weaknesses that had significantly affected the information security program, potentially undermining the confidentiality, integrity, and availability of information and information systems. Because these serious vulnerabilities have recurred for several years, OIG considers the collective security weaknesses a significant deficiency under FISMA.³⁰

OIG also reported³¹ that the Department did not organize and successfully implement Active Directory Rights Management, which is necessary to enforce IT security standards. Specifically, OIG identified deficiencies in the Bureau of Information Resource Management's oversight of the management of user accounts that allowed thousands of unused accounts to remain active, posing a significant risk for unauthorized access and use, as well as unnecessary maintenance costs. OIG made 33 recommendations to address issues raised in the audit. In addition, OIG identified significant program challenges with the Department's security program for wireless networks³² and made three recommendations to the Department to strengthen its wireless program.

Information technology contingency planning, which has been a recurring subject of OIG inspection reports and was the subject of a 2011 special memorandum report,³³ continues to be a management challenge for the Department. In 19 inspections conducted in FY 2015, OIG identified deficiencies in contingency planning, including the complete lack of a contingency plan, the failure to test the plan, and poor implementation of a plan during an actual emergency event. Instability in many regions of the world and recent attacks and threats against the Department's personnel and diplomatic facilities demonstrate the need for contingency planning and readiness to respond to crisis situations in order to maintain communications and continuity of business operations.

OIG also identified weaknesses in the Department's implementation of its "record email" technology that adversely affect its core mission of conducting the foreign relations of the United States as well as its records retention responsibilities. In 2009, the Department implemented "record email" to facilitate the preservation of records contained in emails. However, inspection reports issued over several years have noted widespread use of ordinary Department email, which is not distributed widely and is not retrievable for reporting and other purposes related to policy-making and implementation. An FY 2015 OIG inspection³⁴ found that the Bureau of Administration does not review record email use across bureaus or missions and noted that Department employees have not received adequate training or guidance on their responsibilities for using record emails to meet records retention responsibilities.

Vulnerabilities in Consular IT Systems

The Bureau of Consular Affairs' (CA) Consular Consolidated Database (CCD) experienced major system failures in the busy summer seasons of both 2014 and 2015. This unreliability undermines CA's ability to provide consular services that protect U.S. citizens abroad and facilitate the entry of

²⁹ OIG, *Audit of the Department of State Information Security Program* (AUD-IT-15-17, November 2014).

³⁰ OIG, *Management Alert: OIG Findings of Significant and Recurring Weaknesses in the Department of State Information System Security Program* (MA-A-0001, January 2013).

³¹ OIG, *Audit of the Department of State Implementation and Oversight of Active Directory* (AUD-IT-15-05, October 2014).

³² OIG, *Management Assistance Report: Department of State Security Program for Wireless Networks* (AUD-IT-15-27, May 2015).

³³ OIG, *Memorandum Report – Improvements Needed in Information Technology Contingency Planning* (ISP-I-12-04, December 2011).

³⁴ OIG, *Review of State Messaging and Archive Retrieval Toolset and Record Email* (ISP-I-15-15, March 2015).

legitimate foreign visitors and immigrants, while ensuring U.S. border security. In FY 2014, CA issued 14.1 million passports and passport cards to U.S. citizens, as well as nearly 10 million non-immigrant visas and more than 467,000 immigrant visas.³⁵ CA operations depend on the CCD to store visa and passport applications; perform required security checks; issue the final products (visas and U.S. passports); and ensure the utility, reliability, and integrity of the process. Other U.S. Government agencies also rely on the CCD.

In July 2014, problems with the CCD temporarily prevented issuance of visas to visitors and immigrants as well as issuance of U.S. passports. A larger system failure occurred from May 29 through July 6, 2015, resulting in backlogs in the issuance of immigrant visas, nonimmigrant visas, and overseas U.S. emergency passports. CA is in the process of upgrading hardware and modernizing the various databases that make up the CCD and is planning to launch a new system to replace the current CCD. OIG will continue to monitor CA's progress and will inspect CA's Office of Consular Systems and Technology in the spring of 2016.

5 FINANCIAL MANAGEMENT

Financial management continues to be a significant management challenge for the Department. During the audit of the FY 2014 financial statements,³⁶ an independent external auditor identified significant internal control deficiencies related to financial reporting, property and equipment, budgetary accounting, unliquidated obligations, and information technology. Total FY 2014 obligations for the Department consisted of contractual services of \$14.7 billion, grants and fixed charges of \$16.7 billion, and acquisition of assets of \$2.8 billion, which collectively represented 79 percent of the agency's spending.³⁷

Providing adequate oversight and coordination of foreign assistance resources also remains a challenge for the Department. A systemic problem hindering effective coordination and oversight is the Department's financial management systems, which were not designed to track and report on foreign assistance funds. As reported in a management assistance report,³⁸ the Department's core financial systems do not track foreign assistance funding and expenditures by program, project, country, region, or purpose (sector), even though Department and individual bureaus need this information to track and manage their foreign assistance funds and respond to external queries. Department bureaus with foreign assistance funds have spent millions of dollars and an inordinate amount of time, with limited success, on alternative systems and processes to fill this gap.

³⁵ Department of State, Bureau of Consular Affairs, *Functional Bureau Strategy 2015-2017*.

³⁶ OIG, *Independent Auditor's Report on the U.S. Department of State 2014 and 2013 Financial Statements* (AUD-FM-15-07, November 2014).

³⁷ Department of State, *Fiscal Year 2014 Agency Financial Report* (November 2014).

³⁸ OIG, *Management Assistance Report – Department Financial Systems Are Insufficient to Track and Report on Foreign Assistance Funds* (ISP-I-15-14, March 2015).

Management's Response to Inspector General

In 2015, the Department of State's Office of Inspector General (OIG) identified management and performance challenges in the areas of: protection of people and facilities; managing posts and programs in conflict areas; management of contracts and grants; information security and management; and financial management. The Department promptly takes corrective actions in response to OIG findings and recommendations. Highlights are summarized below.

1. PROTECTION OF PEOPLE AND FACILITIES	
Challenge Summary	Protecting overseas personnel and facilities continues to be a major management challenge for the Department.
Actions Taken	<p>Vetting Local Guards: The Bureau of Diplomatic Security (DS) developed the Security Officer Collective to advise Regional Security Officers who serve as Contracting Officer Representatives on the importance of implementing oversight of guard force contracts and vetting contract guards as well as the new templates to use during the process. The Department's Local Guard Program Handbook that addresses this requirement is expected to be published early 2016.</p> <p>Physical Security Standards: DS modified and improved the new physical security survey templates. DS has also launched a Deficiencies Database to comprehensively identify all physical security deficiencies and manage them until they are resolved. When the Database is fully populated with deficiencies for all overseas facilities – anticipated for September 2016 – it will be used to assist the Bureau of Overseas Buildings Operations (OBO) in the prioritization of physical security upgrade funding using quantitative risk scores. DS also worked with OBO to update the Physical Security Handbook to clarify requirements for Safe Havens and Safe Areas.</p> <p>Physical Security Upgrades, Worldwide: To address deficiencies, DS undertook numerous physical security projects at posts. Further classified details are available.</p> <p>Armored Vehicles: DS worked with the Bureau of Near Eastern Affairs to address the relocation of vehicles from Libya to Tunis, Tunisia. Additionally, DS reviewed the armored vehicle driver training requirements and determined Embassy Tunis had a requirement to train approximately 17 armored vehicle drivers. The Training Directorate in DS is planning to send instructors to Tunisia to conduct armored vehicle training.</p> <p>Emergency Action Planning: DS updated its Emergency Planning Handbook to reflect its established process to validate by physical inspection those supplies and resources identified in the Emergency Action Plan (EAP) are present and appropriate for each type of contingency. DS has begun updating the Post Security Program Review Compliance Rating Form to capture EAP validation requirements.</p> <p>Marine Security Guard Program: DS reviewed and updated the Memorandum of Agreement between the Department and the U.S. Marine Corps (USMC) for the Operational and Administrative Supervision of the Marine Security Guard Program to reflect the expansion of the Program. DS completed revisions to Annexes D and J and are negotiating edits with the USMC.</p>
Actions Remaining	<p>Vetting Local Guards: DS has revised the Local Guard Program Handbook and the revisions are in the DS clearance process. Once cleared, the handbook will go through Department clearance.</p> <p>Physical Security Standards: The subchapter, Safe Havens, Safe Areas, and Compound Emergency Sanctuaries, in the Physical Security Handbook is currently in the DS clearance process. Once cleared, the subchapter will go through Department clearance.</p>

