UNITED STATES DEPARTMENT OF STATE

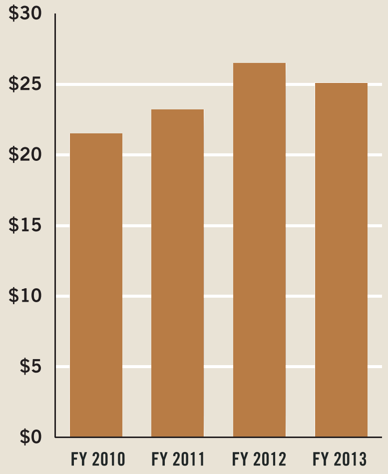
FISCAL YEAR 2013 AGENCY FINANCIAL REPORT

SMART INVESTMENTS FOR AMERICA'S FUTURE

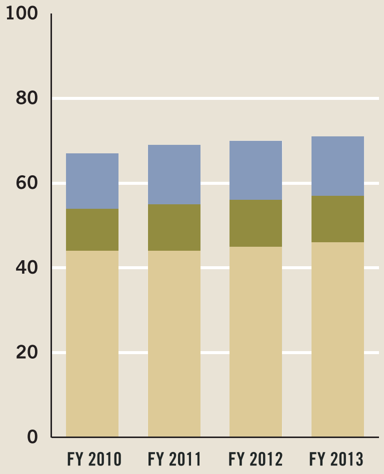
"We are acting on several fronts at once to make strategic investments that deliver maximum result for minimal expenditure of taxpayer dollars."

FY 2013 Highlights *(dollars in billions)*	**Percent Change 2013 over 2012**	**2013**	**2012**	**2011**	**2010**
Balance Sheet Totals as of September 30					
Total Assets	+7%	$ 84.8	$ 79.6	$ 73.6	$ 68.3
Total Liabilities	+4%	26.4	25.4	24.1	23.6
Total Net Position	+8%	58.4	54.2	49.5	44.7
Results of Operations for the Year Ended September 30					
Total Net Cost of Operations	–5%	$ 25.1	$ 26.5	$ 23.2	$ 21.5
Budgetary Resources for the Year Ended September 30					
Total Budgetary Resources	+5%	$ 60.6	$ 57.5	$ 53.3	$ 52.6
Visas Issued at Foreign Posts		9.2 million	8.9 million	7.5 million	6.4 million

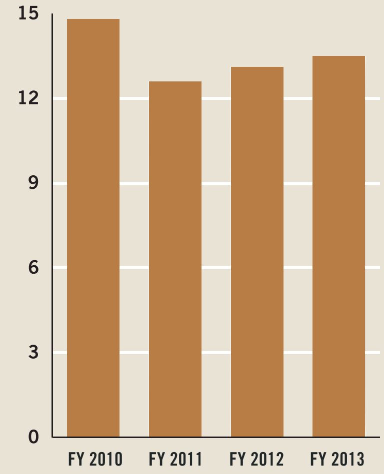
Total Net Cost of Operations
(dollars in billions)



State Department Employees
(in thousands)

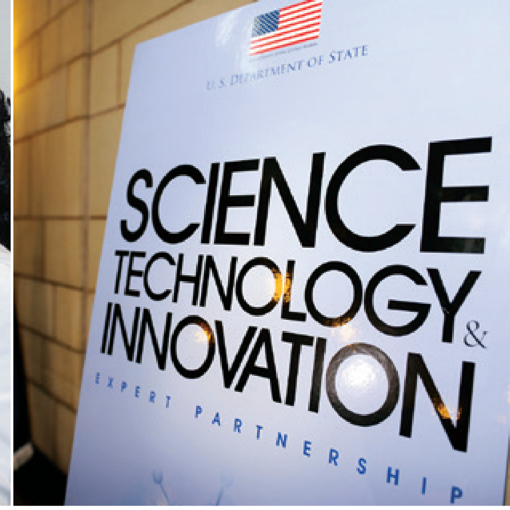


Number of Passports Issued (books and cards)
(in millions)



Foreign Service | Civil Service | Locally Employed Staff*

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



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About This Report

The U.S. Department of State's *Agency Financial Report* (AFR) for Fiscal Year (FY) 2013 provides an overview of the Department's financial and performance data to help Congress, the President, and the public assess our stewardship over the resources entrusted to us. This report is available at the Department's website (*www.state.gov/s/d/rm/rls/perfrpt/2013/index.htm*) and includes sidebars, videos, infographics, 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,
- Accountability of Tax Dollars Act of 2002,
- 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 December 2013; (2) an agency *Annual Performance Report* (APR) for FY 2013 in conjunction with the FY 2015 *Congressional Budget Justification* (CBJ), which is the Department's budget request to Congress, to be issued in February 2014; and (3) a *Summary of Performance and Financial Information*, to be released also in February 2014. The last report will be produced jointly with the U.S. Agency for International Development (USAID). These reports will be available online at *http://www.state.gov/s/d/rm/c6113.htm*.

ABOUT THE COVER

The cover is a photo montage that presents the Department's commitment to making smart investments for America's future at a time when our foreign policy matters more than ever before in our daily lives. The images include: (top left) Assistant Secretary of State for Western Hemisphere Affairs Roberta Jacobson meets with the Central American Youth Ambassadors at the U.S. Department of State in Washington, D.C., March 11, 2013; (right) U.S. Secretary of State John Kerry, U.S. Secretary of the Treasury Jacob Lew, Chinese State Councilor Yang, and Chinese Vice Premier Wang participate in the U.S.-China Economic and Strategic Dialogue Joint Session on Climate Change at the U.S. Department of State in Washington, D.C., July 10, 2013; and (bottom left) the Harry S Truman Building, headquarters for the State Department, in Washington, D.C.

Certificate of Excellence in Accountability Reporting

In May 2013, the U.S. Department of State received the *Certificate of Excellence in Accountability Reporting* (CEAR) from the Association of Government Accountants (AGA) for its FY 2012 Agency Financial Report. 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 sixth time the Department has won the CEAR award.

How This Report is Organized

The State Department's FY 2013 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2012, and ending on September 30, 2013, 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 candidly presents the Department's operations, accomplishments, and challenges. The FY 2013 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 performance accomplishments for selected key performance results associated with the Department's goals and priorities. The section also highlights the agency's financial results, and provides management's assurances on the Department's internal controls.

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

Section II: Financial Section

Section II begins with a message from the Comptroller. This section details the Department's finances 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 schedule of budgetary resources, a report on the Department's year-end deferred maintenance, and the condition of heritage asset collections.

Section III: Other Information

Section III begins with the Schedule of Spending and 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 describes the Department's financial legal requirements, as well as improper payments efforts, financial management systems, and a summary of the Department's heritage assets.

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) 2013. The following pages describe the Department's commitment to making smart investments for America's future at a time when our foreign policy matters more than ever before in our daily lives. In an era of shrinking budgets and an increasingly interdependent world, we have had to make tough choices. The financial and performance information in this report demonstrates the seriousness with which we take our responsibility to advance America's core national security and economic interests, while using taxpayer dollars efficiently and effectively.

The Department's mission is to create a more secure, democratic, and prosperous world for the benefit of the American people and the international community. The demand for U.S. leadership has never been higher, and the challenges we face are great: bringing stability to the Middle East and North Africa, deepening our political, security, and economic ties to the Asia Pacific region, completing the transition in Afghanistan, tackling climate change and putting the world on the path to a clean energy future, and promoting good governance and human rights, to name just a few.

At the same time, the products that we buy, the goods that we sell, and the economic opportunities we create here at home increasingly are intertwined with the lives of people across the world. If we pull back from engaging abroad, we will not only hurt those who depend on us today, we will diminish our own values and fail to meet our responsibilities to the next generation.

By making foreign policy investments now aimed at overcoming these challenges and increasing America's prosperity, we can avoid much costlier burdens down the road. Deploying diplomats and development experts on the frontlines today is much cheaper than deploying troops tomorrow. That is why we are acting on several fronts at once to make strategic investments that deliver maximum result for minimal expenditure of taxpayer dollars.

This approach paid significant dividends in FY 2013: we sustained the democratic opening in Burma, we strengthened our partnerships with China and India to reduce carbon emissions, and we celebrated the 10th anniversary of the U.S. President's Emergency Plan for AIDS Relief (PEPFAR)—and the fact that the

U.S. Secretary of State John Kerry speaks during a news conference at Wajbah Palace, in Doha, Qatar, March 5, 2013. *©AP Image* one-millionth baby was born HIV-free because of PEPFAR support, something unimaginable just a decade ago.

We know the difference that the United States can make around the world and we are continuing to deliver solutions matching the scale of the many challenges we face. We are addressing political transitions, emerging security threats, and humanitarian crises in the Middle East and North Africa. We are negotiating major trade agreements with Europe and the Asia Pacific. We continue to disrupt, dismantle, and defeat al-Qa'ida's core leadership and address security challenges, from South Asia to the Sahel. And we are strengthening our relationships and building new alliances with emerging powers, engaging them on the most important global issues.

We are making crucial investments in the President's signature development initiatives on food security, health, energy, and climate change. These programs will help drive a 21st Century development policy and create shared prosperity between the United States and our partners around the world. And in all of our efforts, we are ensuring all the gears of global growth are working together to create opportunity and grow the U.S. economy. That is why we are committed to supporting the President's National Export Initiative by promoting increased U.S. exports and, in turn, creating quality jobs for Americans.

We are achieving all of this by closely examining our investments and making tradeoffs to obtain the best value for Americans' dollars. For example, we are reducing funding for Afghanistan, Pakistan, and Iraq to reflect our downsized presence and programs, while increasing funding for the commercial diplomacy and development programs that reflect U.S. economic interests and values.

The first Quadrennial Diplomacy and Development Review (QDDR) provided a roadmap for investing in our efforts to keep America strong and Americans secure. We have increased security at posts, strengthened training for personnel, modernized facilities, and added staff dedicated to promoting U.S. trade and investment. These reforms are just the beginning. The second QDDR, which will be released in 2014, will further focus our diplomatic and development efforts and guide our investments to obtain the best value for taxpayers.

The Department remains committed to high standards of financial operations, reporting, and accountability, and to the continued improvement of our financial management and internal controls. The Message from the Comptroller in this AFR underscores our improvements in FY 2013 and includes the results of the independent audit of our FY 2013 Financial Statements. 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.

With the leadership of President Obama and the cooperation I will work hard to secure from the Congress, I am confident that the United States will continue to lead as the indispensable nation. I am honored every day to work alongside my Department of State colleagues as we make smart investments for America's future. Even in a tight budget climate, Americans deserve a strong foreign policy, and the world still seeks U.S. leadership to advance economic opportunity, freedom, and peace. That is when the United States is at its best and those are the values that the Department defends every single day.

John F. Kerry
Secretary of State
December 16, 2013

Deputy Secretary of State William Burns delivers remarks at the Pathways to Prosperity Ministerial in Cali, Colombia, October 23, 2012.
Department of State

SECTION I:
Management's Discussion and Analysis

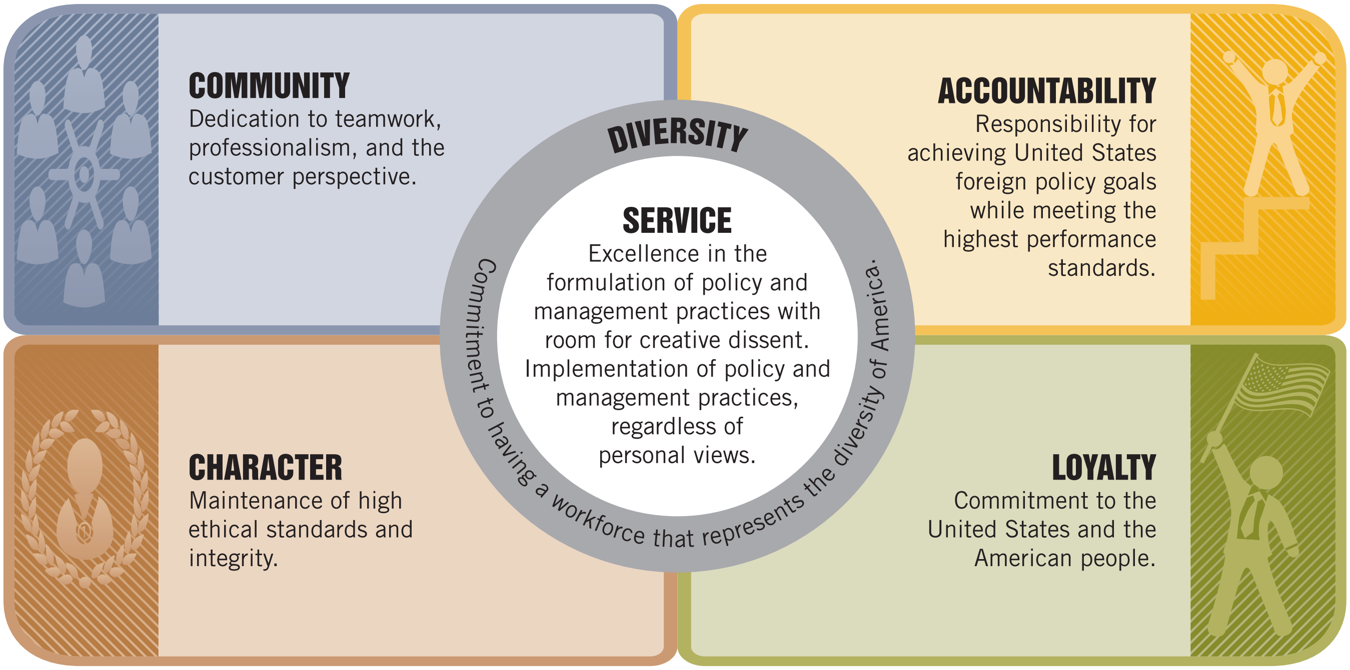
> No investment matches the returns we collect on the down payment we make in our foreign policy. In fact, **for just over one percent of our national budget** – a single penny on the dollar – we fund our civilian foreign affairs efforts: every embassy, every consulate, and the programs and people that carry out our missions.
>
> *– Secretary of State, John Kerry*

About the Department

Our Mission Statement

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.

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.

Did You Know?

On February 1, 2013, John F. Kerry was sworn in as the 68th Secretary of State of the United States. For a complete list of those who have served as U.S. Secretary of State, please refer to Appendix C of this report.

Our Organization and People

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

Megan Willis conducts interviews in a shop in Gandiaye, Senegal as part of an interagency conflict assessment led by the Department in advance of Senegalese elections. *Department of State*

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 several 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

Assistant Secretary of State for East Asian and Pacific Affairs Kurt M. Campbell and National Security Council Senior Director for Asian Affairs Daniel Russel participate in a meeting with Japanese Foreign Minister Fumio Kishida at the Ministry of Foreign Affairs in Tokyo, Japan, January 17, 2013. ***Department of State***

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 FY 2013, the Department was comprised of approximately 71,000 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.