2. MANAGING POSTS AND PROGRAMS IN CONFLICT AREAS	
Challenge Summary	The Department faces major challenges in responding to a broadening range of security and humanitarian crises in conflict zones.
Actions Taken	From the Post Management perspective, most of our challenges relate to Government of Pakistan (GoP) bureaucracy. The GoP limits the size and weight of incoming secure pouches, causing a backlog of courier-escorted shipments of classified material and CAA items, routinely 8-12 months. The inability to obtain No Objections Certificates for the GoP substantially encumbers the Mission's ability to expand its telecommunications circuits/capabilities in country. GoP bureaucracy in both the Ministry of Foreign Affairs and the Customs Bureau causes delays in importation and export of both personal effects and official goods, including fully-armored vehicles which are limited to a strict quota based on the number of permanent positions and thus too few to support all needs. These bureaucratic complexities extend to visa issuance, which in some cases can take three to six months and more, and have caused numerous instances of hardship to travelers and major delays for a broad array of projects and programs.
Actions Remaining	The Department is actively working to implement the OIG recommendations, including negotiating a new Letter of Agreement for the assistance to Pakistan for 2016, and updating the financial management handbook. The Department continues to work with the OIG on its remaining recommendations, and will issue new guidance for advances and related controls.
3. MANAGEMENT OF CONTRACTS AND GRANTS	
Challenge Summary	Each year since 2008, OIG has identified the Department's management of contracts and grants as a management challenge; this area continued to be a challenge in FY 2015.
Actions Taken	<p>The complex portfolio of contract and grant programs performed around the globe present significant management challenges that continue to be addressed through partnership with OIG, policies, training, and oversight.</p> <ul style="list-style-type: none"> ■ More detailed policies, guidance, and training were issued to strengthen contract files in response to OIG recommendations. The Department created an audit program and identified additional resources to review contract files. The Department is developing and deploying electronic files to improve compliance. ■ The Department issued guidance on use of the contract type used in the New Embassy Compound in London to ensure proper contract administration. ■ As recommended by the OIG, the Department reviewed questioned costs under the Aviation Support Services Contract in Iraq and provided OIG rationale for reasonableness of decisions made. ■ Additional Contracting Officer Representatives (CORs) were assigned to monitor the Medical Support Services Contract in Iraq. This significant contract undertaking successfully transferred medical responsibilities from DoD to the Department of State within tight transition timelines. A Contract Management Office was created to ensure continuity because of rotation of personnel in this challenging environment. ■ Detailed contract closure guidance was issued to improve contract closure. ■ As noted by the GAO, GAO-14-635, the Department of State has a robust policy infrastructure for the administration of grants. ■ A Grants Officer Representative (GOR) program was instituted to train and certify GORs to monitor grants. Over 1,200 GORs have now been certified. No other agency is known to have a similar program. ■ Training for GORs and Grants Officers has been updated and expanded. Special training in new Government-wide grants regulations resulted in the Department of State being the first agency to deploy new regulations. Other agencies are examining the Department's training. ■ The Department completed a Grants Human Capital Plan to better manage grant operations resources. Similar plans have not been found at other agencies. ■ As recommended by the OIG, the Department initiated audits of the National Endowment for Democracy and amended its grant agreement to provide for future audits. ■ Grants policies address grant monitor and risk assessment. The Department continues to expand training in this important topic. <p>Individual program offices continue to work with the OIG to resolve specific audit recommendations.</p>
Actions Remaining	<ul style="list-style-type: none"> ■ Provide documentation to the OIG to close out recommendations. ■ Provide continuous training to ensure competent CORs and GORs.

4. INFORMATION SECURITY AND MANAGEMENT

Challenge Summary	The Department spent approximately \$1.4 billion on information technology worldwide in FY 2015. The same year, the Department faced a cybersecurity incident that impacted the Department's ability to protect its computer networks. Malicious actors used a combination of undisclosed computer application vulnerabilities and Department network weaknesses to access systems. The Department's response necessitated downtime to Internet access.
Actions Taken	The Department experiences numerous, repeated attempts to gain unauthorized access to its unclassified network annually. In 2015, an attempt by a sophisticated malicious actor was successful. The Department coordinated with cybersecurity experts from the Federal Government and private industry to detect and expel this intrusion. As a result of this unauthorized intrusion, and the efforts undertaken to restore and recover from the event, the Department has evaluated and moved aggressively to install new cybersecurity capabilities to enhance protection and detection. These enhancements are being applied with the most likely targets being addressed first. In addition, the Department of State is following the Department of Homeland Security's operational directive to resolve all identified critical and high rated weaknesses in its Internet facing systems that are identified through routine weekly scans.
Actions Remaining	In addition to the solutions deployed, the Department is actively moving to implement a network architecture that is more resilient. These actions, coupled with the Office of Management and Budget Cyber Sprint and Cross-Agency Priority Goals and Department of Homeland Security's Continuous Diagnostics and Mitigation program capabilities, will strengthen the Department's resilience and cybersecurity situation awareness to act where needed.

5. FINANCIAL MANAGEMENT

Challenge Summary	Financial Management continues to be a significant management challenge for the Department.
Actions Taken	The Department received a clean ("unmodified") opinion from the external Independent Auditor on our 2014 Department-wide financial statements, including no reported material weaknesses in internal controls. In 2015, the Department sustained efforts to address and reduce weaknesses in financial reporting, property and equipment, budgetary accounting, unliquidated obligations, and information technology. For example, bureaus are taking significant efforts to manage unliquidated obligations and we have reduced the extent of manual processes in our preparation of financial statements. In addition, the Department implemented the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) as the primary means of reporting agency trial balance data to the Department of the Treasury. The Independent Auditor continues to provide an unmodified or "clean" opinion on our financial statements, clear of any material weaknesses. The Department conducted its assessment of internal controls over financial reporting in accordance with OMB Circular A-123 Appendix A and found them to be operating effectively resulting in an unqualified statement of assurance. We continue to bolster the Department's improper payments and recapture audit program, and in their 2014 annual assessment, the OIG found the Department's improper payments program to be in substantial compliance with IPIA.
Actions Remaining	The Department will continue efforts to address weaknesses in financial reporting, property and equipment, budgetary accounting, unliquidated obligations, and information technology.

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:	Unqualified					
Total Material Weaknesses	0	0	0	0	0	0
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	Unqualified					
Total Material Weaknesses	0	0	0	0	0	0
CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	Systems conform to financial management system requirements					
Total Non-conformances	0	0	0	0	0	0

	AGENCY	AUDITOR
COMPLIANCE WITH SECTION 803(a) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FMFIA)		
1. System Requirements	No lack of substantial compliance noted	Lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	Lack of substantial 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 material weakness 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.

Improper Payments Information Act 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 No 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 statutory, contractual, and administrative or other legally applicable requirement.

IPIA 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. As such, 2015 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 SIGAR audit report findings; results from the prior year improper payment recapture work; and the percentage increase in funding. Additional risk factors are considered in Year 1 of the 3-year cycle, or Years 2 and 3 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 2013, 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. This conclusion is still relevant throughout 2015. However, because the Department identified six programs that experienced significant increases in funding and/or changes in legislation during fiscal year 2015, the Department performed internal control techniques consistent with the prior year on these six programs, one of which is a new program. The six programs assessed were: Voluntary Contributions to International Organizations, Assessed Contributions to International Organizations, Machine Readable Visas, Security for Afghanistan and Pakistan, International Cooperative Administration Support Services, and Land. Based on these procedures as well as those performed on all programs in 2013, the Department determined that none of its programs in 2015 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 IPPIA 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 Bureau's 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 the OMA's activity is considered recapture as defined by IPPIA. In addition, as required by IPPIA, in 2015 Global Compensation began reporting confirmed overpayments identified through internal processes. The CGFS/C Retirement Accounts Division (RAD) began reporting this information in 2014 for Annuity Payments and continues to report this data in 2015.

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. In 2015 OMA expanded this process by including additional payment types such as evacuation payments and Bureau of Counselor Affairs refund payments. Domestic vendor payments represent the largest category of Department-made payments subject to IPPIA 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. An automated analysis is executed to run matches of vendor invoice numbers and payment amounts against current payment data and payments dating back to 2007. 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. OMA identified 21 contract overpayments, which were collectively below the OMB reporting threshold. The increased quality control processes by CGFS/F in both payment generation and internal post-payment review process have contributed to lower improper recapture audit amounts.

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 Other column of the “Improper Payment Recaptures with and without Audit Programs” table, in 2015 OMA identified \$77 thousand in travel program recapture audit overpayments, and collected \$21 thousand (\$17 thousand collected of the amount identified in the current year and an additional \$4 thousand was collected from prior year recapture audit overpayments). The collected funds were returned to the originating appropriation. The total outstanding balance of employee claims for current and prior years is \$65 thousand, \$5 thousand of which remains uncollected from prior years.

During 2015, OMA built on prior year efforts and expanded recapture audit activities in several areas.

■ **Grant payments made on behalf of the Department by the Department of Health and Human Services through their Payment Management System (PMS).**

OMA performed manual sampling and testing of grants with exact dollar PMS payment activity and performed analysis of data across systems that contained Department grant information. No overpayments were identified in the pilot samples but the information gained was highly useful and is being used to implement additional methods in the PMS grant recapture audit program. Each year the Department closely monitors payment activity of grantees for which the Department is the designated Federal Cognizant Agency, including follow-up with grantees regarding any questioned costs identified on the grantees audit reports issued in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

- **FSRDF annuitant payments.** OMA expanded its efforts over the prior year by reviewing annuitant payments that are calculated based on certain eligibility requirements. Specifically, OMA initiated a pilot recapture audit of annuity disability payments and supplemental payments. In 2015, as shown in the “Improper Payment Recaptures with and without Audit Programs” table, OMA identified \$25.6 thousand in annuity overpayments of which \$11.3 thousand or 44 percent were collected. The collected funds were returned to the originating appropriation.

- OMA implemented new recapture efforts during 2015 to include American Employee (AE) and Foreign Locally Employed (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 implemented systematic analysis and duplicate payment reviews, which did not identify any duplicate payments in AE or LE areas. In addition, OMA initiated 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 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 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 2015 include: Diplomatic and Consular Programs; the Working Capital Fund; Embassy Security, Construction, and Maintenance;

IMPROPER PAYMENT RECAPTURES WITH AND WITHOUT AUDIT PROGRAMS (dollars in thousands)																			
Program or Activity	Overpayments Recaptured through Payment Recapture Audits															Overpayments Recaptured outside of Payment Recapture Audits			
	Contracts					Benefits					Other							Total	
	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
Travel Program											\$77.1	\$21.2	27%	46%	48%	\$77.1	\$21.2	\$52.2	\$45.7
Foreign Service Annuities						\$25.6	\$11.3	44%	50%	50%						\$25.6	\$11.3	\$430.5	\$185.3
American Compensation																		\$4,350.7	\$2,396.6
Foreign Locally Employed Compensation																		\$27.3	\$0.0
Diplomatic and Consular Programs																		\$12,319.7	\$6,432.1
Working Capital Fund																		\$524.2	\$524.2
Embassy Security, Construction, and Maintenance																		\$2,185.6	\$2,299.5
Nonproliferation, Anti-terrorism, De-mining																		\$2,294.7	\$2,294.7
Migration and Refugee Assistance																		\$50.1	\$50.1
International Narcotics Controls and Law Enforcement																		\$21.2	\$21.2
Peacekeeping Operations																		\$16.3	\$16.3
Other State Programs																		\$398.2	\$230.2
Total						\$25.6	\$11.3	44%	50%	50%	\$77.1	\$21.2	27%	46%	48%	\$102.7	\$32.5	\$22,670.7	\$14,495.9

DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDITS (dollars in thousands)			
Program or Activity	Amount Recovered	Type of Payment	Original Purpose
Travel Program	\$21.2	Other	\$21.2
Foreign Service Annuities	\$11.3	Benefits	\$11.3
Total	\$32.5		\$32.5

AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDITS
(dollars in thousands)

Program or Activity	Type of Payment	Amount Outstanding (0–6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)
Travel Program	Other	\$28.4	\$31.4	\$5.2
Foreign Service Annuities	Benefits	\$14.3	\$ —	\$ —
Total		\$42.7	\$31.4	\$5.2

Nonproliferation, Anti-terrorism, De-mining; Migration and Refugee Assistance; International Narcotics Controls and Law Enforcement; Peacekeeping Operations; and other State programs. Results are presented for each program individually in the “Improper Payment Recaptures with and without Audit Programs” table. Collectively, during 2015 CGFS/F identified and confirmed transactions totaling \$17.8 million of actual duplicate/improper payments, of which we recovered \$11.5 million in addition to collecting \$324 thousand of the prior year unrecovered balance. Thus, amounts recovered in the current year totaled \$11.8 million. During 2015 \$537 thousand of prior year amounts were written off as uncollectable. At the end of fiscal year 2015, the Department’s cumulative outstanding uncollected balance of \$6.27 million is mostly attributed to a \$5.2 million vendor overpayment that is currently on hold pending the outcome of litigation. Also, in 2015 the Department identified and confirmed employee claims overpayments totaling \$52 thousand, of which we recovered \$46 thousand, including \$2 thousand from prior year identified amounts.

CGFS/C also has established an overpayment 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. As presented in the “Improper Payment Recaptures with and without Audit Programs” table in 2015 the Department’s CGFS American Pay Division identified and confirmed payroll overpayments totaling \$4.35 million, of which \$2.4 million has been

collected. 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. The Foreign Locally Employed Pay Division identified overpayments totaling \$27 thousand. Collection efforts are in process for AE and LE overpayments.

In addition to salary overpayments, Global Compensation performs procedures to identify overpayments impacting Foreign Service annuities paid by the Department. In 2015, the Department’s CGFS Retirement Account Division (RAD) identified and confirmed overpayment transactions totaling \$430 thousand and recovered \$185 thousand. 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 RAD in preventing and managing improper payments.

Agency Reduction of Improper Payments with the Do Not Pay Initiative

The Department reviewed potential improper payments provided by Treasury generated as a result of submitting disbursed payments through the Do Not Pay (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 potential matches from Treasury were adjudicated and results were reported back to Treasury through the Do Not Pay portal.

During October 2014, the Department was still accessing the public EPLS file in the Do Not Pay portal, which only generates matches based on first and last name. During

RESULTS OF THE DO NOT PAY INITIATIVE IN PREVENTING IMPROPER PAYMENTS
(dollars in thousands)

	Number (#) of Payments Reviewed for Possible Improper Payments	Dollars (\$) of Payments Reviewed for Possible Improper Payments	Number (#) of Payments Stopped	Dollars (\$) of Payments Stopped	Number (#) of Potential Improper Payments Reviewed and Determined Accurate	Dollars (\$) of Potential Improper Payments Reviewed and Determined Accurate
Reviews with the IPERIA specified databases	1,465,673	\$11,142,476.9	176	\$677.0	9	\$446.7
Reviews with databases not listed in IPERIA	2,370,606	\$7,508,649.5	12	\$14.4	4,045	\$43,050.1

that month, 3,245 potential erroneous payment matches totaling \$12.7 million were generated from the public EPLS file. All were adjudicated and none were deemed improper. With the subsequent onboarding of the private EPLS file in the Do Not Pay portal, this drastically reduced the number of potential matches generated because the results were based on the use of the social security number as well as first and last name. For the remainder of the fiscal year, the Department received only five payments totaling \$435 thousand to adjudicate through the Do Not Pay portal. No improper payments were identified with this adjudication. All of the payments processed through EPLS were also subjected to the Social Security Administration's Death Master File (DMF). Four matches totaling \$11.7 thousand were fully reviewed and all were deemed to be rightfully due to the deceased's estate.

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 2015, 188,041 annuitant payments totaling \$922.8 million were reviewed against the DMF and 176 payments totaling \$677 thousand 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.

The Department also worked with Treasury and the Federal Reserve Bank to validate all active vendors in the Global Financial Management System (GFMS) with the DNP database to identify 'Do Not Pay' vendors before payments are generated. Of the 181,280 vendors active in GFMS, only 748 were conclusive matches in the Do Not Pay portal. The majority of the matches were on the DMF with 711 or 95 percent of the overall results. After reviewing open items and longevity since the last activity date, 677 of these vendors have been inactivated. The Department is actively working to clear open obligations and receivables with the remaining 34 DMF matched vendors. Of the 37 vendors on the public EPLS table, we reviewed the vendors to determine all were either inactivated or have been coded as having an invalid System for Award Management registration which would prevent future payments to these individuals or businesses. The Department is working on updating policies to provide guidance pertaining to actions which should be taken on vendors which appear on the Do Not Pay list.

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 2015 the Department processed 2,370,606 payments totaling \$7.5 billion against the OFAC list and received 4,057 potential erroneous payment matches totaling \$43.1 million. The potential payment matches were reviewed and resulted in 12 stopped payments totaling \$14.4 thousand. 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 2015 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 2015 the Department was notified of two grantees that appeared ineligible due to results of the Do Not Pay process. These grantees were subsequently researched by the applicable agency official and one grantee was determined ineligible resulting in no awards issued to this grantee.

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 2015, 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 15 percent (\$157,144) in FY 2015, 17 percent (\$54,885.07) in FY 2014, 8 percent (\$56,442) in FY 2013, 6 percent (\$34,867) in FY 2012, and 10 percent (\$36,645) in FY 2011. 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 is currently evaluating multiple process improvements to the travel authorization and approval processes for implementation next year.

DEBT MANAGEMENT

Outstanding debt from non-Federal sources (net of allowance) decreased from \$48.1 million at September 30, 2014 to \$42.8 million at September 30, 2015. Civil Monetary Penalties decreased by \$12 million at September 30, 2015, resulting in a decrease 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 104-134), the Department referred \$2.0 million to Treasury for cross-servicing in 2015. Of the current and past debts referred to Treasury, \$1.1 million was collected in 2015.

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

	2015	2014	2013
Number of Accounts	1,212	997	1,189
Amounts Referred (<i>dollars in millions</i>)	\$2.0	\$2.5	\$2.8
Amounts Collected (<i>dollars in millions</i>)	\$1.1	\$1.1	\$1.1

ELECTRONIC PAYMENTS

The payments made through Electronic Funds Transfer (EFT) were over 98 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 (97.8 percent) than domestic operations due to the complexities of banking operations in some foreign countries. For 2015, approximately 3.6 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 2015, the Department did not assess any new penalties, and collected \$13 million of outstanding penalties from four companies. The balance outstanding at September 30, 2015, was \$12 million. The following table lists the current penalty level for infractions governed by the Department.