LEARN MORE

For more information, see the fact sheet: Ten Things You Should Know About the State Department:
http://www.state.gov/r/pa/pl/2013/202844.htm

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 airline routes, and competing 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 calendar year 2012, the most recent year that figures are available, we assisted in over 8,600 international adoptions and received more than 1,600 reports of international parental child abduction. We also assisted in the return of over 560 abducted children to the United States.

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. In South Sudan, Libya, and many other countries, we worked to foster democracy and peace.

4) **We help to make the world a safer place.** Together with Russia, 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

programs have destroyed stockpiles of missiles, munitions, and material that can be used to make a nuclear weapon. The Department has helped more than 40 countries clear millions of square meters of landmines.

5) **We save lives.** Strong bipartisan support for U.S. global health investments has led to worldwide progress against HIV/AIDS, tuberculosis, malaria, smallpox, 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 earthquakes in Haiti, Japan, and Chile, to famine in the Horn of Africa, 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, attempt to 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 2013, we issued 13.5 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.

VIEW VIDEO

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

U.S. Secretary of State John Kerry delivers remarks at the University of Virginia in Charlottesville, Virginia, February 20, 2013. *Department of State*

FOCUS IN

Secretary Kerry Delivers Remarks on Investing in Foreign Policy

Secretary of State John Kerry made his first major public address regarding U.S. foreign policy and diplomacy on February 20, 2013 in Old Cabell Hall at the University of Virginia – founded by Thomas Jefferson, America's first Secretary of State.

Ahead of his first overseas trip, Secretary Kerry spoke directly to the American people about the value of its investments in a strong foreign policy. The Secretary discussed how a relatively small Federal Government investment in America's foreign policy and diplomatic efforts – just over one percent of the national budget – results in a large return for America's economy and security. Secretary Kerry remarked: "Foreign assistance is not a giveaway. It's not charity. It is an investment in a strong America and in a free world."

The Secretary further asserted the urgent need for a strong foreign policy to protect American interests in the world: "A wise investment in foreign policy can yield for a nation the same return that education does for a student. And no investment that we make that is as small as this investment puts forward such a sizeable benefit for ourselves and for our fellow citizens of the world."

Secretary Kerry's remarks in Charlottesville, Virginia, were the first in a series of domestic addresses he has delivered as Secretary to report to the American people about foreign policy and its impact back home.

LEARN MORE

For more information, a video and transcript of this speech may be viewed at:
http://www.state.gov/secretary/remarks/2013/02/205021.htm

10) **We are the face of America overseas.** Our diplomats, development experts, and the programs they implement are the source of American leadership and the embodiments of our American values around the world.

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. 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.

In accordance with the Quadrennial Diplomacy and Development Review (QDDR) recommendations for improving efficiency and unifying efforts, several Coordinators Offices, Special Envoys/Representative Offices, Special Advisors, and Secretaries were either established or renamed in FY 2013.

Established

- Coordinator for Sanctions Policy (D/CSP)
- Major Events and Conferences Staff (M/MECS)
- Faith Based Community Initiatives (S/FBCI)
- Senior Advisor (S/SRA)

Renamed

- Deputy Secretary of State (D) – formerly D(B)
- Deputy Secretary of State for Management and Resources (D–MR) – formerly Deputy Secretary D(N)
- Office of Emergencies in the Diplomatic and Consular Services (M/EDCS) – formerly K Fund Manager and Gift Fund Coordinator (RM/CFO)
- Office of Global Health Diplomacy (S/GHD) – formerly Executive Director for Global Health Initiative (S/GHI)
- Office of the Ombudsman (S/O) – formerly Civil Service Ombudsman (S/SCO)
- Special Envoy for Israeli-Palestinian Negotiations (S/SEIPN) – formerly Special Envoy for Middle East Peace (S/SEMEP)

VIEW VIDEO

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 28 domestic passport agencies and centers, and more than 8,100 passport acceptance facilities nationwide. 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. In 2013, the Washington and Special Issuance Passport Agencies relocated to a new facility in downtown Washington, D.C. A new Passport Agency in San Juan, Puerto Rico is scheduled to open in January 2014.

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.

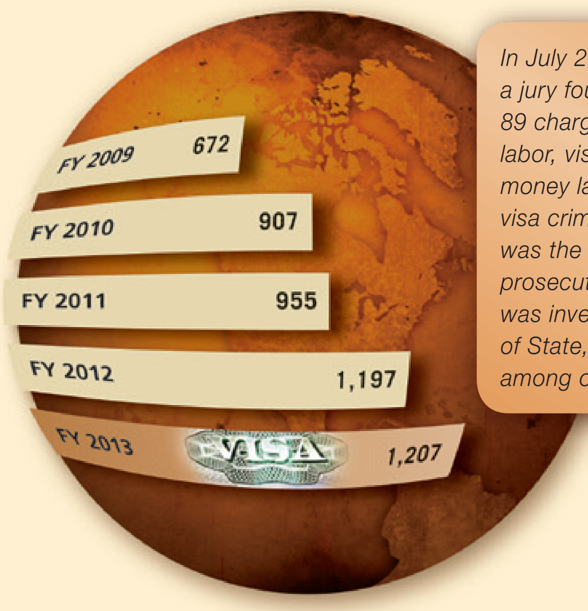
Every diplomatic mission in the world operates under a security program designed and maintained by the Department's Bureau of Diplomatic Security (DS). In the United States, DS investigates passport and visa fraud, conducts personnel security investigations, and protects the Secretary of State and high-ranking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

IN FOCUS

Increased Number of Visa Crime Investigations Opened Globally

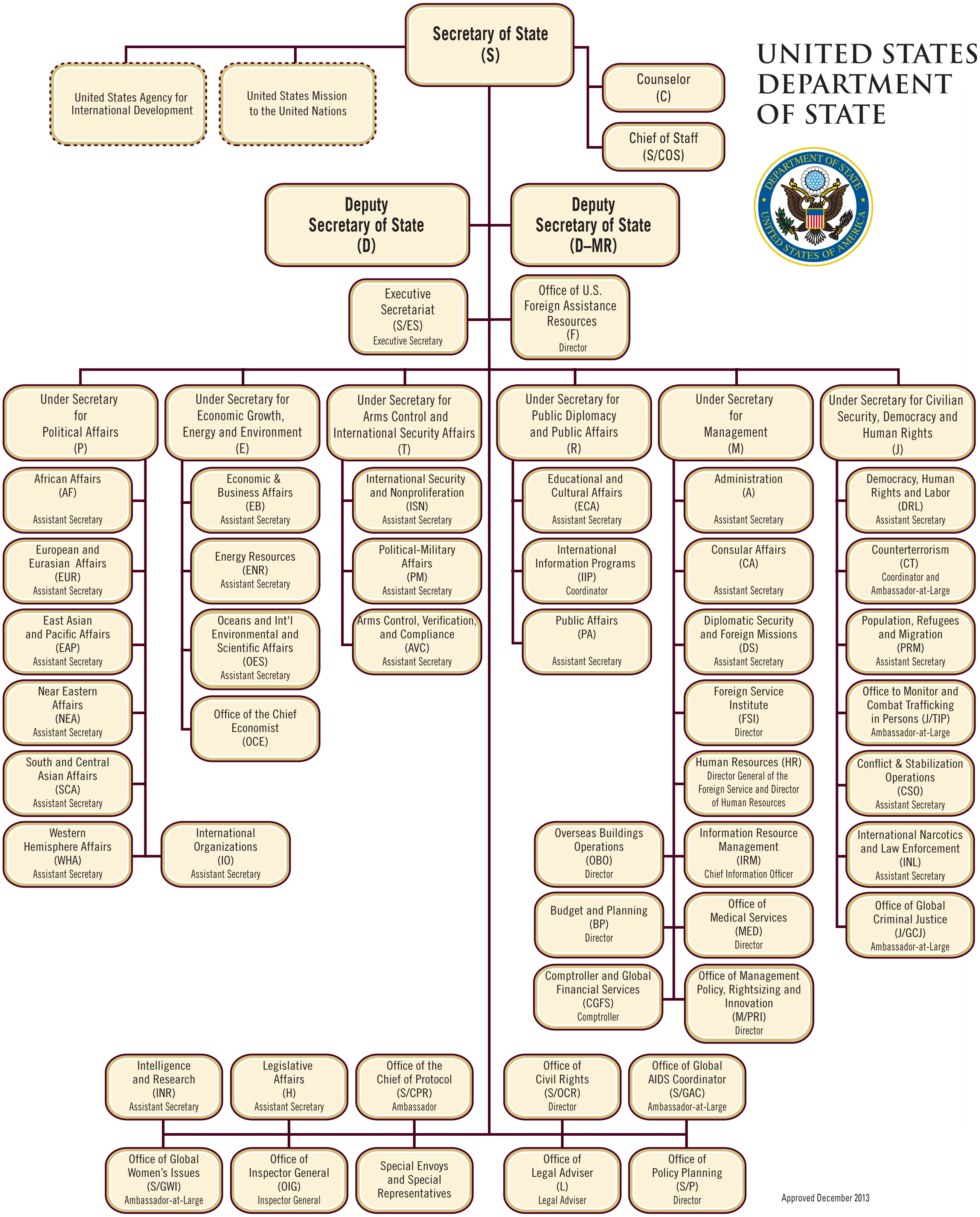
The Bureau of Diplomatic Security (DS) is the security and law enforcement arm of the Department. Visa crimes are international offenses that may start overseas, but can threaten public safety inside the United States if offenders are not interdicted with aggressive and coordinated law enforcement action. DS agents and analysts observe, detect, identify, and neutralize networks that exploit international travel vulnerabilities. DS global visa crime investigations and arrests have increased nearly 80 percent over the past five years.



In July 2013, in Denver, Colorado, a jury found Kizzy Kalu guilty on 89 charges of trafficking in forced labor, visa fraud, mail fraud, and money laundering as part of an H-1B visa crime conspiracy. The case was the biggest human trafficking prosecution in Colorado history and was investigated by the Departments of State, Homeland Security, Labor, among others.

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

UNITED STATES DEPARTMENT OF STATE



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) provided broad recommendations to strengthen planning, budgeting, and performance management for diplomacy and development at the Department, as well as for USAID.

The 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. From this review grew new planning processes that included increased stakeholder engagement and integrated mission-level planning; budgets built upon mission-level objectives to inform bureau-level and agency-level budget requests; measures of success and indicators that are more closely tied to plans and budgets; data driven reviews; technical assistance tools, such as program and performance management handbooks; and a Department-wide evaluation policy that mandates rigorous evaluations and use of evidence for decision-making.

The Department's new model for strategic planning differs from the past by being more streamlined and integrated with budgeting, monitoring, and evaluation. Strategic planning and resource planning are now separate and sequential processes. The Department sets objectives before determining the appropriate funding level, rather than combining strategic and resource planning.

Performance management practices at the Department of State enable programs to achieve U.S. foreign policy outcomes and promote greater accountability to the American people. Strategic planning and performance management are rooted in the Department by the National Security Strategy, the QDDR, and the Government Performance and Results Modernization Act of 2010 (GPRAMA). Day-to-day, performance management is guided by the QDDR *Managing for Results Framework.*

Managing for Results Framework

The *Managing for Results Framework* forms an evaluation and performance 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

JOINT STATE-USAID STRATEGIC GOALS	
Goal Number	**Goal Description**
SG1	Counter threats to the United States and the international order, and advance civilian security around the world.
SG2	Effectively manage transitions in the frontline states.
SG3	Expand and sustain the ranks of prosperous, stable and democratic states by promoting effective, accountable, democratic governance; respect for human rights; sustainable, broad-based economic growth; and well-being.
SG4	Provide humanitarian assistance and support disaster mitigation.
SG5	Support American prosperity through economic diplomacy.
SG6	Advance U.S. interests and universal values through public diplomacy and programs that connect the United States and Americans to the world.
SG7	Build a 21st Century workforce; and achieve U.S. Government operational and consular efficiency and effectiveness, transparency and accountability; and secure U.S. Government presence internationally.

Presently, the QDDR serves as the Joint Strategic Plan and sets institutional priorities and provides strategic guidance as a framework for the most effective allocation of resources. In FY 2013, the Department and USAID shared a Joint Strategic Goal Framework organized around seven strategic goals (see table above) against which funding is allocated. The Department uses the goals in its Joint Strategic Plan and *Annual Performance Plan* to inform annual budget decisions, longer-term investment planning, and human resource planning.

In FY 2013, using the QDDR's recommendations, the Department began reviewing its Joint Strategic Plan and the accompanying strategic goals that address key U.S. foreign policy and national security priorities. The QDDR emphasizes engaging the interagency stakeholders and others to develop whole-of-government approaches to achieve foreign policy priorities.

AGENCY PRIORITY GOALS

Beginning in FY 2012, the Government Performance and Results Act Modernization Act of 2010 (GPRAMA) required federal agencies to establish a set of agency priority goals (APGs) that reflect the highest priorities of agency leadership to be achieved in a two year timeframe. The Department and USAID developed a set of eight outcome-focused APGs that would measure progress towards advancing major foreign affairs and foreign assistance priorities.

In addition to quarterly reporting on the status of meeting key milestones and performance targets for each APG, State and USAID APGs developed a process for conducting joint data-driven reviews of the FY 2012-2013 APGs that brought together goal leaders with the Deputy Secretary of State for Management and Resources and the USAID Deputy Administrator. Through the reviews, senior leadership assessed performance data and identified successes and challenges as well as any actions necessary to ensure goal achievement. The State Department and USAID will publish a new set of FY 2015-2016 APGs in February 2014, along with the new FY 2014-2017 Joint Strategic Plan and the FY 2015 *Congressional Budget Justification*.

U.S. Secretary of State John Kerry delivers remarks at a Foreign Service Officer orientation at the U.S. Department of State in Washington, D.C., March 29, 2013. *Department of State*

The table below identifies the Department's FY 2012-2013 APGs. Each APG contains hyperlinks to the Federal performance website, *www.performance.gov.*

AGENCY PRIORITY GOALS	
Agency Priority Goal	**performance.gov link**
Afghanistan	*http://goals.performance.gov/goal_detail/DOSUSAID/401*
Democracy, Human Rights, and Good Governance	*http://goals.performance.gov/goal_detail/DOSUSAID/403*
Climate Change	*http://goals.performance.gov/goal_detail/DOSUSAID/398*
Food Security *(primarily USAID)*	*http://goals.performance.gov/goal_detail/DOSUSAID/405*
Global Health *(primarily USAID)*	*http://goals.performance.gov/goal_detail/DOSUSAID/406*
Economic Statecraft *(State only)*	*http://goals.performance.gov/goal_detail/DOSUSAID/399*
Management	*http://goals.performance.gov/goal_detail/DOSUSAID/400*
Procurement Reform *(USAID only)*	*http://goals.performance.gov/goal_detail/dosusaid/402*

A brief description of the eight Department of State-USAID APGs follows.