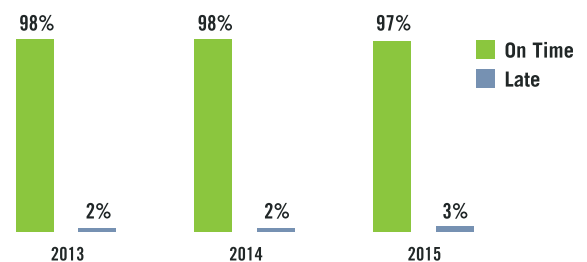
FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENTS				
Penalty	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level (\$ Amount)
International Traffic in Arms Regulations Violations – Export of Defense Articles and Defense Service	Arms Export Control Act of 1976, 22 U.S.C. 2778	January 2009	January 2013	\$775,000
International Traffic in Arms Regulations Violations – Prohibition on Incentive Payments	Arms Export Control Act of 1976, 22 U.S.C. 2779a	January 2009	January 2013	\$750,000
International Traffic in Arms Regulations Violations – Transactions with Countries Supporting Acts of International Terrorism	Arms Export Control Act of 1976, 22 U.S.C. 2780	January 2009	January 2013	\$775,000

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 2015, the Department timely paid over 97 percent of the 573,223 payments subject to PPA regulations. The chart to the right reflects the timeliness of the Department’s payments from 2013 through 2015. During 2015, the Department paid nearly \$349 thousand in interest penalties out of \$9.5 billion in payments that were subject to PPA, compared to \$281 thousand in 2014.

TIMELINESS OF DOS PAYMENTS (2013 – 2015)



Financial 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. Among the Department's customers are 45 U.S. Government agencies in every corner of the world, served 24 hours a day, seven days a week.

The Department's efforts are guided by two overarching goals: providing world-class financial services that support strategic decision-making, mission performance, and improved accountability and transparency to the American people; and supporting the achievement of the agency's strategic goals by enabling interagency planning and coordination. Performance measures related to these goals include timely financial reporting, elimination of material weaknesses in internal control, the achievement of unmodified ("clean") audit opinions, elimination of improper payments, and implementing resource management systems and processes that meet Federal requirements. In addition, the Department endeavors to consolidate and standardize financial operations, leverage best business practices and electronic technologies, and build a first-rate finance team.

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 applications. This past year, financial applications received a satisfaction rating of 84 from overseas users. This score exceeds benchmark averages from financial services customers of 64 for Federal Government agencies and 75 for private sector providers.

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. A key element to achieve improved efficiencies and controls in our financial management processes will be our efforts to standardize financial business processes and consolidate financial services. 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 integrations/interfaces 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 the control of access and to the integrity of data within our systems. This focus seeks to protect both the Department and its employees. CGFS' financial systems development activities are now operated under Capability Maturity Model Integration (CMMI) industry standards. During FY 2015, the Department took steps aimed at moving forward with independent certification of CMMI Level II maturity during FY 2016. We aim to make use of proven commercial off-the-shelf (COTS) software in designing and developing software solutions. We have pushed to consolidate Department resource 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. This includes budget systems such as the Bureau of Budget and Planning's (BP) Central Resource Management System (CRMS) and Budget Resource Management System, International Cooperative Administrative Support Services (ICASS), and Resource Allocation and Budget Integration Toolkit (WebRABIT), which were developed independently in past years. Likewise, a COTS solution is the platform for our new Global Foreign Affairs Compensation Systems (GFACS). We expect our financial systems to meet user and Federal requirements, share a common platform and architecture, reflect rationalized standard business processes, and be developed using CMMI. By managing the process in these ways we can deliver products that are compliant, controlled, and secure. OMB has reviewed our core financial systems plans as part of their U.S. Government-wide review of major financial system investments. OMB approved our investment path and delivery approach.

OMB continues its initiative to standardize Government-wide business processes to address the Federal Government's long-term need to improve financial management and assist agencies in substantially complying with the Federal Financial Management Improvement Act (FFMIA). Also, over the next several years, a number of new Federal accounting and information technology standards, many driven by the Department of Treasury, will become effective. These include Government-wide projects to standardize business requirements and processes, establish and implement a Government-wide accounting classification, and support the replacement of financial statement and budgetary reporting.

The Department's implementation of new standards and Government-wide reporting will strengthen both our financial and information technology management practices.

The Department uses financial management systems that are critical to effective agency-wide financial management, financial reporting, and financial control. These systems are included in various programs. An overview of these programs follows.

FINANCIAL SYSTEMS PROGRAM

The financial systems program includes the Global Financial Management System (GFMS), the Regional Financial Management System (RFMS), and the Consolidated Overseas Accountability Support Toolbox (COAST).

The Global Financial Management System. GFMS centrally accounts for billions of dollars recorded through over 5 million annual transactions 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 DOS' 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 2015, GFMS was updated to ensure compliance with required Treasury mandates for becoming a Central Accounting Reporting System reporter for payments and collections. GFMS was also updated to include Federal Award Identification Number (FAIN) on all grants in response to an initiative to provide greater transparency to government spending. The public can use the FAIN and the Catalog of Federal Domestic Assistance number together to find one accurate result when researching grants online.

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 obligation and voucher processing. CGFS this year completed a project to update RFMS to the recent release

of the underlying COTS product. The RFMS update was implemented in the third quarter of FY 2015.

To further improve controls and the accuracy of financial transactions that reference funding across our regional and domestic systems, the Department continued a multi-phase virtual merge project to provide real time integration of GFMS and RFMS. This integration will ensure timely recording of fiscal data and funds availability checks, increase operational efficiency by avoiding costly rework generated by rejected transactions, and improve the accuracy of financial reporting. The first phase of this project integrated GFMS with RFMS/Momentum (RFMS/M) for invoices, payments, and disbursements processed in GFMS against overseas allotments. Phase I was fully rolled out to the user community during FY 2015. The second phase integrates GFMS contracts/delivery orders referencing overseas funding. As transactions are entered in GFMS, real time processing occurs in RFMS/M to record obligations in RFMS. If the RFMS obligation does not process (e.g., insufficient funds availability), the GFMS contract/delivery order will not process. Several pilots are operational with plans for deployment throughout FY 2016.

The Department has begun efforts to integrate RFMS/M and Ariba, the Department's standard procurement solution. 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. The Pilot Phase of the project was initiated in the third quarter of FY 2015 in Copenhagen and Dublin.

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 and COAST Reporting. COAST Cashiering replaced the legacy Windows Automated Cashiering System (WinACS). The global deployment of COAST Cashiering was completed in FY 2015. COAST Reporting capabilities will be discussed in more detail under the Business Intelligence Program.

PLANNING AND BUDGET PROGRAM

In 2015, the Department moved forward with the Budget System Modernization (BSM) project to standardize, consolidate, and simplify the budgeting systems currently used. System design has begun for the project, building upon a COTS solution. BSM will be developed incrementally with the first implementation expected in the summer of 2017. The first phase of the project will provide central budget office functionality and replace a legacy system that dates from 1999. Future project phases will provide bureau and post budgeting functions.

CRMS processes apportionments, warrants, non-expenditure transfers, fund allocations, and reimbursement agreements, which are interfaced into the Department's accounting system. It is used by all bureaus and missions to receive allotment notifications. BP uses the system for financial planning of the Department's operating accounts. In 2015, only those changes absolutely necessary to maintain the system until retirement were undertaken, including technical enhancements to address security and modifications to continue functionality as the Department's network continues to advance with current versions of technology.

WebRABIT is an application used by all the regional bureaus for program and public diplomacy execution year budgets at their posts. In 2015, WebRABIT was enhanced to provide overseas posts with an ability to plan at the level of the posts within an overseas mission, as well as security enhancements. Further changes will be considered in light of the expected retirement of the system with future phases of BSM.

The ICASS or WebICASS system 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. In 2015, the new centralized software was used for a full budget cycle with users easily transitioning from the older distributed software. Only the budgeting portion of WebICASS will be considered for possible inclusion in BSM. The workload count and cost distribution portions of WebICASS are out of scope for the BSM project.

TRAVEL PROGRAM

In the fourth quarter of FY 2015, the Department (in partnership with United States Agency for International Development) awarded the next generation of the E-Government Travel Services (ETS2) contract to Carlson Wagonlit Travel. This enhanced travel system will enable the Department the ability to leverage the investment made over the past ten years and execute a largely pain-free transition to ETS2 and a version of e2 Solutions that contains the additional functionality required to address GSA ETS2 requirements.

In FY 2016, the Department will coordinate with bureaus and posts on a transition plan from the legacy ETS1 system to ETS2. The migration to ETS2 will also occur in FY 2016.

GRANTS PROGRAM

Our Grants Program involves efforts to serve both domestic and overseas users. During 2014, updates for the capture and reporting for the FAIN were implemented in both our domestic and overseas financial and reporting systems.

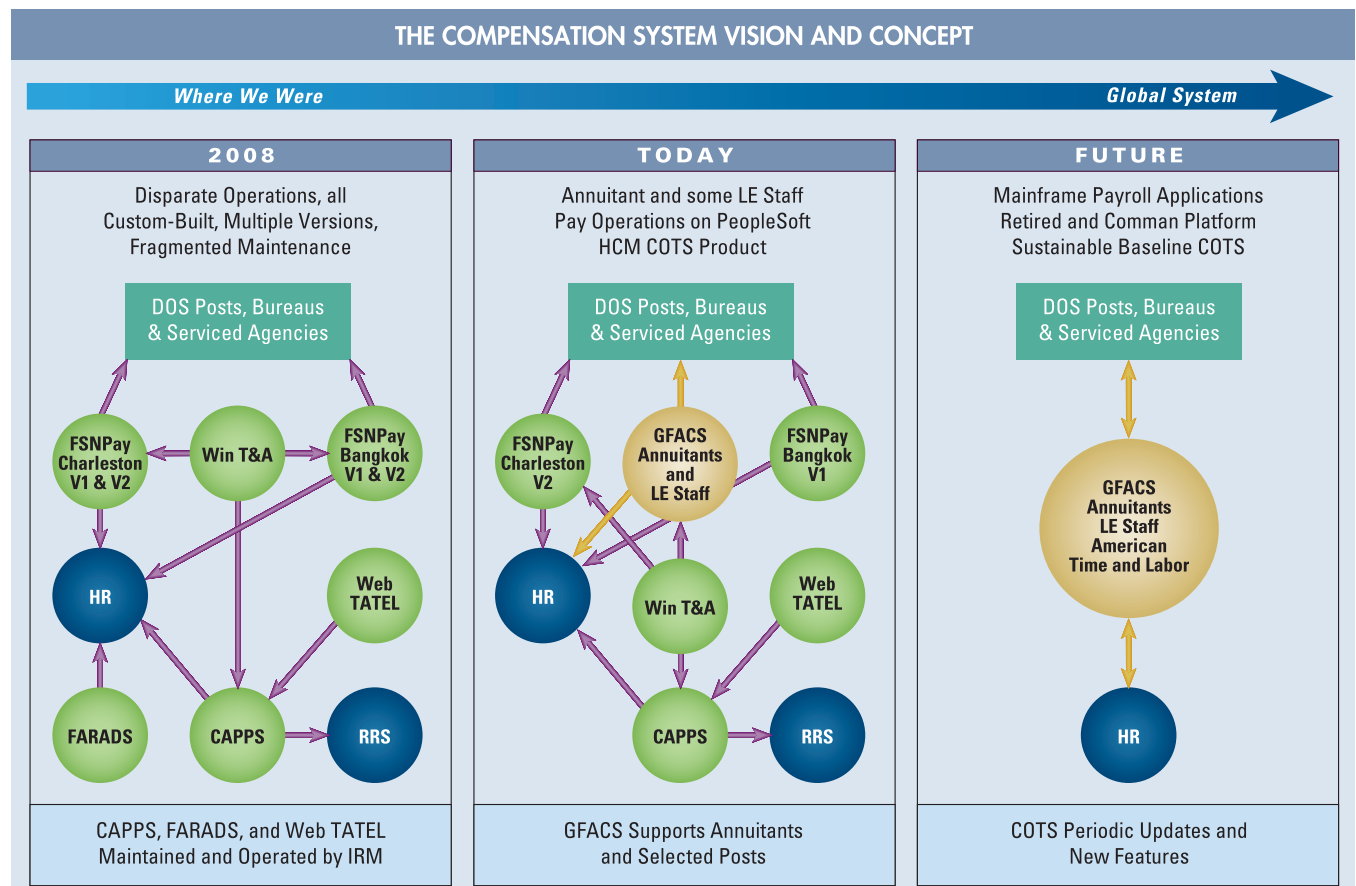
Interface improvements are targeted for FY 2016 to standardize processing of the FAIN across all systems.

OMB's grants management line of business initiative seeks to cut costs and improve service by consolidating computer networks and functions into a few agencies that act as shared service providers to other agencies. The Department leverages the Department of Health and Human Services' GrantSolutions system as the single, standard system for all of its domestic grants.

The Department has made the decision that Ariba will be the standard grants system solution for overseas posts. Pilots at select posts will start in early FY 2016. We anticipate leveraging our integration solution for overseas procurement between Ariba and RFMS for overseas grants.

COMPENSATION PROGRAM

The Department continued to execute a phased deployment strategy as depicted in the following diagram that, when completed, replaces 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 Department and the other 45 civilian agencies that it services. The Global Foreign Affairs Compensation System (GFACS) will leverage a rules-based, table-driven architecture to promote compliance with the sometimes varying statutes found across the Foreign and Civil Service Acts and local laws and practices applicable to the all countries in which civilian agencies operate.

At the close of FY 2015, 140 countries and over 40,000 LE staff have been converted to GFACS. The Department will convert the remaining countries and employees by the end of FY 2016.

The last pay module to be implemented in GFACS is American payroll. It is currently scheduled for full implementation by the end of CY 2016. 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 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, 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 2015, progress continued to be made on the development of Travel dashboards. The selection of our ETS2 provider in FY 2015 will assist in completing development of the dashboard for implementation in FY 2016. During 2015, the GFMS DW was updated to include new workflow reports to support our acquisition office to be more efficient in processing. The DW was also updated to meet new Treasury accounting symbol requirements and to improve performance.

The Department this year began formalizing its Global BI framework, building on the infrastructure being used for the DW, and adding an in-memory appliance and new data analytics and dashboarding tools. This work included acquisition and configuration of both hardware and software. The Global BI data analytics tool was demonstrated in 2015 to a few overseas posts and was very well received. This Global BI solution is expected to use a phased rollout approach beginning in FY 2016. Work will be conducted in FY 2016 on hardware installation, final configuration, security model definition, and application development. This solution also will support DATA Act reporting. The DATA Act capability is targeted for FY 2017.

In addition to the GFMS Data Warehouse, CGFS continues to work on business intelligence systems to support Department financial managers through several features of the COAST system. COAST Reporting was implemented in late 2006, to support overseas financial management officers and post decision makers. In subsequent years, improvements were added to provide the capability to develop budget plans and monitor execution of those plans. Improvements were also made to the information drill-down to allow significant flexibility in filtering and summarizing financial transactions. In addition, COAST Payroll Reporting provides access to payroll-specific data at the post, bureau, and agency levels and will take advantage of COAST's existing drill-down and reporting functionality. In FY 2015, the Department implemented improvements to COAST to support Ariba to RFMS integration and commitment accounting. This included the expansion of document number and vendor code fields throughout the application suite, as well as the addition new screens and reports. Currently in development for COAST are enhancements to support the unique business processes and reporting requirements for the Bureau of International Narcotics and Law Enforcement Affairs bilateral agreements. These improvements are scheduled for implementation in FY 2016.

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.



Located across from the White House on Pennsylvania Avenue, Blair House has served as the President's Guest House since its purchase by the U.S. Government in World War II. It was built as a private home in 1824 and has played an important role in nearly 190 years of American political, diplomatic and cultural history. Under the stewardship of the Department of State, it welcomes visiting heads of state, ambassadors, and other notables in gracious, secure surroundings in the heart of the nation's capital. *Department of State*



Art Bank works include "Untitled" (1965), Benjamin Abramowitz, mixed media (left) and "Eventhough You Need to Go" (2015), Markus Linnenbrink, monotype (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 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 will be a unique education and exhibition venue at the Department of State that will explore the history, practice and challenges of U.S. diplomacy. It will be a place that fosters a greater understanding of the role of U.S. diplomacy, past, present and future, and will be an educational resource for students and teachers in the United States and around the globe. Exhibitions and programs will 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



Falcon Dam is an earthen embankment dam on the Rio Grande between Starr County in the U.S. state of Texas and the city of Nueva Ciudad Guerrero in the Mexican state of Tamaulipas. The dam was built for water conservation, irrigation, hydroelectric power generation, flood control, and recreational purposes and as an international border crossing between Zapata and Starr Counties and Tamaulipas. Construction on the dam began in December 1950 and ended in April 1954 but it was dedicated by presidents Adolfo Ruiz Cortines and Dwight D. Eisenhower in October 1953. *Department of State/IBWC*

about 150 miles above the mouth of the Rio Grande. They are considered multi-use heritage assets.

BLAIR HOUSE

Composed of four historic landmark buildings owned by GSA, Blair House, the President's Guest House, operates under the stewardship of the Department of State's Office of the Chief of Protocol and has accommodated official guests of the President of the United States since 1942. In 2012, these buildings were added to the Secretary's Register of Culturally Significant Property for their important role in the 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.

Freeze 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 “Freeze the Footprint” policy implementing guidance, all CFO Act departments and agencies shall seek to avoid increasing the total square footage of their domestic office and warehouse inventory compared to a 2012 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 American direct-hire employees under Chief of Mission authority work for other agencies; all 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 all agencies overseas.

The Department’s overall Freeze the Footprint plan shows a growth of eight percent by FY 2015. This growth is largely a result of projects that were ‘in the pipeline’ or otherwise beyond the Department’s control. For example, real property acquired but not yet occupied when the baseline was set; a re-measurement of the Harry S Truman (HST) building; and the necessary addition of swing space during renovations at the HST building.

The Department is working closely with GSA to offset these space increases with space releases and lease terminations. Additionally, the Department is formalizing and enforcing Space Allocation Standards that limit the number of closed offices, improving utilization rates via increased densification, and implementing Mobile Workplace Initiatives where appropriate.

As the Department’s real property needs are ‘mission-driven,’ it must be prepared for real world events that may require changes in its footprint. Whether it is reacting to crises such as the outbreak of Ebola and other threats to our nation’s security, or longer-term engagements such as coalition building and overseeing foreign assistance programs, the Department must have the necessary personnel and facilities to respond rapidly to changing requirements. The OPM noted in a report in April 2014 that from 2009 – 2013 the Department increased its full time employee workforce by 17 percent, which was more than any other agency. The Department commits however, to continuing to improve utilization rates and accommodating the additional personnel within its current portfolio to the maximum extent possible. Along with office consolidations, relocations of back office operations, and other effective and efficient real property asset management activities, the Department will be able to provide the support the U.S. Government requires overseas while minimizing the costs back home.