- **Afghanistan:** With mutual accountability, assistance from the United States and the international community will continue to help improve the Government of the Islamic Republic of Afghanistan's capacity to meet its goals and maintain stability.
- **Democracy, Human Rights, and Good Governance:** Advance progress toward sustained and consolidated democratic transitions in Egypt, Jordan, Lebanon, Morocco, Tunisia, Libya, Bahrain, Yemen, Iran, Syria, and West Bank/Gaza.
- **Climate Change:** Advance low emissions climate resilient development. Lay the groundwork for climate-resilient development, increased private sector investment in a low carbon economy, and meaningful reductions in national emissions trajectories through 2020 and the longer term.
- **Food Security:** Increase food security in Feed the Future initiative countries in order to reduce prevalence of poverty and malnutrition.
- **Global Health:** The Global Health Initiative will seek to improve the health of populations by supporting the creation of an AIDS-free generation, saving the lives of mothers and children, and protecting communities from infectious diseases through USAID- and State-supported programs.
- **Economic Statecraft:** Through our more than 200 diplomatic missions overseas, the Department of State will promote U.S. exports in order to help create opportunities for U.S. businesses.
- **Management:** Strengthen diplomacy and development by leading through civilian power.
- **Procurement Reform:** Strengthen local civil society and private sector capacity to improve aid effectiveness and sustainability, by working closely with our implementing partners on capacity building and local grant and contract allocations.

The APGs align with four of the State-USAID Joint Strategic Goals. The four italicized APGs in the table below are highlighted in the report. Currently, there are no APGs reflected for Strategic Goals one, four, and six. A crosswalk of the Joint Strategic Goals and APGs is contained in the table below. The full APG language, goal leads, collaborating partners, and additional information may be found on *www.performance.gov.*

CROSSWALK OF STATE-USAID JOINT STRATEGIC GOALS AND AGENCY PRIORITY GOALS	
Strategic Goal	**Agency Priority Goal**
SG2: Effectively manage transitions in the frontline states.	*Afghanistan*
SG3: Expand and sustain the ranks of prosperous, stable and democratic states by promoting effective, accountable, democratic governance; respect for human rights; sustainable, broad-based economic growth; and well-being.	Democracy, Human Rights, and Good Governance
	Climate Change
	Food Security (primarily USAID)
	Global Health (primarily USAID)
SG5: Support American prosperity through economic diplomacy.	*Economic Statecraft* (State only)
SG7: Build a 21st Century workforce; and achieve U.S. Government operational and consular efficiency and effectiveness, transparency and accountability; and secure U.S. Government presence internationally.	*Management*
	Procurement Reform (USAID only)

The Department of State has reiterated its commitment to joint planning and State-USAID are utilizing the opportunity afforded by developing an updated strategic plan to develop strategic objectives and new APGs. Central to the planning process is the definition of outcome-oriented strategic objectives developed to reflect U.S. global scope and impact. Following their formal release in 2014, the new strategic objectives—which will be tied to new State-USAID agency-level strategic goals—will serve as the primary basis for performance measurement, strategic analysis, and decision making, and will be incorporated into the review process for the FY 2016 Budget. The Department of State and

FOCUS IN

Combating Postharvest Loss in the Fight Against Global Hunger

By the year 2050, the world population is expected to reach nine billion people. The increased population, coupled with changing dietary demands, will require a 60 percent increase in global agricultural production. Increasing food production is not enough. Roughly one-third of the food produced in the world goes to waste – 1.3 billion tons every year. In the fight against global hunger, we must also address postharvest loss.

Postharvest loss is collective food loss along the production chain, from harvest and handling, to storage and processing, to packing and transportation. In low-income countries, most food is lost well before reaching the consumer.

The public and private sectors are working together to ensure that farmers in developing countries have the necessary tools and infrastructure to reduce postharvest loss. Feed the Future, the U.S. Government's flagship initiative to reduce global hunger and poverty, addresses postharvest loss by improving the management of stored grains through better technology and processing techniques; supporting basic market infrastructures; ensuring that proper granaries, cold storage facilities, feeder roads, and processing facilities are available; and improving community preparedness for the shocks of unpredictable weather, catastrophes, and high grain price volatility. These efforts align with strategic goal number four, provide humanitarian assistance and support disaster mitigation, as well as:

- Focus on smallholder farmers and support countries in developing their own agriculture sectors to generate opportunities for economic growth and trade.
- Support the food security priorities of our host countries and promote collaboration at the domestic and international levels.
- Help create economic opportunities in developing countries.

In February 2013, Assistant Secretary of State for Economic and Business Affairs Jose W. Fernandez delivered remarks on food security and minimizing postharvest losses at the U.S. Department of State in Washington, D.C.

Michelle Los Banos-Jardina, a public affairs officer from the U.S. Mission to the UN-Rome, meets with Bangladeshi citizens while promoting multilateral efforts at addressing food security issues. ***State Magazine***

LEARN MORE

For more information, please read the key policy fact sheet:

http://www.state.gov/r/pa/pl/2013/204860.htm

VIEW VIDEO

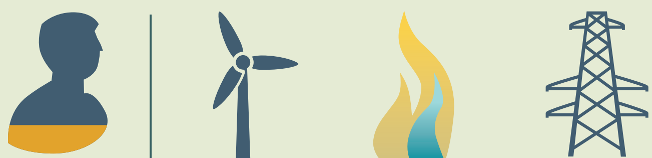
Video remarks may be found at:

http://www.youtube.com/watch?v=21Cl-Vg-Flw

WHAT IS CONNECT 2022?

An initiative to enhance electrical interconnections across the Western Hemisphere to achieve universal access in the next decade for 31 million people without electricity. Connecting the Americas 2022 (Connect 2022) is a framework for the Americas to reinforce regional and bi-national efforts to bring electricity to all parts of the hemisphere and a platform for development and prosperity.

CURRENTLY | **THE WESTERN HEMISPHERE PRODUCES:**



20% OF HUMANITY LACKS ACCESS TO ELECTRICITY

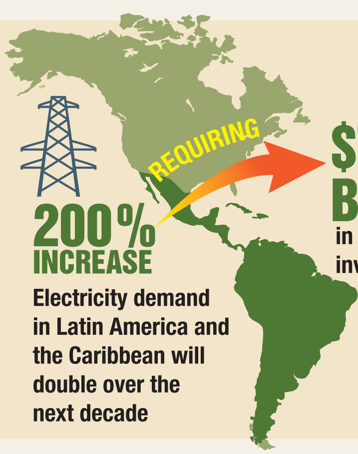
NEARLY **40%** OF THE WORLD'S RENEWABLE-BASED ELECTRICITY

ALMOST **33%** OF THE WORLD'S NATURAL GAS

NEARLY **33%** OF THE WORLD'S ELECTRICITY

WHY CONNECT 2022 MATTERS?

Energy is at the nexus of national security, economic prosperity, and the environment. The State Department works to put energy diplomacy at the forefront of U.S. foreign policy.



200% INCREASE
Electricity demand in Latin America and the Caribbean will double over the next decade

$700 Billion
in power sector investments

WHAT IS CONNECT 2022's IMPACT?

Interconnection expands the size of power markets, creating economies of scale that can attract private investment, lower capital costs, and reduce electricity costs for consumers, making business more competitive and creating jobs.

THE NEW GLOBAL ENERGY MARKET IS EXPECTED TO BE
$6 Trillion
WITH 4 BILLION USERS

Designed by The DesignPond for the U.S. Department of State.
To learn more about Connect 2022 initiatives, please visit *http://www.state.gov/e/enr/c52654.htm*.

USAID will also use the Joint Strategic Plan process to identify a limited number of two-year APGs, allowing both the Department and USAID to focus on delivering measurable, quarterly progress toward the achievement of the strategic objectives.

> LEARN MORE
> **For more information on the progress achieved towards APGs, see the Department's quarterly results and data:** *http://www.performance.gov*
> Full accomplishments of the APGs will be reported publicly in 2014.

GOVERNMENT-WIDE MANAGEMENT INITIATIVES AND CROSS-AGENCY PRIORITY GOALS

The Department of State is also working on advancing the Administration's Government-wide management agenda as outlined by the President during his two terms in office. Both management agendas are a path forward towards improving the Federal Government's performance and accountability to the American people and working to create a Government that is more effective, efficient, innovative, and responsive. In July 2013, for his second term, the President released his second term management agenda focusing on:

- Delivering services smarter and faster,
- Increasing efficiency and saving money, and
- Supporting a growing economy and job creation.

> LEARN MORE
> **For more information on the second term Management Agenda, view:** *http://www.whitehouse.gov/blog/2013/07/08/smarter-more-innovative-government-american-people*

In FY 2013, the Department focused on the President's first-term cross-agency Government-wide management initiatives:

- **Acquisition:** efforts include saving money on contracting, decreasing contracting risk, expanding strategic sourcing, and developing the acquisition workforce;
- **Financial Management:** efforts include reducing improper payments, managing property effectively, increasing reliability of financial information and improving debt collection;

U.S. Secretary of State John Kerry kicks off a discussion of Africa's Great Lakes region by the United Nations Security Council in New York City, July 25, 2013. ***Department of State***

- **Human Resources:** efforts include hiring the best talent, engaging the workforce, and expecting the best from employees;
- **Information Technology:** efforts include improving management of information technology investments, streamlining technology operations, and improving cybersecurity;
- **Open Government:** efforts include promoting transparency, fostering participation, and increasing collaboration;
- **Sustainability:** efforts include reducing the government's carbon footprint, developing agency sustainability plans, and developing a comprehensive sustainability scorecard; and
- **Customer Service:** efforts include offering more services online, creating a dashboard on citizen services, and adopting customer service best practices.

To work towards the Government-wide management initiatives, the Department is also a key participant in the Federal cross-agency priority (CAP) goals. The CAP goals are a subset of Presidential priorities, and are complemented by other cross-agency coordination and goal-setting efforts. The CAP goals are outcome-oriented goals that cover a limited number of cross-cutting policy areas and are identified in areas where increased cross-agency coordination on outcome-focused areas is likely to improve progress.

While some agency priority goals may be linked to CAP goals, most APGs will focus on core agency missions and are not always tied directly to a CAP goal. For the Government to make progress on its CAP goals, OMB has identified contributing agencies or programs under each goal. In all cases, agencies and contributing programs that are responsible for making progress on CAP goals will be required to contribute to the development of the overall action plan and identify clearly their respective agency contributions to the overall goal. The CAP goal leader will work the Performance Improvement Council, the corresponding Government-wide management council, OMB, and agencies to determine each agency's contribution to the overall plan.

Federal agencies participating in the CAP goals provide quarterly performance results via the Federal performance website *www.performance.gov*. This website provides a window to the Government-wide efforts to centralize program information. This information will facilitate coordination across programs as well as improve public understanding of the services delivered by the Government.

U.S. Secretary of State John Kerry announces that Ambassador Martin Indyk will serve as the U.S. Special Envoy for Israeli-Palestinian Negotiations at the U.S. Department of State in Washington, D.C., July 29, 2013. *Department of State*

The website provides two main approaches to viewing information: by agency or area of focus. The website also includes the information required by law, such as: goal leader(s), contributing agencies, organizations, programs, targets, key milestones, major management challenges, and plans to address these challenges.

On the right is a hyperlinked table to the Federal CAP goals that the Department contributes to. Per the GPRAMA requirement to address CAP goals in the agency *Strategic Plan*, the *Annual Performance Plan*, and the *Annual Performance Report*, please also refer to *www.performance.gov* for more on the agency's contributions to those goals and progress, where applicable.

FEDERAL CROSS-AGENCY PRIORITY GOALS

Priority Goal	performance.gov link
Closing Skills Gaps	*http://goals.performance.gov/node/38552*
Human Resources	*http://hr.performance.gov*
Exports	*http://goals.performance.gov/node/38576*
Cybersecurity	*http://goals.performance.gov/node/39069*
Sustainability	*http://goals.performance.gov/node/39076*
Real Property	*http://goals.performance.gov/node/38574*
Data Center Consolidation	*http://goals.performance.gov/node/38507*
Strategic Sourcing	*http://goals.performance.gov/node/38590*
Performance Improvement	*http://goals.performance.gov*
Acquisition	*http://acquisition.performance.gov*
Finance	*http://finance.performance.gov*
Technology	*http://technology.performance.gov*
Open Government Data	*http://opengov.performance.gov*
Customer Service	*http://customerservice.performance.gov*

A brief description of the CAP goals to which the Department of State contributes follows.

- **Closing Skills Gaps:** This goal aims to close the skills gaps by 50 percent for three to five critical Federal Government occupations or competencies, and close additional agency-specific high risk occupation and competency gaps by September 30, 2013.
- **Human Resources:** Under this goal, agencies must attract, develop, and engage the most talented and diverse workforce possible in order to achieve the best for the American public.
- **Exports:** This goal was launched with the target of doubling U.S. exports over five years (by the end of 2014). While exports are fundamentally driven by the private sector, the Federal Government has an important role to play in helping U.S. exporters overcome the obstacles that make it more difficult to sell their goods and services abroad.
- **Cybersecurity:** Under this goal, Executive branch agencies established the goal of 95 percent implementation of the Administration's priority cybersecurity capabilities by the end of FY 2014. These capabilities include strong authentication, trusted internet connections, and continuous monitoring.
- **Sustainability:** By 2020, the Federal Government aims to reduce its direct greenhouse gas emissions by 28 percent and reduce its indirect greenhouse gas emissions by 13 percent by 2020 (from 2008 baseline).
- **Real Property:** Under this goal, the Federal Government aims to maintain the FY 2012 square footage baseline of its office and warehouse inventory.
- **Data Center Consolidation:** Under this goal, the Federal Government aims to improve information technology service delivery, reduce waste, and save $3 billion in taxpayer dollars by closing at least 1,200 data centers by fiscal year 2015.
- **Strategic Sourcing:** Under this goal, the Federal Government aims to reduce the costs of acquiring common products and services by agencies' strategic sourcing of at least two new commodities or services in both 2013 and 2014, yielding at least a 10 percent savings.

WHAT IS DIGITAL DIPLOMACY?

The traditional work of diplomacy — interactions between representatives of sovereign states — remains the core of our work. However, in today's interconnected world, individuals and organizations — not just countries — play a larger role in international affairs. The global network of information and communication technology connects more than half of all the people on Earth, mostly through mobile phones.

In FY 2013, the Department had over **29 million visitors** to its main website, *www.state.gov* and **0.6 million** to its related mobile site. In addition, the public diplomacy work of the State Department has become increasingly active on social media platforms to reach new audiences. Our diplomats in Washington and at embassies and consulates are being trained and encouraged to integrate both local and global social media tools as a means to create international dialogue.

WHY DIGITAL DIPLOMACY MATTERS?

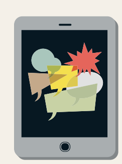
Digital diplomacy enhances collaboration and information sharing among internal and external stakeholders ensuring that diplomats can engage in 21st Century Statecraft. More than 4.5 billion people currently own a mobile phone, and within the next decade, the number will reach **90 percent** of the global population. For now, the initiative consists of small projects designed to use the Internet, mobile phones, and social media promote U.S. foreign policy goals.

EXAMPLES OF DIGITAL DIPLOMACY

In Mexico, Washington is working with the Mexican government, a Mexican telecom firm, and Mexican Non-Governmental Organizations to create a short message service (SMS) system through which citizens can report crimes anonymously and thereby avoid retaliation.

In Pakistan, the Department sponsored the creation of a mobile-based network that boasts some 450,000 users and runs entirely over SMS, since most Pakistanis do not have smartphones.