The following table compares the most recent reported total square footage and annual operating costs associated with the Department’s assets subject to the Freeze the Footprint policy to the 2012 baseline assigned by GSA. The 2015 amounts are not available until after publication of the Agency Financial Report.

FREEZE THE FOOTPRINT BASELINE COMPARISON (amounts in millions)

	2014	2012 Baseline	Change		2014	2012 Reported Cost	Change
Square Footage	7.4	6.8	0.6	Operation and Maintenance Costs	\$17.2	\$11.7	\$5.5



U.S. Secretary of State John Kerry delivers a speech about the Iran nuclear agreement before an audience of several hundred assembled in the F.M. Kirby Auditorium at the National Constitution Center in Philadelphia, Pennsylvania, September 2, 2015. *Department of State*

Appendices

Appendix A: Abbreviations and Acronyms

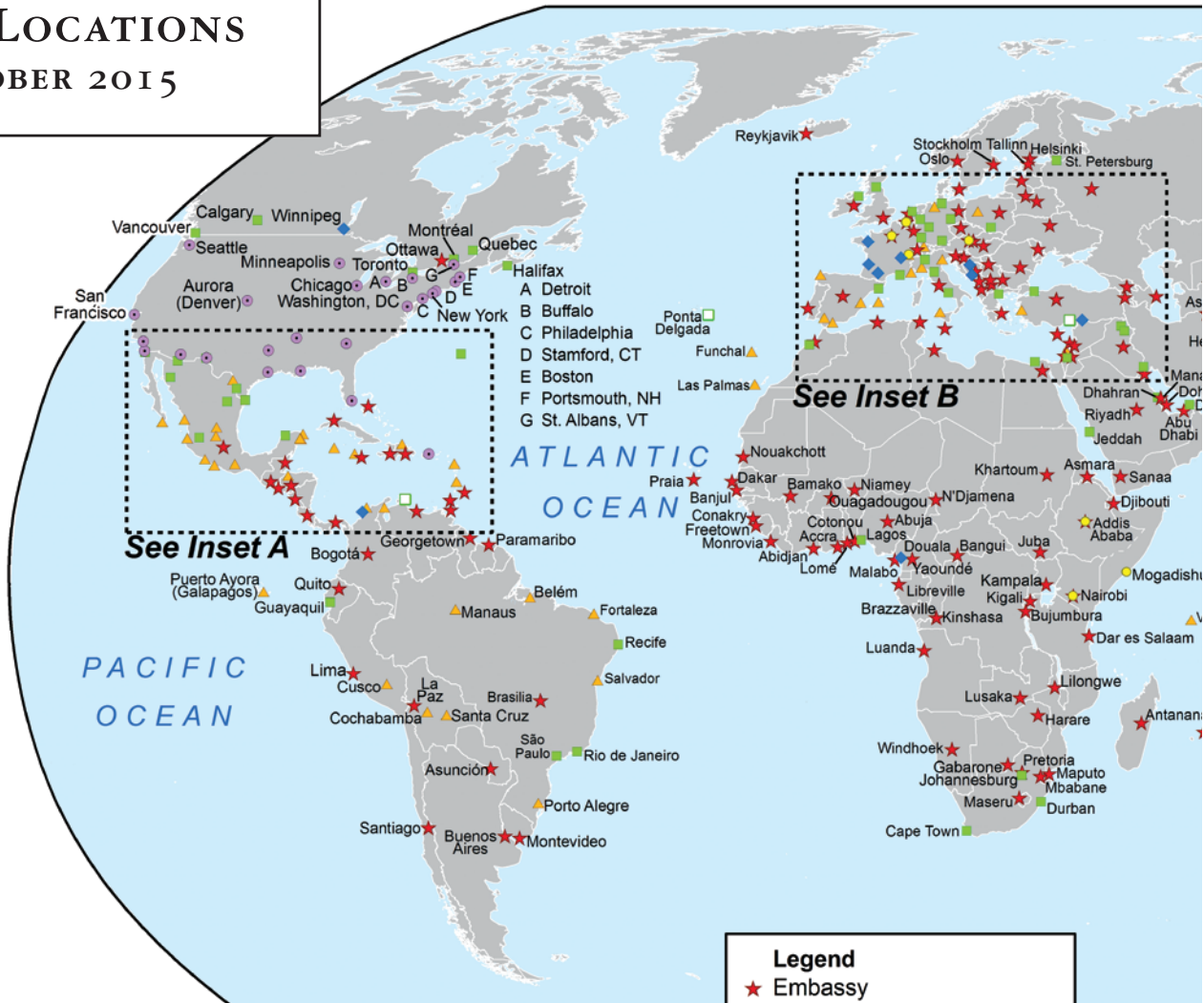
A	Bureau of Administration (DOS)	COR	Contracting Officer Representative
ADP	Automated Data Processing	COTS	Commercial Off-the-Shelf
AE	American Employee	CRMS	Central Resource Management System
AF	Bureau of African Affairs (DOS)	CSO	Bureau of Conflict and Stabilization Operations (DOS)
AFCS	Annual Facility Condition Survey	CSRS	Civil Service Retirement System
AFR	Agency Financial Report	CY	Current Year
AGA	Association of Government Accountants	D&CP	Diplomatic and Consular Programs (DOS)
AGOA	African Growth and Opportunity Act	DCF	Defined Contributions Fund
AIDS	Acquired Immunodeficiency Syndrome	DCFO	Deputy Chief Financial Officer (DOS)
AP	Associated Press	Department	U.S. Department of State
APG	Agency Priority Goal	DHS	U.S. Department of Homeland Security
Appendix A	OMB Circular A-123, Appendix A	DM&R	Deferred Maintenance and Repairs
APR	Annual Performance Report	DMF	Death Master File (SSA)
ARB	Accountability Review Board	DNP	Do Not Pay
BI	Business Intelligence	DoD	U.S. Department of Defense
BP	Bureau of Budget and Planning (DOS)	DOL	U.S. Department of Labor
BSM	Budget System Modernization	DOS	U.S. Department of State
CA	Bureau of Consular Affairs (DOS)	DS	Bureau of Diplomatic Security (DOS)
CAP	Cross-Agency Priority	DW	Data Warehouse
CCD	Consular Consolidated Database	E	Under Secretary for Economic Growth, Energy and Environment (DOS)
CEAR	Certificate of Excellence in Accountability Reporting	EAP	Bureau of East Asian and Pacific Affairs (DOS)
CFO	Chief Financial Officer	ECA	Bureau of Educational and Cultural Affairs (DOS)
CGFS	Bureau of the Comptroller and Global Financial Services (DOS)	ECE	Educational and Cultural Exchange Programs
CGFS/C	Office of Global Compensation (DOS)	EPLS	Excluded Parties List System (GSA)
CGFS/F	Office of Claims (DOS)	EFT	Electronic Funds Transfer
CHP	Contractor-Held Property	ERMA	U.S. Emergency Refugee and Migration Assistance
CIO	Chief Information Officer	ESCM	Embassy Security, Construction, and Maintenance
CMMI	Capability Maturity Model Integration	ETS	E-Government Travel Services
COAST	Consolidated Overseas Accountability Support Toolbox	EUR	Bureau of European and Eurasian Affairs (DOS)
		EXBS	Export Control and Border Security

F	Office of U.S. Foreign Assistance Resources (DOS)	GWA	Government-wide Accounting
FAIN	Federal Award Identification Number	HHS	U.S. Department of Health and Human Services
FAO	Food and Agriculture Organization (UN)	HIV	Human Immunodeficiency Virus (AIDS)
FASAB	Federal Accounting Standards Advisory Board	HSPD	Homeland Security Presidential Directive
FBWT	Fund Balance with Treasury	HST	Harry S Truman
FECA	Federal Employees Compensation Act	IAS	International Accounting Standards
FEGLIP	Federal Employees Group Life Insurance Program	IASB	International Accounting Standards Board
FEHBP	Federal Employees Health Benefits Program	IBWC	International Boundary and Water Commission
FERS	Federal Employees Retirement System	ICAO	International Civil Aviation Organization (UN)
FFMIA	Federal Financial Management Improvement Act of 1996	ICASS	International Cooperative Administrative Support Services (DOS)
FISMA	Federal Information Security Modernization Act of 2014	ICOFR	Internal Control Over Financial Reporting
FMF	Foreign Military Financing	IG	Inspector General
FMFIA	Federal Managers' Financial Integrity Act of 1982	IIP	Bureau of International Information Programs (DOS)
FMLP	Future Minimum Lease Payments	IMET	International Military Education and Training
FSI	Foreign Service Institute	INCLE	International Narcotics Control and Law Enforcement
FSN	Foreign Service National	INL	Bureau of International Narcotics and Law Enforcement (DOS)
FSNAEB	Foreign Service Nationals' After-Employment Benefits	INR	Bureau of Intelligence and Research (DOS)
FSN DCF	Foreign Service National Defined Contributions Fund	IO	Bureau of International Organization Affairs (DOS)
FSNLTF	Foreign Service National Separation Liability Trust Fund	IPERA	Improper Payments Elimination and Recovery Act of 2010
FSO	Foreign Service Officer	IPIA	Improper Payments Information Act of 2002
FSRDF	Foreign Service Retirement and Disability Fund	IRM	Bureau of Information Resource Management (DOS)
FSRDS	Foreign Service Retirement and Disability System	ISIL	Islamic State in Iraq and the Levant
FSPS	Foreign Service Pension System	ISSO	Information Systems Security Officer
FWCB	Federal Workers' Compensation Benefits	IT	Information Technology
FY	Fiscal Year	J	Under Secretary for Civilian Security, Democracy and Human Rights (DOS)
GAAP	Generally Accepted Accounting Principles	LACP	League of American Communications Professionals
GAO	Government Accountability Office	LEDS	Low Emission Development Strategies
GEMS	Global Employment Management System	LE Staff	Locally Employed Staff
GFACS	Global Foreign Affairs Compensation System	LSSS	Local Social Security System
GFMS	Global Financial Management System	M	Under Secretary for Management (DOS)
GoP	Government of Pakistan	MCSC	Management Control Steering Committee (DOS)
GOR	Grants Officer Representative	MD&A	Management's Discussion and Analysis
GPRA	Government Performance and Results Act	MENA	Middle East and North Africa
GSA	U.S. General Services Administration		
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System		