In Haiti, the Department helped build a system for earthquake victims to seek aid via text message. The SMS messages were then translated from Creole to English and forwarded to relief workers in a matter of minutes.



Designed by The DesignPond for the U.S. Department of State. To learn more about 21st Century Statecraft, please visit *www.state.gov/statecraft/*.

- **Performance Improvement:** To improve the Federal Government's performance, three key initiatives were implemented: using goals to improve performance and accountability, measuring and analyzing performance to determine what works, and delivering better results using frequent, data-driven reviews.
- **Acquisition:** To improve acquisitions by the Federal Government, four key initiatives were implemented: save money on contracting, decrease contracting risk, develop acquisition workforce, and expand strategic sourcing.

IN FOCUS

Cyber Issues – A New Challenge to U.S. National Security

The State Department leads the U.S. Government's engagement with other countries to promote an open, interoperable, secure, and reliable information and communications infrastructure that supports international trade and commerce, strengthens international security, and fosters free expression and innovation. In order to facilitate this mission, the Department established the Office of the Coordinator for Cyber Issues in February 2011 as a part of the QDDR process. Its responsibilities include: coordinating global diplomatic engagement, serving as liaison to the White House and Federal agencies, advising the Secretary and Deputy Secretaries on cyber issues, and acting as liaison to public and private sector entities.

The Department's cyber work spans the full spectrum of policy issues to include security, the economy, freedom of expression, and the free flow of information on the Internet. This aligns with the Department's strategic goal one: counter threats to the United States and the international order, and advance civilian security around the world.

U.S. Coordinator for Cyber Issues Christopher Painter, left, of the U.S. Department of State, speaks at the opening of the U.S.-Japan Cyber Dialogue in Tokyo, May 9, 2013. *©AP Image*

In March 2013, Coordinator for Cyber Issues, Christopher Painter, testified before Congress on the Department's role in countering cyber threats. Over the past year, the Department has made significant progress, including:

- Chairing the first meeting of the whole-of-government U.S.-China Cyber Working Group in July 2013, including discussions on issues of mutual concern such as cyber-enabled theft of intellectual property.
- Negotiating U.S.-Russia bilateral cyber confidence building measures, announced at the G8 Summit in June. These measures will help promote transparency and decrease the risks of conflict in cyberspace.
- Reaching a landmark consensus in the 2013 UN Group of Governmental Experts with fourteen other countries, including Russia and China, which affirmed the applicability of international law in cyberspace.
- Chairing whole-of-government cyber dialogues with Germany, Japan, and South Korea.

LEARN MORE

To learn more about the office, please visit:

http://www.state.gov/s/cyberissues/

VIEW VIDEO

A video of the testimony may be viewed at:

http://www.youtube.com/watch?v=aGdeJk1OSis

U.S. Secretary of State John Kerry and Under Secretary for Political Affairs Wendy Sherman oversee the first meeting of their interagency team before the kickoff negotiating session with their Russian counterparts focused on eliminating Syrian chemical weapons, September 12, 2013. ***Department of State***

- **Finance:** To improve the financial management of the Federal Government, four key initiatives were implemented: reduce improper payments, increase reliability of financial information, manage property effectively, and collect money owed.

- **Technology:** This goal aims to close the gap in effective technology between the private and public sectors, create a more efficient Federal IT footprint, and more effectively secure our Federal assets.

- **Open Government Data:** This goal aims to unlock the value of Government data by adopting a management approach that inventories and prioritizes the opening of agency information resources through user engagement across agencies, entrepreneurs, and the public.

- **Customer Service:** Under this goal, each Executive branch agency is required to develop a customer service plan that identifies implementation steps for their customer service activities, including a "signature initiative" that uses technology to improve the customer experience. As its signature initiative, the Department will implement a Passport Card Application Pilot that demonstrates its ability to accept, adjudicate, and archive an online application for a passport card.

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 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 2013, 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. The following Performance Summary and Highlights section introduces some key achievements and summarizes the results for selected key performance goals. For the Department's key performance results, the narrative describes each key indicator and its connection to the Joint Strategic Goal Framework, the FY 2013 performance results (plus available data from prior years to show the performance trend), the data source and validation steps, as well as progress achievements. Joint State-USAID performance and budget information will be featured in the *Joint Summary of Performance and Financial Information*, scheduled for release in February 2014.

Selected Key Achievements and Performance Results

Following is a summary of key achievements for Strategic Goals one, four, and six. Additionally, highlighted are performance results for APGs displaying illustrative performance trend data for Strategic Goals two, three, five, and seven. The APGs are listed under the applicable Joint State-USAID Strategic Goal. Performance results on the remaining APGs and the Cross-Agency Priority Goals can be found on *www.performance.gov*.

Strategic Goal 1: Counter threats to the United States and the international order, and advance civilian security around the world.

U.S. policy states that the security of U.S. citizens at home and abroad is best guaranteed when countries and societies are secure, free, prosperous, and at peace. The Department and their partners seek to strengthen their diplomatic and development capabilities, as well as those of international partners and allies, to prevent or mitigate conflict, stabilize countries in crisis, promote regional stability, and protect civilians.

Key Selected Achievements:

- ***Resident Legal Advisor (RLA) in Bangladesh passes anti-money laundering (AML)/counterterrorism finance (CTF) Legislation:*** The terrorist threat exists around the world and it directly and indirectly affects the United States. Since well before 9/11, the Department has worked with cooperating governments to counter that threat, frequently helping them develop the domestic capacity to identify, investigate, and prosecute terrorist financers that fund the groups that threaten these governments and our own. Bangladesh lacked AML and CTF legislation of sufficient precision to adequately prosecute individuals for these crimes. Furthermore, the laws failed to meet accepted international standards, which, if not addressed, potentially threatened Bangladesh's fragile economic

Deputy Secretary of State William Burns participates in the third ministerial meeting of the Global Counterterrorism Forum in Abu Dhabi, United Arab Emirates, December 14, 2012. *Department of State*

standing in the international community. The advice provided by the U.S.-funded RLA permitted Bangladesh to amend its legislation to meet international standards and avoid adverse economic consequences.

- ***Somali Diaspora in Europe:*** Somali-American imams and community activists are tackling the issue of radicalization and recruitment to violence among youth in their sister communities in western Europe and Canada. A Non-Governmental Organization (NGO) has started an outreach and training tour which screens a thought-provoking documentary film highlighting the tragic impact on families and communities of young Somalis who left to fight with al-Shabaab. Participants have stated their appreciation for open and honest discussions on the topic of radicalization to violence among their youth – something previously unaddressed and considered taboo. Participants even requested follow-up activities, including training in Somali on how to recognize signs of radicalization to violence. The implementing partner also used the events to link local law-enforcement officials and social workers with trusted Somali community leaders – strengthening relationships that had been virtually non-existent. To this date, the partner NGO has held about 12 community events across northern Europe, attracting more than 2,300 attendees, over 1,400 of whom were women. Women were actively involved in the discussions, even with males present, which is not typical.

- ***U.S. Trained Unit Defuses Improvised Explosive Device in Pakistan:*** An Anti-Terrorism Assistance Program trained Explosive Incident Countermeasures Bomb Disposal Team (BDT) defused an improvised explosive device weighing around 11 kilos in Layari Karachi Sindh. The Sindh BDT responded to the scene to assist the Sindh Police investigators. Their investigation, along with eyewitnesses' information, revealed that the improvised explosive device was contained in a cement block and that the explosives were laced with ball bearings, nuts, bolts and pieces of shaving blades. BDT inspector Sabir Durrani, Sub-Inspector Abid, Assistant Sub-Inspector Tahir, and Assistant Sub-Inspector Chan Zaib collected the forensic evidence from the crime scene and provided it to police for further investigation.

- ***Framework for Elimination of Syrian Chemical Weapons:*** On September 14, 2013, the United States and Russia concluded the Framework for Elimination of Syrian Chemical Weapons. Prior to the Framework, the Asad regime did not publicly acknowledge that it possessed chemical weapons, despite having used chemical weapons as recently as August 2013 against its citizens. The international community, with assistance from the United States, has made significant progress in declaring the elements of Syria's chemical weapons program to the Organization for the Prohibition of Chemical Weapons

(OPCW), conducting OPCW-led inspection and verification activities at Syrian facilities, and developing a plan for the safe and expeditious destruction of the Asad regime's chemical weapons program by mid-2014. The international community has come together to establish a firm legal framework, through UN Security Council Resolution 2118 and related decisions by the OPCW Executive Council, to ensure that this immense undertaking is fulfilled in a transparent, expeditious, and verifiable manner—and within the ambitious but realistic timeline outlined in the Framework. The Syrian government completed the disablement of its chemical weapons production and mixing/filling capabilities by November 1. Current efforts are focused on the timely removal of chemical weapons-related materials associated with the program for destruction outside of Syria.

- ***New Global Arms Trade Treaty Adopted:*** After more than three years of intense negotiations, a new global Arms Trade Treaty was adopted in April 2013, and opened for signature in June. The United States signed it in September 2013. This Treaty brings new focus on an aspect of non-proliferation that frequently has been overshadowed by weapons of mass destruction: the often illicit and destabilizing proliferation of conventional weapons. As of now, 115 countries have signed the Treaty and eight have ratified it. This Treaty is about keeping weapons out of the hands of terrorists and rogue actors, reducing the risk of illicit international transfers of conventional arms that will be used to carry out the world's worst crimes, promoting international peace and security, and advancing important humanitarian goals. The Treaty is fully consistent with the rights of U.S. citizens, including those conferred by the Second Amendment, and it does not limit a country's sovereign right to conduct responsible arms transfers.

Strategic Goal 2: Effectively manage transitions in the frontline states.

The United States' close relationship with interagency partners has enabled the United States to strengthen our national security and provide leadership in conflict areas, such as the Middle East, to promote democratic and political reforms. Countries cannot advance from conflict to peace, fragility to strength, and poverty to prosperity without inclusive, effective democratic institutions.

AFGHANISTAN AGENCY PRIORITY GOAL

Goal: With mutual accountability, assistance from the United States and the international community will continue to help improve the Government of the Islamic Republic of Afghanistan's (GIRoA) capacity to meet its goals and maintain stability. Bonn Conference commitments call on GIRoA to transition to a sustainable economy, namely improve revenue collection, increase the pace of economic reform, and instill a greater sense of accountability and transparency in all government operations. Strengthen Afghanistan's ability to maintain stability and development gains through transition. By September 30, 2013, U.S. Government assistance delivered will help the Afghan government increase domestic revenue level from sources such as customs and electrical tariffs from 10 percent to 12 percent of gross domestic product.

Progress towards Goal Achievement: Afghan domestic revenues rebounded in the second and third quarters of the Afghan fiscal year (April 21 through September 21, 2013) increasing by 23 percent over the disappointing first quarter and reaching levels similar to those observed 18-21 months prior. Despite the improvement since the first quarter, revenue generation YTD still lags behind revenue collected over the same period last year and falls short of targets set by the International Monetary Fund.

The majority of the growth came from increases in non-tax and miscellaneous revenues. Revenues from extractive industries though uneven and still a small contributor to overall revenue have increased by 71 percent through the first nine months of the Afghan fiscal year. Both customs and tax revenues, the primary drivers of domestic revenue, were extremely stable from the first to second quarter; second to third quarter revenues saw a decline in customs revenue of 12 percent and virtually no change in tax collection. Almost 83 percent of customs revenue came from the major provincial hubs of Herat, Balkh, Kandahar, and Nimroz.

FOCUS IN

Creative Solutions for Stabilizing Conflict

Founded in January 2012, the State Department's Bureau of Conflict and Stabilization Operations (CSO) is a vital part of the U.S. effort to more effectively help prevent conflict and support post-conflict nations recover. It advances U.S. national security by working with partners in priority countries to break cycles of violent conflict, strengthen civilian security, and mitigate crisis. This aligns with the Department's strategic goal two: effectively manage transitions in frontline states.

Guided by local dynamics, strategic planning, and data-driven analysis, CSO works quickly with partners inside and outside government. The Department considers a number of criteria when determining where to apply its effort and resources: opportunity for strategic impact within 18 months, national security priorities, development of women and youth leaders, opportunity to leverage local partnerships, and ability to test and evaluate innovative approaches.

Jason Lewis-Berry, State Department Field Representative, talks with Father Joseph in Obo, Central African Republic, as U.S. military advisors look on. *Department of State*

Top-priority initiatives include CSO efforts in Syria, Honduras, and Burma.

- **Syria:** Providing moderate Syrian civilian opposition groups with equipment and training to foster cohesiveness, build capacity for civil administration, and prepare for Syria's political transition.
- **Honduras:** Reducing drug- and gang-related violence through support for public security reform, civil society empowerment, and community-level violence reduction programs.
- **Burma:** Supporting the peacebuilding efforts of the government, minority populations, civil society and other stakeholders, and helping to build trust among parties to conflict, including through landmine risk education.

CSO has also taken action in Afghanistan, Kenya, Liberia, Belize, Central Africa, and South Sudan. Today, CSO is working in more than 20 countries to devise solutions to some of the world's toughest challenges.

LEARN MORE

For more information, please read the key policy fact sheet:

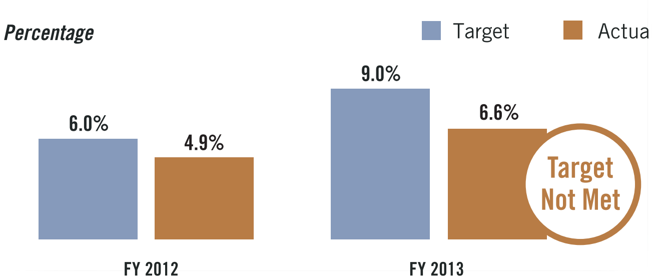
http://www.state.gov/documents/organization/207703.pdf

VIEW VIDEO

A video introduction to CSO may be found at:

http://www.state.gov/j/cso/releases/other/2013/204020.htm

Illustrative Indicator for Strategic Goal 2 and Afghanistan APG:



Description of Indicator: This indicator measures Afghanistan's domestic revenues as a percentage of gross domestic product. Actual values are based on reporting from the Budget Division of the Afghan Ministry of Finance and confirmed by the International Monetary Fund. The Government adjusted their fiscal calendar to begin on December 21st. As such the 1391* Afghan fiscal year only ran three quarters. We have adjusted our targets to reflect that change.

Target Met/Not Met: Target Not Met.

Data Source: Afghan Ministry of Finance, confirmed by the International Monetary Fund.

* *The year of Prophet Muhammad's migration to Medina (622 CE) is fixed as the first year of the Solar Hijri calendar, which is the official calendar of Afghanistan.*

IN FOCUS

Human Rights Reports for 2012 Released

U.S. Secretary of State John Kerry delivers remarks on the release of the 2012 Human Rights Reports at the U.S. Department of State in Washington, D.C., April 19, 2013. *Department of State*

On April 19, 2013, Secretary Kerry submitted the 2012 Country Reports on Human Rights Practices (commonly known as the Human Rights Reports) to the U.S. Congress. This report, now in its 36th year, is required by law to inform U.S. Government policymaking on human rights conditions around the world. It is available online and serves as a reference for other governments, international institutions, non-governmental organizations, scholars, interested citizens, and journalists.