MLE	Maritime Security Law Enforcement Initiative	QDDR	Quadrennial Diplomacy and Development Review
MMU	Monrovia Medical Unit	R	Under Secretary for Public Diplomacy and Public Affairs (DOS)
MRA	Migration and Refugee Assistance	R&I	Repair & Improvement
MSG	Marine Security Guard	RAD	Retirement Account Division (DOS)
NADR	Nonproliferation, Antiterrorism, Demining, and Related Programs	RBPF	Royal Bahamas Police Force
NATO	North Atlantic Treaty Organization	RFMS	Regional Financial Management System
NEA	Bureau of Near Eastern Affairs (DOS)	RSI	Required Supplementary Information
NED	National Endowment for Democracy	SAT	Senior Assessment Team
NPT	Nuclear Non-Proliferation Treaty	SBR	Statement of Budgetary Resources
OAS	Organization of American States	SCA	Bureau of South and Central Asian Affairs (DOS)
OBO	Overseas Buildings Operations (DOS)	SID	Software in Development
OCO	Overseas Contingency Operations (DOS)	SDN	Specially Designated Nationals
OECD	Organization for Economic Cooperation and Development	SFFAS	Statements of Federal Financial Accounting Standards
OFAC	Office of Foreign Assets Control	SNC	Statement of Net Cost
OFM	Office of Foreign Missions (DOS)	SSA	Social Security Administration
OI	Other Information	STEM	Science, Technology, Engineering and Mathematics
OIG	Office of Inspector General (DOS)	T	Under Secretary for Arms Control and International Security Affairs (DOS)
OMA	Office of Oversight and Management Analysis (DOS)	T&A	Time and Attendance
OMB	U.S. Office of Management and Budget	Treasury	U.S. Department of Treasury
OPM	U.S. Office of Personnel Management	TSP	Thrift Savings Plan
OSCE	Organization for Security and Co-operation in Europe	UDO	Undelivered Orders
P	Under Secretary for Political Affairs (DOS)	UK	United Kingdom
PBO	Projected Benefit Obligation	ULO	Unliquidated Obligations
PEPFAR	President's Emergency Plan for AIDS Relief	UN	United Nations
PIV	Personal Identity Verification	UNEP	United Nations Environment Programme (UN)
PKO	Peacekeeping Organization	UNESCO	United Nations Educational, Scientific and Cultural Organization (UN)
PMS	Payment Management System	UNVIE	U.S. Mission to International Organizations in Vienna
POA&M	Plans of Action and Milestones	USAID	U.S. Agency for International Development
PORM	Peace Operations Response Mechanism	USMC	U.S. Marine Corps
PP&E	Property, Plant, and Equipment	USSGL	U.S. Standard General Ledger
PPA	Prompt Payment Act	VAT	Value Added Taxes
PRM	Bureau of Population, Refugees, and Migration (DOS)	WebRABIT	Resource and Budget Integration Toolkit
PSA	Personal Services Agreement	WHA	Bureau of Western Hemisphere Affairs (DOS)
PSC	Personal Services Contractor	WinACS	Windows Automated Cashiering System
PY	Prior Year	WSP	Worldwide Security Protection

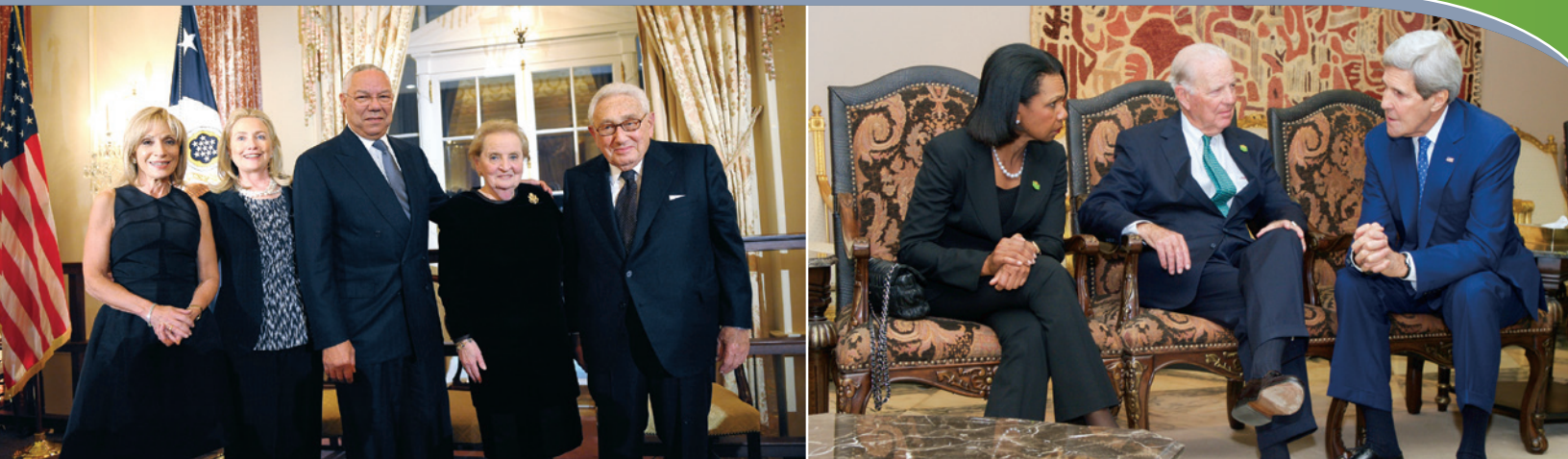
Appendix B: Department of State Locations