The following were among the most noteworthy human rights developments in 2012:

- Shrinking space for civil society activism around the world.
- The ongoing struggle in the Middle East for democratic change.
- Emerging democracy and space for civil society in Burma.
- Threats to freedom of expression in the changing social media landscape.
- The continued marginalization of vulnerable groups.

The Human Rights Reports support the government-wide management initiative for open government and the Department's strategic goal number three: expand and sustain the ranks of prosperous, stable, and democratic states by promoting effective, accountable, democratic governance; respect for human rights; sustainable, broad-based economic growth; and well-being. As noted by Secretary Kerry in his remarks: "It is in our interest to promote the universal rights of all persons. Governments that respect human rights are more peaceful and more prosperous. They are better neighbors, stronger allies, and better economic partners."

To further mark the release of the 2012 reports, Acting Assistant Secretary of State for Democracy, Human Rights and Labor Uzra Zeya delivered remarks at the Foreign Press Center in Washington, D.C. on April 22, 2013.

To access the 2012 reports, please visit:
http://www.state.gov/humanrightsreports/

A video of Acting Assistant Secretary Zeya's remarks may be viewed at:
http://www.youtube.com/watch?v=tAK8Jj3D0rM

Strategic Goal 3: Expand and sustain the ranks of prosperous, stable and democratic states by promoting effective, accountable, democratic governance; respect for human rights; sustainable, broad-based economic growth; and well-being.

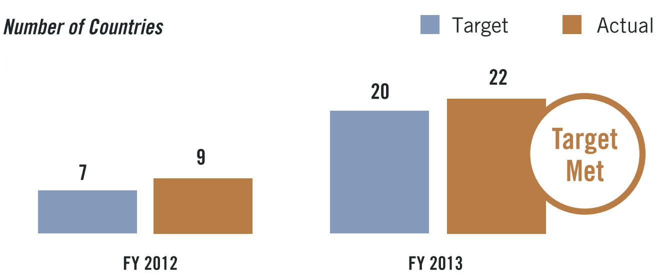
Climate change is one of the century's greatest challenges, and will be a priority of the U.S. diplomacy and development work for years to come. Climate change can compound preexisting social stresses — including poverty, hunger, conflict, mitigation, and the spread of disease — and threatens to diminish the habitability of the planet.

GLOBAL CLIMATE CHANGE APG

Goal: Advance low emissions climate resilient development. Lay the groundwork for climate-resilient development, increased private sector investment in a low carbon economy, and meaningful reductions in national emissions trajectories through 2020 and the longer term. By the end of 2013, U.S. assistance to support the development and implementation of Enhancing Capacity - Low Emission Development Strategies (EC-LEDS) will reach 20 countries (from a baseline of zero in 2010). This assistance will be strategically targeted and will result in strengthened capacity for and measureable progress on developing and implementing LEDS by the end of the following year.

Progress towards Goal Achievement: By the end of FY 2013, the EC-LEDS program achieved a major component of the APG with finalized Agreed Work Programs with 24 countries and U.S. assistance had reached 22 countries. This is a result of strong interest in the EC-LEDS program among partner countries, engaged leadership from Washington from the office of the Special Envoy for Climate Change at the Department of State and the Climate Change Coordinator at USAID, and a dedicated group of U.S. Government officials in the field at embassies and missions around the world.

Illustrative Indicator for Strategic Goal 3 and Global Climate Change APG:



Description of Indicator: This indicator measures the number of countries in which U.S. Government Technical Assistance for Enhancing Capacity for Low Emissions Development strategies has been initiated. This two-year indicator was created in FY 2012 and data for previous years is unavailable.

Target Met/Not Met: Target Met.

Data Source: USAID missions in respective countries.

Strategic Goal 4: Provide humanitarian assistance and support disaster mitigation.

The Department of State and USAID are the lead U.S. Government Agencies that respond to complex humanitarian emergencies and natural disasters overseas. The United States gives more to those in crisis that any other country in the world. Humanitarian assistance is provided on the basis of need, according to principles of universality, impartiality, and human dignity. Helping others in need is a core value of the American people. In FY 2013, the world witnessed new refugees flee violence and drought in Northern Mali and fighting in Sudan, and even more displacement in the conflict-ravaged eastern region of the Democratic Republic (DR) of Congo.

Members of the audience listen to the speaker at the 18th Session of the Conference of the Parties to the UN Framework Convention on Climate Change (COP-18) at the Qatar National Convention Center in Doha, Qatar, November 26, 2012. *Department of State*

Key Selected Achievements:

- Nearly 47,000 DR Congolese refugees repatriated to the DR of Congo from the Republic of the Congo. The Department supported programs to meet the emergency needs of refugees and International Displaced Persons (IDPs) fleeing conflict in the East, while supporting voluntary refugee and IDP returns elsewhere in the country.
- The Department continued in FY 2013 to provide support to IDPs and conflict victims in Mali as an ongoing effort to assist with health, sanitation, and relief efforts provided in FY 2012. This included creating a medical/surgical team at Gao hospital and supporting six health centers, which provided services including vaccinations and consultations to over 7,500 patients and distributed food and essential supplies to over 700,000 people and basic necessities to over 81,000 displaced persons.

Strategic Goal 5: Support American prosperity through economic diplomacy.

The State Department's economic and commercial diplomacy activities promote economic prosperity and growth in the United States and abroad. The Department's efforts support the President's National Export Initiative and its stated goal of doubling U.S. exports over five years (2010-2014, as compared to 2009 level) to support the creation of jobs and help the United States recover from a protracted severe global financial economic crisis.

ECONOMIC STATECRAFT APG

For FY 2013, the State Department exceeded its Economic Statecraft APG by 43 percent, achieving a cumulative total of 971 "success stories." A success story is defined as an export deal achieved, dispute resolved, or foreign policy changed through Department advocacy. Overseas posts recorded 153 success stories in the FY 2013 fourth quarter: 100 export transactional deals completed, 22 commercial disputes settled, and 31 foreign economic policies changed. In addition, "outreach by missions" (not displayed) also exceeded the annual goal, with posts reporting 2,997 outreach activities this quarter, for a cumulative total of 16,016: 114 percent above the FY 2013 goal of 7,460 outreach activities.

FOCUS IN

The United States and the European Union – Building On Our Economic and Strategic Partnership

The United States and the European Union (EU) share fundamental values of freedom, democracy, human rights, and respect for law. We work together to advance energy security, address global climate change, promote economic development, and deal with counterterrorism and security issues. A robust transatlantic economy undergirds America's ability to address global challenges and to promote global development and prosperity. In the G8, G20, the World Trade Organization, and the Organization for Economic Cooperation and Development, the United States and the EU work together to promote an open, transparent, and non-discriminatory trade and investment climate worldwide.

U.S. Secretary of State John Kerry and French Foreign Minister Laurent Fabius take a walk on the grounds at the French Ministry of Foreign Affairs in Paris, September 7, 2013.
Department of State

The U.S. economic relationship with the EU is one of the largest and most complex in the world. The partnership accounts for one-third of total goods and services traded and nearly one-half of global economic output — contributing to economic prosperity on both sides of the Atlantic. The transatlantic partnership reinforces our strong economic, political, and social ties and is a vital part of the Department's strategic goal number five to support American prosperity through economic diplomacy.

In addition:

- The transatlantic economy is a powerful link between companies and producers, and businesses and employment opportunities.
- In his 2013 State of the Union Address, President Obama announced his intention for the United States to negotiate a Transatlantic Trade and Investment Partnership (TTIP) with the EU.
- TTIP offers an opportunity to boost economic growth and increase the more than 13 million American and European jobs already supported by transatlantic trade and investment.

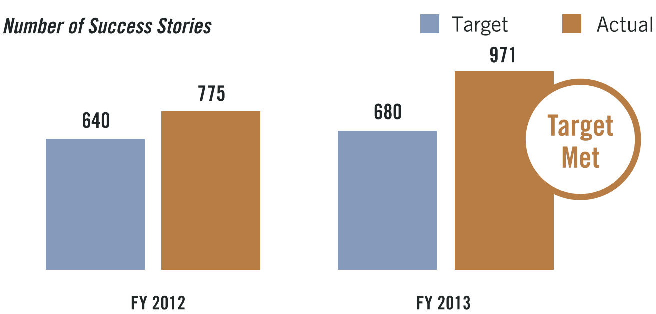
LEARN MORE

For more information, please read the key policy fact sheet:
http://www.state.gov/r/pa/pl/2013/211144.htm

Goal: Through our more than 200 diplomatic missions overseas, the Department of State will promote U.S. exports in order to help create opportunities for U.S. businesses. By September 30, 2013, our diplomatic missions overseas will increase the number of market-oriented economic and commercial policy activities and accomplishments by 15 percent.

Progress towards Goal Achievement: In FY 2013, the Department exceeded this APG goal of increasing the number of export deals signed, disputes settled, and/or foreign policies changed through Department advocacy by Embassy staff to U.S. businesses overseas by 43 percent.

Illustrative Indicator for Strategic Goal 5 and Economic Statecraft APG:



Description of Indicator: This indicator measures the number of commercial and economic policy advocacy activities by embassy staff on behalf of U.S. businesses that led to the completion of transactional deals, investment dispute settlements, or resulted in foreign government economic policy changes. This two-year indicator was created in FY 2012 and data for previous years is unavailable.

Target Met/Not Met: Target Met.

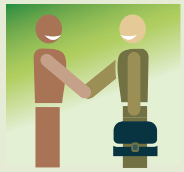
Data Source: The Office of Consumer and Business Affairs in the Bureau of Economic and Business Affairs qualitative database.

Strategic Goal 6: Advance U.S. interests and universal values through public diplomacy and programs that connect the United States and Americans to the world.

The Department recognizes the central role of public diplomacy as a tool and an essential element of 21st Century statecraft, and has committed to renewing America's engagement with the people of the world by enhancing mutual respect and understanding, and creating partnerships

WHAT IS TPP?

A priority initiative to promote economic recovery through increased exports and jobs, and the economic centerpiece of the Obama Administration's strategic rebalance toward the Asia-Pacific. Negotiation of the Trans-Pacific Partnership (TPP) is a cornerstone of U.S. trade policy. Japan is the newest member that joined negotiations in 2013.



CURRENTLY

12 TPP Partners

ON FOUR CONTINENTS

Asia (Brunei Darussalam, Japan, Malaysia, Singapore, Vietnam)
Australia/Oceania (Australia, New Zealand)
North America (United States, Canada, Mexico)
South America (Chile, Peru)

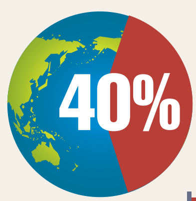
WHY TPP MATTERS?

The Asia-Pacific is home to the world's most dynamic and fastest growing economies

50% world growth is forecasted in the Asia-Pacific region over the next two decades

= 1 billion new middle class consumers

WHAT IS TPP's IMPACT?



of the global GDP is made from current TPP members

Designed by The DesignPond for the U.S. Department of State.
To learn more about the Trans-Pacific Partnership initiatives, please visit *http://www.state.gov/r/pa/pl/2013/214166.htm*.

aimed at solving common problems. Public diplomacy programs explain American society and culture and improve the understanding of American values.

Key Selected Achievements:

- ***Innovation Fund Supports U.S. Priorities:*** The Department's Fund for Innovation in Public Diplomacy enables embassies around the world to carry out innovative public diplomacy initiatives that advance our nation's priorities. In 2013, the Under Secretary for Public Diplomacy and Public Affairs funded 68 projects worldwide for a total of $3.3 million. Out of these projects, 31 focused specifically on public diplomacy outreach activities to advance our economic agenda worldwide. Others focused on priorities such as disability rights and promoting open, inclusive, democratic states. For example, in 2013 the Innovation Fund supported an initiative in which Gallaudet University partnered with the University of the Americas in Panama City to establish a Latin American educational hub for deaf and hard of hearing students.

- ***Study Abroad Increases:*** The number of American students studying abroad continues to grow steadily, up 3.4 percent from the previous year (2011/12) for a current total of 283,332. The number of U.S. applicants for Bureau of Educational and Cultural Affairs (ECA) high school exchange programs rose by 65 percent in 2012. ECA's EducationUSA advising network of over 400 centers reaches potential students in 170 countries through in-person, outreach, and virtual platforms, contributing to the academic year 2012/2013 record high of 819,644 international students in the United States (Open Doors 2013). Over 22,000 students from 206 countries and 104 U.S. higher education institutes participated in EducationUSA's 2013 Virtual College Fair.

- ***Exchanges Promote U.S. Policy:*** Educational, professional and cultural exchanges have become indispensable pillars of strategic dialogues with Brazil, China, India, Indonesia, Iraq, Russia, and other countries. It is almost impossible to conceive of a major bilateral initiative that does not include an exchanges component. Dialogues with Brazil, China, and Indonesia have resulted in record numbers of participants in educational exchanges with those countries.

U.S. Secretary of State John Kerry and the Executive Secretary of the Department John Bass chat in the Treaty Room reception area adjacent to the Secretary's office suite in the U.S. Department of State, Washington D.C., February 4, 2013.
Department of State

In 2013, TechWomen matched 75 women from the Middle East and Africa with 150 American mentors at leading U.S. technology companies, some of whom will meet up in Morocco in the spring to continue working for increased opportunities for women. The 2013 EMPOWER program convened about 75 foreign disability rights leaders from every geographic region in the United States and sent approximately 60 American stakeholders abroad to demonstrate the United States' leading role in advocating for the rights of persons with disabilities.

- ***International Media Engagement:*** The Department continued to expand its capacity to reach international audiences by engaging foreign broadcast, print and digital media through Regional Media Hubs, foreign language spokespeople and innovative uses of technology. The Department's six Regional Media Hubs are positioned strategically around the globe in major media markets to reach the most influential global and regional outlets. As virtual extensions of the Department of State's Spokes-person's podium, the Hubs respond to the rapidly moving international media environment to amplify the U.S. Government's highest priority policy messages. Hub video teams traveled to support major policy events, capturing footage of U.S. officials in action for distribution to broadcast and digital media via satellite and the State Department's online video distribution platforms. Spokespeople amplified the President and Secretary's messages in Arabic, Farsi, Spanish, Urdu, Dari, and other languages to ensure accurate coverage of U.S. policy in foreign media. In addition, media all over the world accessed senior policymakers in Washington via LiveAtState virtual press conferences, which use state-of-the-art technology to link foreign journalists and bloggers with U.S officials for meaningful discussions.

- ***Social Media:*** The Department continued to expand its social media outreach by routinely scheduling global online engagements in up to nine languages on a variety of social media—including Facebook, Google+, and Twitter—and establishing its official presence on new platforms, such as Instagram. The Secretary of State participated in a Google+ Hangout for the first time and personally used Twitter and the State Department's DipNote blog as part of an effort to leverage technology to advance our foreign policy objectives, bridge gaps between people, and engage with audiences around the world. The State Department's flagship social media sites saw exponential growth across platforms. See Appendix D for the Department's Websites of Interest.

Strategic Goal 7: Build a 21st Century workforce; and achieve U.S. Government operational and consular efficiency and effectiveness, transparency and accountability; and secure U.S. Government presence internationally.

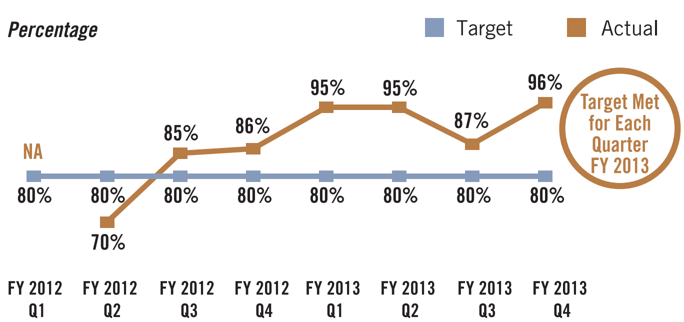
The Department provides citizen support throughout the cycle of life, from certifying the birth of U.S. citizens born abroad, to assisting families when a U.S. citizen dies overseas. The Department continues, in collaboration with the Department of Homeland Security and other agencies, to protect America's homeland with improved technology and efficiency in visa and passport processing, smarter screening technology for Government officials adjudicating applications, and more secure U.S. travel documents (both visas and passports). In support of this strategic goal, the Department is pursuing a multi-year hiring program to build the talented, diverse workforce needed to handle our foreign policy priorities and strengthen diplomacy.

MANAGEMENT APG

Goal: Strengthen diplomacy and development by leading through civilian power. By September 30, 2013, the State Department and USAID will reduce vacancies in high priority positions overseas to zero percent and 10 percent, respectively, and will reduce instances of employees not meeting language standards to 24 percent and 10 percent, respectively. This goal also addresses the staffing of critical Consular posts to implement the Executive Order on "Establishing Visa and Foreign Visitor Processing Goals."

Progress towards Goal Achievement: At the end of FY 2013, State's highest overseas staffing priorities are Afghanistan, Iraq, and Pakistan. In FY 2013 fourth quarter, the Department filled 75 percent of the positions in Afghanistan, 79 percent in Iraq, and 90 percent in Pakistan. Since the third quarter of FY 2012, the Department has consistently met its two-year target of ensuring that 80 percent of nonimmigrant visa applicants are interviewed within three weeks of receipt of the application. The Department met all of its two-year and quarterly targets filling of its high priority positions overseas and ensuring that 76 percent of the personnel assigned to language designated positions (LDPs) meet or exceed the recommended language requirements. As more officers and specialist transition to new assignment, the LDP fill rate is expected to remain constant.

Illustrative Indicator for Strategic Goal 7 and Management APG: Nonimmigrant Visas



Description of Indicator: This indicator measures the percentage of nonimmigrant visa applicants that are interviewed within three weeks of the receipt of their visa application. This two-year indicator was created in FY 2012 and data for previous years is unavailable. 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.

Behind the scenes at U.S. Secretary of State John Kerry's Google+ Hangout at the U.S. Department of State in Washington, D.C. *Department of State*

FOCUS

New Online Series Connects the United States to the World

On May 10, 2013, Secretary of State John Kerry kicked off "Hangout at State," a new online series that brings together people across national borders to discuss with U.S. Government leaders pressing foreign policy issues such as democracy promotion, human rights, counterterrorism efforts, economic development, climate change, and drug interdiction.

In this online conversation, moderated by NBC News Chief Foreign Affairs Correspondent Andrea Mitchell, Secretary Kerry answered questions from the American people on "The U.S. In the World: What's In It for Us?" This live online event was the first for a U.S. Secretary of State. The Secretary is dedicated to having a dialogue with the American people about the investments they make to ensure American leadership abroad – to protect our national security interests, and to promote trade and investment that fuels the American economy. The conversation builds on Secretary Kerry's first major public address as Secretary of State at the University of Virginia, where he outlined to Americans the impact that our involvement abroad has here at home. In this discussion, the Secretary observed that "for about one percent of our entire budget, a penny on the American dollar spent, we invest in everything that we do in foreign policy."

Online series such as "Hangout at State" support the Department's strategic goal six: advance U.S. interests and universal values through public diplomacy and programs that connect the United States and Americans to the world. This series is broadcast on the State Department's Google+ page, YouTube channel, and at video.state.gov/live.

LEARN MORE

For more information, a video and transcript of this discussion may be viewed at:

http://www.state.gov/secretary/remarks/2013/05/209273.htm

Maximizing America's Investment through Innovation, Evaluation, and by Meeting Management Challenges

The Department of State is continuing to make progress in implementing the Administration's major management priorities. The following is a brief summary of initiatives undertaken by the Department in FY 2013 that support the Administration's priorities, provide an update on the Department's evaluation policy, and introduce the Management and Performance Challenges identified by the Office of Inspector General.

INNOVATION: HARNESSING DATA TO IMPROVE AGENCY RESULTS

Economic Statecraft and the National Export Initiative

State's Bureau of Economic and Business Affairs and the Bureau of Information and Resource Management are developing an integrated and interactive platform known as the Business Information Database System (BIDS), which will internally manage and then deliver to U.S. businesses information on Multilateral Development Bank and foreign government procurement opportunities. Through a public website and supported by a data sharing model with other U.S. Government agencies, U.S. businesses will be able to access the BIDS data, which will help them to pursue international business opportunities.

Driving Results through Effective Knowledge Management and Continuous Process Improvement: APQC, 1CA, and Cost Containment Dashboard

American Productivity and Quality Center (APQC). According to a recent survey conducted by the APQC the Department is at the forefront of global organizations that manage change and implement ubiquitous knowledge sharing capabilities, ahead of other private, public, and government organizations in enabling employees to find and share expertise and experience. In August 2013, the Department's Office of eDiplomacy hosted nearly 30 representatives from 16 large corporations for a day of briefings on knowledge-sharing platforms. This was part of a five-month APQC study entitled "Transferring and Applying Critical Knowledge," which focused on the origins of the Department's Knowledge

Extract from infographic designed by Tomorrow Partners, Berkeley, California, USA for the Global Partnership Initiative. The full infographic can be viewed at *http://www.state.gov/s/partnerships/achievements/index.htm*.

Leadership strategy and demonstrated key programs such as SMART, Diplopedia, SearchState, Communities@State, Corridor, KLStats (online analytics), and Embassy Kabul's Portfolio Continuity project. The Department plans to increase integration of the tools, develop "intelligent" functions among them, and create a micro-tasking platform for the Department's user community. The Department was the only government agency among the six "best practice partners" that the APQC sponsors selected for an in-depth study.

1CA. The Bureau of Consular Affairs (CA) has implemented *1CA: The Consular Leadership and Management Project* to support operations as a global, united team with a shared mission and a collective bottom line. Using a management framework based on proven management practices including Balanced Scorecard, Project Management Body of Knowledge, and Lean Six Sigma techniques, CA has created a management toolkit which enables employees to align local practices with global priorities and increase process

FOCUS IN

Passport Services – World's Premier Travel Document

The Department protects the lives and interests of U.S. citizens overseas and strengthens U.S. border security through the vigilant management of the U.S. passport and visa program. Passport services provides accurate and secure U.S. passports, responds effectively to the needs of U.S. passport customers, and strengthens management and delivery capabilities. The Department currently operates 28 domestic passport agencies. In addition, there are currently more than 8,400 acceptance facilities nationwide that are designated to accept passport applications.

Additional facts:

- Passports and passport cards issued: In FY 2013, we issued 13.5 million passports and passport cards. Over the seven fiscal years since FY 2007, we have issued a total of over 100 million passports and passport cards.
- Passports in circulation: More than 117 million valid U.S. passports are in circulation (compared to 14 million in circulation in 1991). Today, about 37 percent of U.S. citizens have a valid passport.
- Passport cards: May be used for entrance via land and sea from Canada, Mexico, the Caribbean, and Bermuda. Through September 2013, more than seven million passport cards have been issued.
- Toll free number: 1-877-4USAPPT (1-877-487-2778); TTY/TDD 1-888-874-7793.

© iStock Image

The Department's passport service operations support strategic goal number seven: build a 21st Century workforce; and achieve U.S. Government operational and consular efficiency and effectiveness, transparency and accountability; and a secure U.S. Government presence internationally. Looking ahead, the Department is developing a new travel document called "The Next Generation Passport" as part of the ongoing efforts to maintain and improve the Department's secure travel documents.

LEARN MORE

For more information, please visit:
http://travel.state.gov/

efficiency. The toolkit provides managers at all levels of skill and experience with tools to build these practices into their daily operations.

Using the toolkit, the bureau has produced measureable results:

- Reduced the bureau's annual cost of preparing the Annual Certification of Management Controls by approximately $250,000.
- Reduced wait times for most non-immigrant visa applicants by approximately 35 percent in Amman.
- Decreased average wait times by approximately 56 percent at the San Diego Passport Agency.
- Lowered the wait time for U.S. citizens requesting Consular Reports of Birth Abroad by 66 percent in just two months at Consulate General Nogales.

The management toolkit is complemented by an online innovation forum that solicits ideas and best practices from the field and a global metrics project that provides data to both headquarters and teams in the field to improve performance. The Department is garnering lessons learned from this project and is working to expand this effort beyond the CA bureau to other parts of the Department.

Cost Containment Dashboard. The Bureau of Western Hemisphere Affairs (WHA) provides another example of how the Department is using data to improve processes, drive efficiency, and identify potential cost savings. The WHA bureau successfully managed its operations by requiring posts to comply with dozens of cost containment initiatives as well as identify their own innovative ways to save money. It has a cost containment dashboard which embassies update regularly to demonstrate what types of initiatives are being implemented. If an initiative has been successful, that post is encouraged to share its experience with colleagues in the region. For instance, most posts have installed motion sensor lighting; transitioned to more fuel efficient vehicles; increased video teleconferences; and centralized, regionalized, and consolidated administrative platform services. All posts have instituted cost savings within their management platform.

U.S. Secretary of State John Kerry greets the Marine Security Guard detachment of U.S. Embassy in Baghdad, Iraq, March 24, 2013.
Department of State

PROGRAM EVALUATION: BUILDING A FOUNDATION FOR USE OF EVIDENCE IN DECISION-MAKING

Since the implementation of its new evaluation policy in February 2012, the Department has aggressively moved forward on efforts to build a foundation for the use of evaluation information to improve performance, to glean best practices in programming, and to ensure effective stewardship of resources overseas and here at home. The Department's more than 30 domestic bureaus have been putting in place long-term plans to evaluate the agency's diplomatic, development, and management efforts. The Department's focus since issuance of the policy has been capacity building and training of Department personnel to effectively plan for, execute, and manage evaluations. Implementation efforts in FY 2013 included the roll-out of comprehensive training on an ongoing basis in the form of two Foreign Service Institute-supported courses: "Managing Evaluations" and "Evaluation Designs and Data Collection Methods"; a daylong Evaluation

Institute that focused on effective practices in evaluations of Department of State-funded efforts; and the establishment of a Department-wide Evaluation Community of Practice that numbers close to 300 staff.

MANAGEMENT CHALLENGES: PROVIDING AN INDEPENDENT ASSESSMENT OF THE AGENCY

In the FY 2013 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, Contract and Procurement Management, Information Security and Information Management, Financial Management, Military to Civilian-Led Transitions—Iraq and Afghanistan, Foreign Assistance Coordination and Oversight, Public Diplomacy, Consular Operations, Leadership, and Rightsizing.

The OIG assessment may be found on the Other Information (OI) section of this report (see pages 122-128). In response to 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.

Financial Summary and Highlights

The financial summary and highlights that follow provide an overview of the FY 2013 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, 2013 and 2012, along with the Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statement of Budgetary Resources[1]. The Department received an unmodified audit opinion on its FY 2013 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	FY 2013	FY 2012	% Change
Fund Balances With Treasury	$ 47.6	$ 44.2	8%
Investments, Net	17.4	16.9	3%
Property and Equipment, Net	17.6	16.1	9%
Cash, Receivables, and Other Assets	2.2	2.4	(8)%
Total Assets	**$ 84.8**	**$ 79.6**	**7%**
Accounts Payable	$ 2.4	$ 2.8	(14)%
After-Employment Benefit Liability	20.6	19.9	4%
International Organizations Liabilities	1.9	1.4	36%
Other Liabilities	1.5	1.3	15%
Total Liabilities	**$ 26.4**	**$ 25.4**	**4%**
Unexpended Appropriations	38.2	35.3	8%
Cumulative Result of Operations	20.2	18.9	7%
Total Net Position	**$ 58.4**	**$ 54.2**	**8%**
Total Liabilities and Net Position	**$ 84.8**	**$ 79.6**	**7%**
Summary Consolidated Statement of Net Cost Data			
Total Cost and Loss on Assumption Charges	$ 32.1	$ 33.2	(3)%
Less: Total Revenue	(7.0)	(6.7)	5%
Total Net Cost	**$ 25.1**	**$ 26.5**	**(5)%**
Summary Combined Statement of Budgetary Resources Data			
Unobligated Balance Brought Forward	$ 17.5	$ 13.1	34%
Appropriations	31.5	31.7	(1)%
Spending Authority from Offsetting Collections	10.4	10.3	1%
Other Resources (Adjustments)	1.2	2.4	(50)%
Total Budgetary Resources	**$ 60.6**	**$ 57.5**	**5%**

[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 Statement of Budgetary Resources.

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

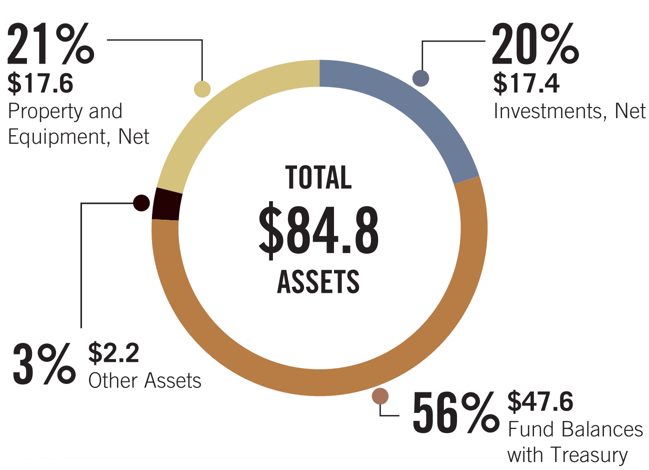
- Balance Sheet: Overview of Financial Position,
- Statement of Net Cost: Yearly Results of Operations,
- Statement of Changes in Net Position: Cumulative Overview,
- Statement of Budgetary Resources: Smart Investments for America's Future,
- Financial Management Systems Summary, and
- Limitation of Financial Statements.

Balance Sheet: Overview of Financial Position

The Balance Sheet provides a snapshot of the Department's financial position. It displays amounts of future economic benefits owned or available for use (Assets), amounts owed (Liabilities), and residual amounts (Net Position) at the end of the fiscal year.