DEPARTMENT OF STATE LOCATIONS
OCTOBER 2015



Appendix C: U.S. Secretaries of State Past and Present

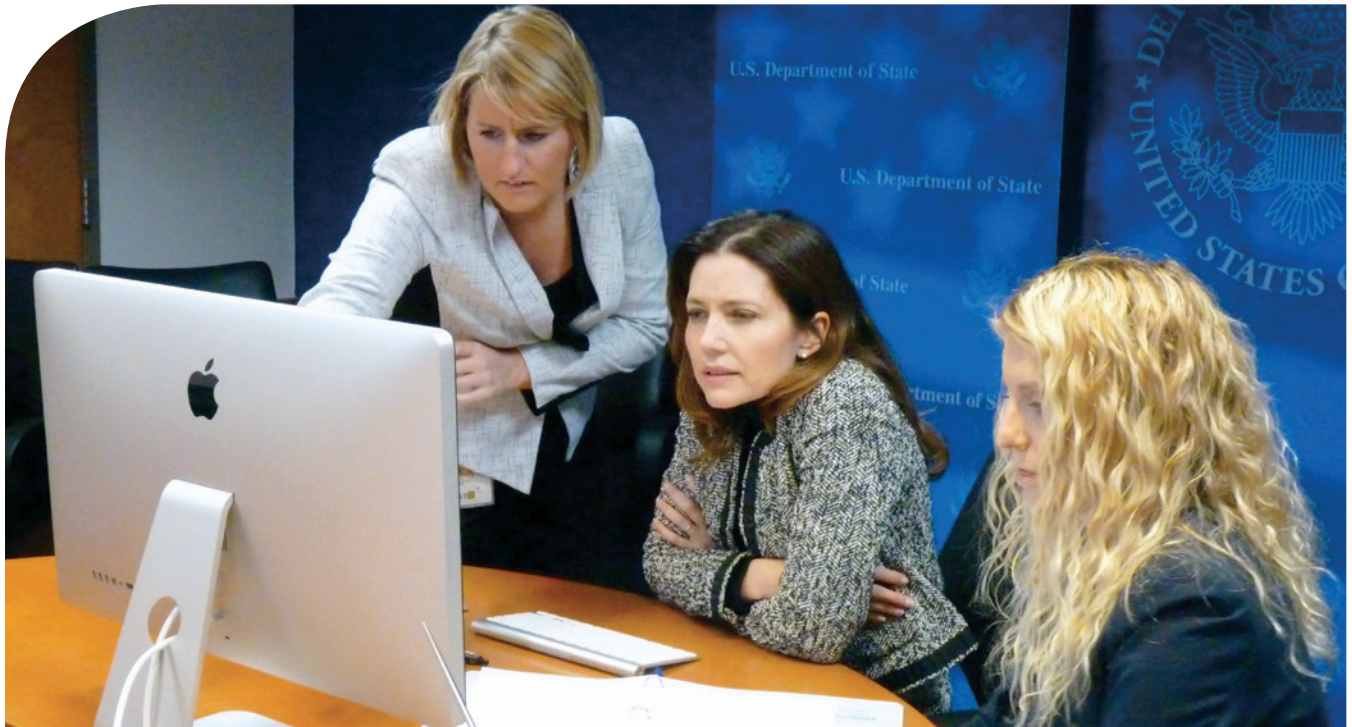
1. **Thomas Jefferson** (1790-1793)
2. **Edmund Jennings Randolph** (1794-1795)
3. **Timothy Pickering** (1795-1800)
4. **John Marshall** (1800-1801)
5. **James Madison** (1801-1809)
6. **Robert Smith** (1809-1811)
7. **James Monroe** (1811-1817)
8. **John Quincy Adams** (1817-1825)
9. **Henry Clay** (1825-1829)
10. **Martin Van Buren** (1829-1831)
11. **Edward Livingston** (1831-1833)
12. **Louis McLane** (1833-1834)
13. **John Forsyth** (1834-1841)
14. **Daniel Webster** (1841-1843)
15. **Abel Parker Upshur** (1843-1844)
16. **John Caldwell Calhoun** (1844-1845)
17. **James Buchanan** (1845-1849)
18. **John Middleton Clayton** (1849-1850)
19. **Daniel Webster** (1850-1852)
20. **Edward Everett** (1852-1853)
21. **William Learned Marcy** (1853-1857)
22. **Lewis Cass** (1857-1860)
23. **Jeremiah Sullivan Black** (1860-1861)
24. **William Henry Seward** (1861-1869)
25. **Elihu Benjamin Washburne** (1869-1869)
26. **Hamilton Fish** (1869-1877)
27. **William Maxwell Evarts** (1877-1881)
28. **James Gillespie Blaine** (1881-1881)
29. **Frederick Theodore Frelinghuysen** (1881-1885)
30. **Thomas Francis Bayard** (1885-1889)
31. **James Gillespie Blaine** (1889-1892)
32. **John Watson Foster** (1892-1893)
33. **Walter Quintin Gresham** (1893-1895)
34. **Richard Olney** (1895-1897)
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)



Images (Left) to (Right): (1) From right to left, former Secretaries of State Henry Kissinger, Madeleine Albright, General Colin Powell, and Hillary Rodham Clinton, as well as NBC's Andrea Mitchell, pose for a photo to celebrate the 50th Anniversary of the Diplomatic Reception Rooms and the Completion of the Patrons of Diplomacy Endowment Campaign at the U.S. Department of State in Washington, D.C., October 27, 2011; and (2) U.S. Secretary of State John Kerry chats with two of his predecessors, former Secretaries of State Condoleezza Rice and James Baker, as they await President Obama's arrival in Riyadh, Saudi Arabia, to extend condolences to the late King Abdullah and call upon and meet with the new King Salman, at King Khaled International Airport, January 27, 2015. Department of State

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-present)

Appendix D: Websites of Interest



Assistant Secretary of State for Educational and Cultural Affairs Evan Ryan responds to your questions during a Reddit Ask Me Anything, at the U.S. Department of State in Washington, D.C., November 21, 2014. *Department of State*

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



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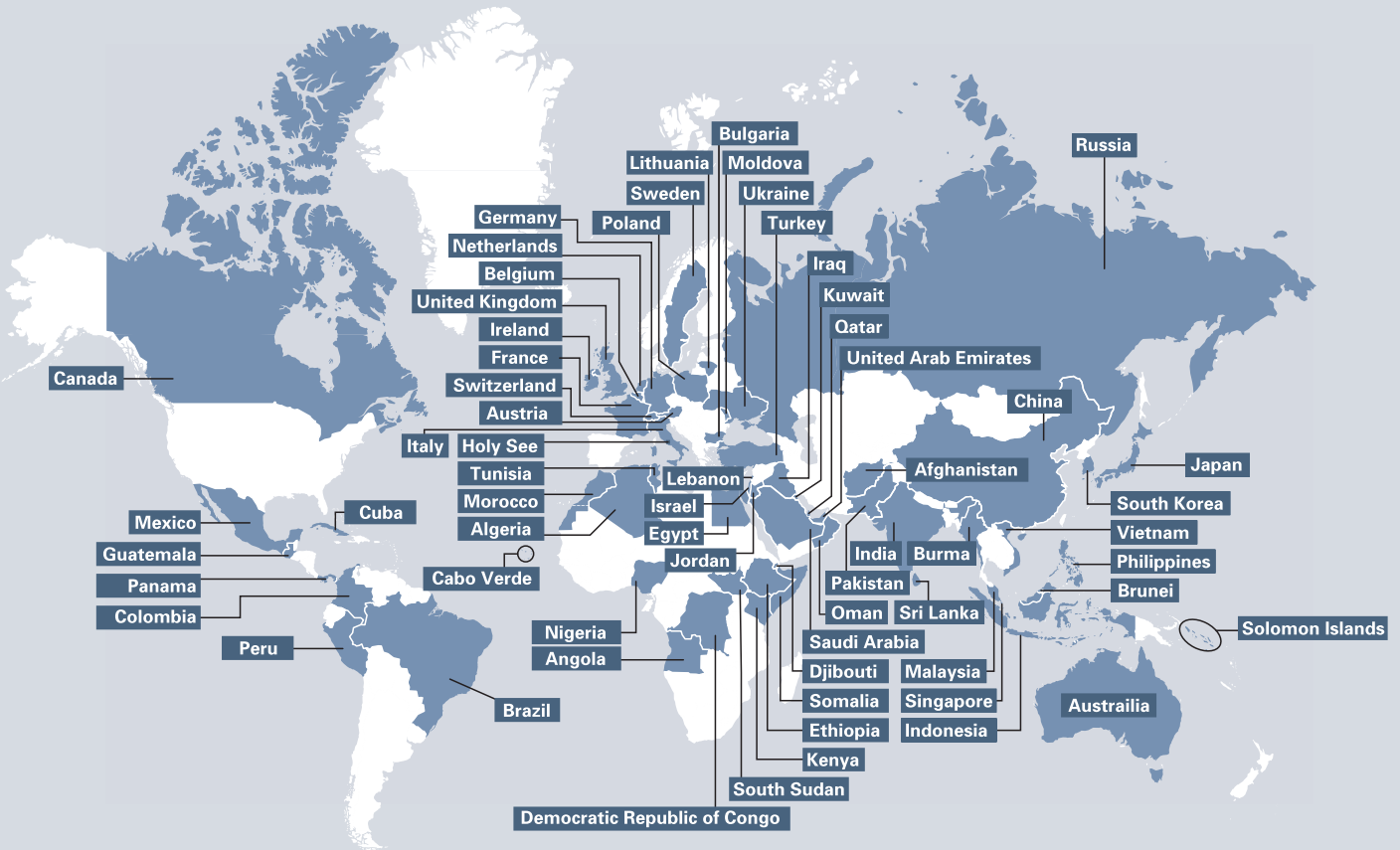
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Global Diplomacy Travels

John Forbes Kerry has visited more than 60 countries, traveling over 850,000 miles, during his 32 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.



U.S. Secretary of State John Kerry boards an airplane at Andrews Air Force Base, en route to Colombo, Sri Lanka, at the start of a trip also taking him to Africa, the Gulf Region, and Europe, in Camp Springs, Maryland, May 1, 2015.
Department of State





Assistant Secretary for Educational and Cultural Affairs Evan Ryan visits 12th grade students. The students participate in the Embassy-sponsored English Access program, in the Northern Arab village of Iksal, Israel, October 17, 2014. *Department of State*

2015 IMAGE CREDITS

Associated Press (AP): *Pages 22, 111, Back Cover*

Department of State: *Front Cover, Table of Contents, pages 3, 4, 6, 8, 10, 16, 17, 19, 20, 22, 25, 26, 29, 33, 42, 49, 50, 77, 79, 83, 85, 87, 91, 104, 115, 116, 142, 144, 146, 153, 154, 155, 156, Back Cover*

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Table of Contents: Deputy Secretary of State for Management and Resources Heather Higginbottom, U.S. Ambassador to Namibia Thomas Daughton, Ambassador Deborah Birx, U.S. Global AIDS Coordinator and U.S. Special Representative for Global Health Diplomacy, and U.S. Representative Karen Bass pose for a photo with the Marine Guards at the U.S. Embassy in Windhoek, Namibia, March 20, 2015. *Department of State*

BACK COVER IMAGE CAPTIONS

Back Cover: *Images (Left) to (Right):* (1) The Harry S Truman Building, headquarters for the State Department, is seen in Washington, D.C. *Department of State*; and (2) An evacuee from Lebanon holds his U.S. passport, as he waits in a line prior to his departure to the airport, at the international fairground of Nicosia, Cyprus, July 20, 2006. ©AP Image

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