Assets. The Department's total assets were $84.8 billion at September 30, 2013, an increase of $5.2 billion or 7 percent over the 2012 total. Fund Balances with Treasury were up over $3 billion due to an increase in unpaid obligations and recoveries over the prior year. Investments consist almost entirely of U.S. Government securities held in the FSRDF; government agencies are, for the most part, precluded from making any other type of investment. Investments were up $480 million because contributions and appropriations received to support the Foreign Service Retirement and Disability Fund (FSRDF) were greater than benefit payments; the excess is required to be invested for future benefit payments. Other Assets decreased $139 million due to a reduction in advances and prepayments made in FY 2013. Receivables increased by $43 million primarily as a result of an increase in non-Federal miscellaneous receipts and from a change in the Value Added Tax receivable.

ASSETS BY TYPE FY 2013 *(dollars in billions)*



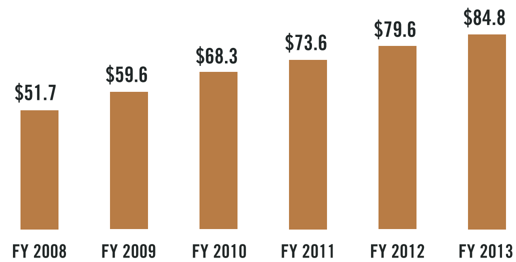
Largest 11 Real Property Projects – FY 2013
(dollars in millions)

Project Name	Amount
Islamabad, Pakistan	$ 208
Kabul, Afghanistan (New Annex Facility and Housing)	159
Rabat, Morocco	77
Baghdad, Iraq (Sather Air Base Project)	72
Abuja, Nigeria (Annex)	69
Vientiane, Laos	54
Santo Domingo, Dominican Republic	51
Helsinki, Finland	49
Cotonou, Benin	48
London, United Kingdom	46
Rio Grande Flood Control System, United States and Mexico	26
TOTAL	$ 859

Property and equipment increased by $1.5 billion due to capital improvements to diplomatic facilities and the construction of new overseas embassy compounds. The table above shows the largest real property projects in FY 2013 that account for $859 million of this increase.

Fund Balances with Treasury, Investments, and Property and Equipment comprise 97 percent of total assets for 2013 and 2012. The six-year trend in the Department's total assets is presented in the figure below.

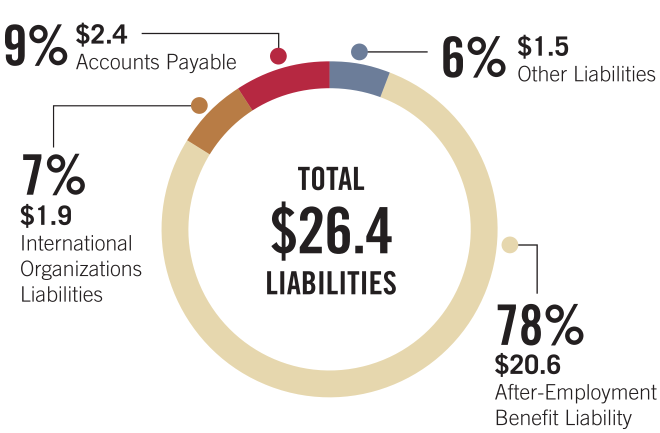
TREND IN TOTAL ASSETS (FY 2008 - FY 2013)
(dollars in billions)



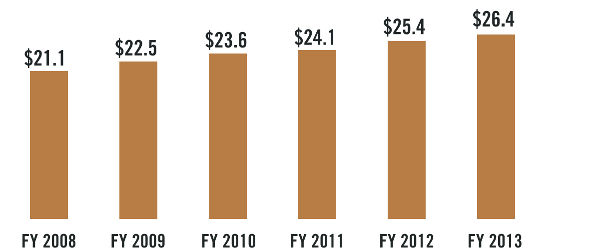
Many Heritage Assets, including art, historic American furnishings, rare books and cultural objects, are not reflected in assets on the Department's Balance Sheet. Federal accounting standards attempt to match costs to accomplishments in operating performance, and have deemed that the allocation of historical 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 forever in good condition. All of the embassies and other properties on the Secretary of State's Register of Culturally Significant Property, however, do appear as assets on the Balance Sheet, since they are used in the day-to-day operations of the Department.

Liabilities. The Department's total liabilities were $26.4 billion at September 30, 2013, up $968 million, 4 percent, between 2012 and 2013. The liability for future benefits payments to retired foreign service officers included in the After-Employment Benefit Liability comprises 78 percent of total liabilities. Total After-Employment Benefits Liability was up $673 million, 3 percent, due to an increase in participation in the Foreign Service Retirement and Disability Fund resulting from changes in the benefit plan and actuarial assumptions. Also included in this total are other after-employment benefits for Foreign Service Nationals. Accounts Payable decreased by $423 million, 15 percent. This change is due to the decrease in delivered, but not paid for goods and services received to support International Narcotics and Law Enforcement, Global

LIABILITIES BY TYPE FY 2013 *(dollars in billions)*



TREND IN TOTAL LIABILITIES (FY 2008 - FY 2013)
(dollars in billions)



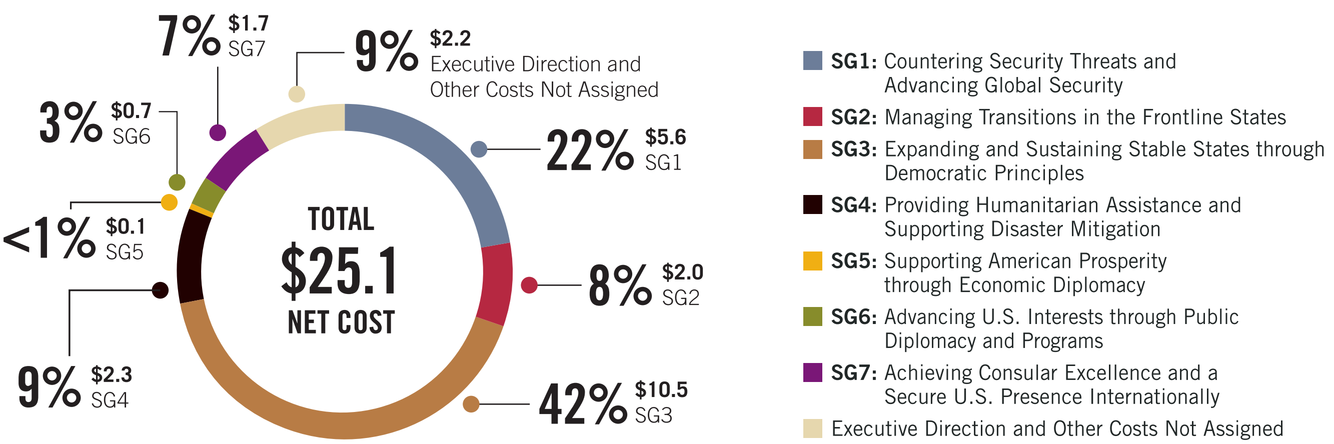
Health Programs, Diplomatic and Consular Programs, and the Working Capital Fund. The International Organizations Liability increased by $484 million or 34 percent, based on assessments the Department received. The six-year trend in the Department's total liabilities is presented in the figure above.

Ending Net Position. The Department's net position, comprised of unexpended appropriations and the cumulative results of operations, increased 8 percent between 2012 and 2013. Unexpended appropriations were up by 8 percent or $2.9 billion, primarily due to increases in appropriations still available in the Overseas Buildings Operations fund, up $998 million, the Migration and Refugee Assistance fund, up by $724 million, and the International Narcotics Control and Law Enforcement fund, up $633 million. Cumulative Results of Operations were up $1.3 billion, primarily due to resources used to purchase property and equipment, which are capitalized on the Balance Sheet rather than present in Net Cost as expenses.

Statement of Net Cost: Yearly Results of Operations

The Statement of Net Cost presents the Department's net cost of operations by strategic goal. Net cost is the total program cost incurred less any exchange (i.e., earned) revenue. The presentation of program costs by strategic goal is based on the Department's current Strategic Plan, 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 of the MD&A, the Department established new strategic goals for FY 2013. Costs that could not be readily assigned to one

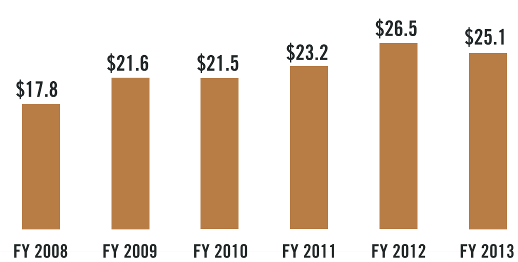
NET COST OF OPERATIONS BY STRATEGIC GOAL (FY 2013)
(dollars in billions)



of the seven strategic goals were assigned to the category "Executive Direction and Other Costs." Prior year costs from FY 2012 were reclassified for comparability. The total net cost of operations in FY 2013 equaled $25.1 billion, a decrease of $1.4 billion (5 percent) from FY 2012. This reduction of net costs was mainly due to automatic spending reductions required by the Budget Control Act of 2011 (BCA).

The six-year trend in the Department's net cost of operations from FY 2008 through FY 2013 is presented in the figure below. The $7.3 billion (41 percent) overall increase since FY 2008 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 (FY 2008 - FY 2013)
(dollars in billions)

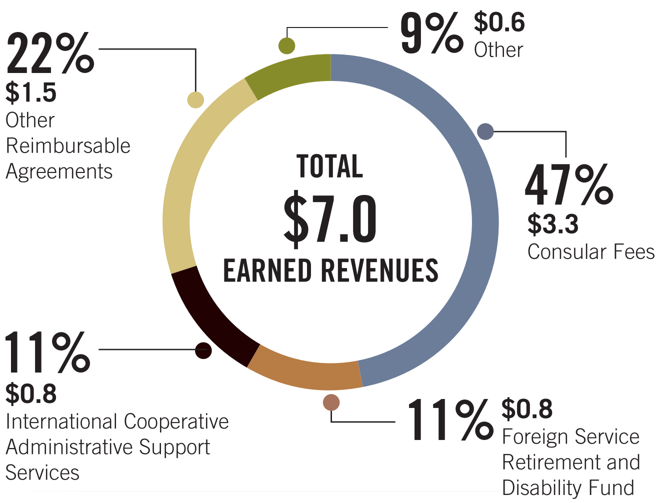


The figure above illustrates the comparative results of operations by strategic goal, as reported on the Statement of Net Cost. As shown, net costs associated with strategic goals one (Countering Security Threats and Advancing Global Security) and three (Expanding and Sustaining Stable States through Democratic Principles) represents the largest net costs in FY 2013 – a combined $16.1 billion (64 percent). These net costs are comparable; though down slightly, from FY 2012 amounts for these two goals – $17.3 billion (65 percent).

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. 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 billings and Working Capital Fund earnings.

EARNED REVENUES BY PROGRAM FY 2013 *(dollars in billions)*



Earned revenues totaled $7 billion for the fiscal year ending September 30, 2013, and are depicted, by program source, in the figure above. The major sources of revenue were from consular fees ($3.3 billion or 47 percent), reimbursable agreements ($1.5 billion or 22 percent) and ICASS earnings ($0.8 billion or 11 percent). These revenue sources totaled $5.6 billion (80 percent). Overall, revenue increased by 4 percent – from $6.7 billion in FY 2012 to $7 billion in FY 2013. The net increase is primarily a result of an increase in property disposition gains, an increase in fees from machine readable visas, and a decrease in reimbursable revenue from International Narcotics Law Enforcement program.

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 FY 2013 was $58.4 billion, a $4.2 billion (8 percent) increase from the prior fiscal year. This change resulted from a $2.9 billion increase in Unexpended Appropriations and a $1.3 billion increase in Cumulative Results of Operations.

U.S. Secretary of State John Kerry hosts the PEPFAR 10th Anniversary Celebration at the U.S. Department of State in Washington, D.C., June 18, 2013. *Department of State*

FOCUS IN

Tenth Anniversary of PEPFAR Marked at Department of State

On June 18, 2013, in a tribute to the success of the President's Emergency Plan for AIDS Relief (PEPFAR) program, Secretary Kerry announced that the one-millionth baby would be born HIV-free due to PEPFAR-supported prevention of mother-to-child transmission programs. At an event marking PEPFAR's tenth anniversary, the Secretary stated that there are 13 countries at the programmatic "tipping point" in their AIDS epidemic – the point where the annual increase in adults on treatment is greater than the number of annual new adult infections. To further mark the program's anniversary, Ambassador Eric Goosby, U.S. Global AIDS Coordinator, participated in a live Google+ Hangout on PEPFAR and the battle against HIV from the U.S. Department of State in Washington, D.C. on June 20, 2013.

Global health programs such as PEPFAR support the Department's strategic goal four: provide humanitarian assistance and support disaster mitigation. The Department's investments in global health protect Americans at home and abroad, strengthen fragile or failing states, promote social and economic progress, and support the rise of capable partners. These global health efforts are a signature of American leadership.

Over the past decade, new HIV infections have declined nearly 19 percent globally, and AIDS-related mortality has decreased by 26 percent since its peak in 2005. In sub-Saharan Africa, progress has been even more marked, with new infections down by 33 percent over the past decade, and AIDS-related mortality declining by 32 percent since its peak in 2005.

LEARN MORE **For more information on this program, please visit:**
http://www.pepfar.gov/

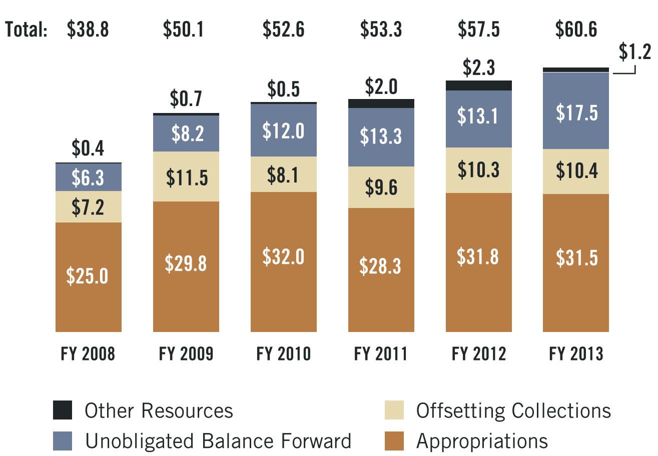
VIEW VIDEO **A video of the Ambassador's online discussion may be viewed at:**
http://www.youtube.com/watch?v=yo0biTpXbNE

Statement of Budgetary Resources: Smart Investments for America's Future

The 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 by budgetary section 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 2008 through 2013. As illustrated, total resources have increased by $21.8 billion (56 percent) over the six-year time frame. This change resulted mainly from increases in unobligated balances brought forward ($11.2 billion or 177 percent since FY 2008), offsetting collections ($3.2 billion or 44 percent), and appropriations ($6.5 billion or 26 percent). Over this period, the non-appropriated resources – composed of offsetting collections, unobligated balances brought forward, and recoveries of prior-year unpaid obligations – represent an increasing proportion of total budgetary resources (from 37 percent in FY 2008 to 49 percent in FY 2013). A comparison of the two most recent years shows a $3.1 billion (5 percent) increase in total resources since FY 2012. This change resulted mainly from increases in prior unobligated balances ($4.4 billion) and offsetting collections ($0.1 billion), net of decreases in appropriations

TREND IN TOTAL BUDGETARY RESOURCES (FY 2008 - FY 2013)
(dollars in billions)



($0.3 billion) and other resources ($764 million). As a result of the automatic spending reductions required by the BCA, appropriations, which comprised 55 percent of FY 2012 budgetary resources, accounted for 52 percent in FY 2013.

BUDGETARY POSITION FOR STATE OPERATIONS

The FY 2013 budget for the Department of State operations, post-sequester reductions as required by the Budget Control Act of 2011 (Public Law 112-25, as amended), totaled $16.9 billion, including appropriations for Administration of Foreign Affairs ($13.3 billion), contributions to international organizations and international peacekeeping activities ($3.4 billion), international commissions ($113 million), and related programs ($145 million). This total included $4.5 billion Overseas Contingency Operations (OCO) funding for temporary and extraordinary requirements in Iraq, Afghanistan, and Pakistan, and included a small amount for activities outside the Frontline States. The Department received OCO funding for Diplomatic and Consular Programs (D&CP); Worldwide Security Protection; Embassy Security, Construction, and Maintenance; Educational and Cultural Exchanges; Contributions to International Organizations; Office of Inspector General; and Conflict and Stabilization Operations. The Department's FY 2013 budget was funded by the Further Continuing Appropriations Act, 2013 (Division F, Public Law No. 113-6).

In addition to appropriated funds, the Department continues to use revenue from user fees – Machine Readable Visa fees, Enhanced Border Security Program fees, the Western Hemisphere Travel Surcharge, and others – for the Border Security Program. The revenue from these fees supports program requirements to protect American citizens and safeguard the nation's borders.

Appropriations for Administration of Foreign Affairs constitute the Department's core operational funding. They support the people and programs that 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 American diplomatic platform, from which most U.S. Government agencies operate overseas.

For FY 2013, the Department's principal operating appropriation – D&CP – was funded at $9.6 billion. Total D&CP funding included $555.5 million to support operations of the U.S. Mission in Iraq; $1.5 billion for activities in Afghanistan; $149.7 million for activities in Pakistan; $2.3 billion for the Worldwide Security Protection (WSP) program to strengthen security for diplomatic personnel and facilities under threat from terrorism – this WSP level includes funding transfers to support the Department's Increased Security Proposal (ISP) in response to the Accountability Review Board (ARB) report on Benghazi, Libya; and $517.6 million for public diplomacy programs to counter extremist misinformation and secure support for U.S. policies abroad. The funding also included resources to further agency-specific initiatives on rightsizing the U.S. Government's overseas presence and Federal real property asset management.

The Department's Information Technology (IT) Central Fund for FY 2013 investments in IT was $251.6 million. This Fund included $61.8 million from the Capital Investment Fund (CIF) appropriation and $189.8 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 Embassy Security, Construction, and Maintenance (ESCM) appropriation was funded at $2.8 billion. This funding helped provide U.S. missions overseas with secure, safe, and functional facilities and includes funding transfers to support the Department's ISP in response to the ARB report on Benghazi. The funding also supported maintenance and repairs of the Department's real estate portfolio, which exceeds $74 billion in replacement value and includes over 21,850 properties. ESCM funding included $670 million to support compound security projects, and 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 $386 million to capital security cost-sharing reimbursements for the construction of new diplomatic facilities.

For more information, a video about Diplomacy and the language of art and design may be viewed at: ***http://video.state.gov/en/video/2761488330001***

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at $583 million. Aligned with public diplomacy efforts, these strategic activities engaged foreign audiences to develop mutual understanding and build foundations for international cooperation. The funding included $325 million for academic programs of proven value, such as the J. William Fulbright Scholarship Program and English language teaching. It also included $194 million for professional and cultural exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program.

Looking ahead, the Department's FY 2014 budget request supports comprehensive American engagement and implements the vision of U.S. global leadership articulated in the National Security Strategy released in May 2010. The resources requested strengthen core elements of America's civilian power and provide the Department of State with the tools it needs to advance America's interests and values worldwide. For FY 2014, the President's Budget Request for the Department is $15.9 billion. As in FY 2013, the request is separated into two components: base, or "enduring," and OCO, which addresses the extraordinary and temporary costs associated with operations in Iraq, Afghanistan, and Pakistan. The enduring portion of the request, $14.4 billion, includes resources to support worldwide core national security and foreign policy priorities. The request for D&CP is $8.5 billion, including $2.2 billion for WSP to meet new challenges in preventing terrorist attacks at our posts, building on the lessons learned from the attack at Benghazi. The request provides $76.9 million for CIF investments in IT infrastructure and collaborative tools. The request for ESCM is $2.6 billion, including resources for design and/or construction of secure facilities and Marine Security Quarters, additional site acquisitions, as well as security upgrades for compounds at high risk and soft targets. Further, the request provides $562.7 million for ECE to sustain the exchanges component of public diplomacy. The core budget represents the Department's ongoing investment necessary to advance America's security and economic interests around the world.

The Department's request includes $1.5 billion for OCO. Of this amount, $1.2 billion supports diplomatic and security operations while $49.6 million is required to sustain activities of the Special Inspectors General in Iraq, Afghanistan, and Pakistan. These expenses are being incurred as civilian employees continue take on more responsibility in the Frontline States and are expected to be phased out over time as these countries rebuild and take responsibility for their own security. Separating extraordinary and temporary spending from core ongoing expenses makes the Department's budget more transparent and reduces overlap by aligning spending in the Frontline States with the Department of Defense, which also receives OCO funding.

To maximize our efficiency, the Department continues to focus on improving the way it does business and concentrate on reforms recommended in the Quadrennial Diplomacy and Development Review. Following this blueprint for change, the Department seeks innovative solutions and builds cross-agency partnerships to achieve measurable results. In sum, the FY 2014 request will provide funding for diplomatic operations, programs, and initiatives that constitute an integrated strategy for renewing America's global leadership and advancing vital U.S. national interests. With these resources, America can, must, and will continue to lead in the 21st Century.

BUDGETARY POSITION FOR FOREIGN ASSISTANCE

The FY 2013 Department of State Foreign Assistance post-sequester budget totaled $17.7 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. The Department's FY 2013 Foreign Assistance budget was also funded by the Further Continuing Appropriations Act, 2013.

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

An important aspect of the Department's FY 2013 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, Mali, and Somalia. The Department's Foreign Assistance portion of the FY 2013 budget for OCO totaled $3.3 billion in Foreign Military Financing, International Narcotics Control and Law Enforcement, Migration and Refugee Assistance, Nonproliferation, Antiterrorism, Demining, and Related Programs, and Peacekeeping Operations.

The Democracy Fund appropriation totaled $109 million in FY 2013; the funds were split, however, between the Department and USAID. The Department was allocated $64 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 2013 Foreign Military Financing (FMF) appropriation totaled $6 billion, of which $1 billion is designated as OCO-related and $5 billion supports core programs. FMF furthers U.S. 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 2013 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 2013, the portion of the Global Health Programs (GHP) appropriation managed by the Department totaled $5.4 billion. This is the primary source of funding for the President's 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. Similar to prior years, the majority of the funds ($3.2 billion) continued to be allocated to the Africa region where the HIV/AIDS epidemic is the most widespread. There was also a $1.6 billion contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

For FY 2013, 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 new three year pilot 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 2013 International Military Education and Training (IMET) appropriation totaled $100.4 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 International Narcotics Control and Law Enforcement (INCLE) appropriation for FY 2013 totaled $1.9 billion, of which $932 million is OCO-related and $1 billion 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 2013, 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, including Afghanistan, Pakistan, Mexico, Lebanon, Haiti, South Sudan, Liberia, and Iraq. Finally, INCLE-funded programs helped to reduce the flow of drugs to the United States and address instability in the Andean region.

The FY 2013 International Organizations and Programs appropriation totaled $331.1 million. It provided international organizations voluntary contributions that advanced U.S. strategic goals by supporting and enhancing international consultation and coordination. This approach is required in transnational areas where solutions to problems are best addressed globally, such as protecting the ozone layer or safeguarding international air traffic. In other areas, the United States can multiply its influence and effectiveness through support for international programs. The largest contributions in FY 2013 were made to the United Nations Children's Fund, the United Nations Development Program, and the United Nations Population Fund.

In FY 2013, the Migration and Refugee Assistance (MRA) appropriation totaled $2.7 billion, of which $1.1 billion was OCO and $1.6 billion was for core programs. These funds provided humanitarian assistance and resettlement opportunities for refugees and conflict victims around the globe. MRA is an essential component of U.S. foreign policy, reflecting America's dedication to assisting those in need. In FY 2013, 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 2013 U.S. Emergency Refugee and Migration Assistance (ERMA) appropriation totaled $25.8 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. Funds provided in FY 2013 ensured the United States was able to respond quickly to urgent and unexpected refugee and migration needs.

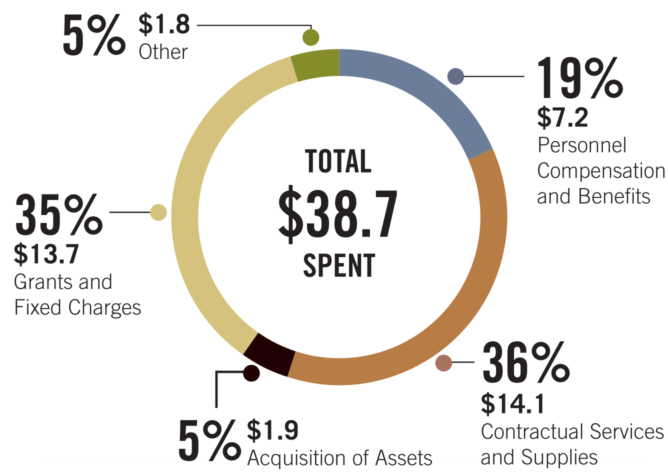
The Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) appropriation in FY 2013 totaled $674.9 million, of which $114.6 million is OCO-related and $560.3 million supported core programs. NADR funding is used to support U.S. strategic and humanitarian priority efforts, especially in the areas of nonproliferation and disarmament, export control, and other border security assistance; global threat-reduction programs, antiterrorism programs; and conventional weapons destruction.

The Peacekeeping Operations (PKO) appropriation totaled $364.4 million, of which $76.9 million was OCO and $287.5 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 2013, 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 2014 budget request for Foreign Assistance is currently under congressional consideration. The request is for $16.6 billion, of which $15.8 billion supports core programs and another $855 million is for OCO funding.

The following chart presents the use of budgetary funds representing FY 2013 total obligations incurred, as reflected on the SBR. The figure below shows how resources were spent in 2013, by category. As illustrated, the categories contractual services $14.1 billion (36 percent), grants and fixed charges $13.7 billion (35 percent), and personnel compensation and benefits $7.2 billion (19 percent) represent nearly 90 percent of the agency's spending.

HOW WAS THE AGENCY'S MONEY SPENT FY 2013
(dollars in billions)



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.

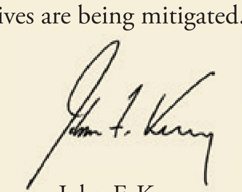
Federal Managers' Financial Integrity Act

The Department of State's 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.

These systems of internal controls are also being used to support our stewardship over the American Recovery and Reinvestment Act (Recovery Act) spending by the Department. Our assessments of internal controls, along with senior managers' assurance statements and our review for improper payments for Recovery Act activities, allow the Department to provide reasonable assurance that the key accountability objectives of the Recovery Act are being met and that significant risks to meeting Recovery Act accountability objectives are being mitigated.



John F. Kerry
Secretary of State
December 16, 2013

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.

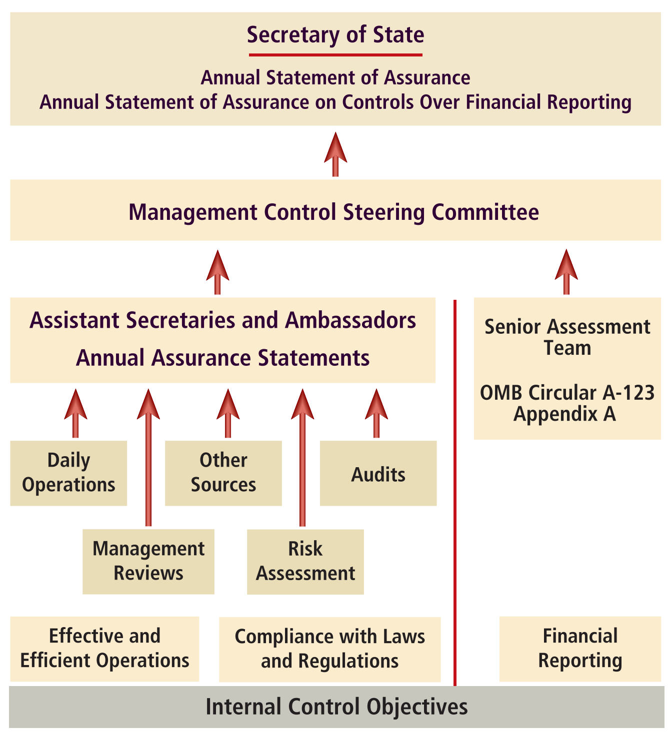
It also requires that the head of the agency, based on an evaluation, provide an annual Statement of Assurance on whether the agency has met this requirement. OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the FMFIA and defines management's responsibility for internal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

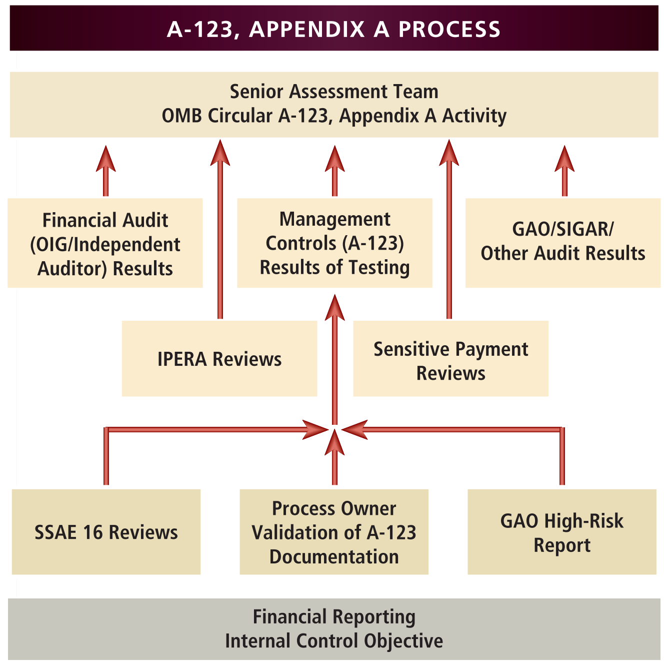
The Secretary of State's 2013 Annual Assurance Statement for FMFIA and ICOFR is provided on the previous page. We have also provided a Summary of Financial Statement Audits and Management Assurances as required by OMB Circular A-136, *Financial Reporting Requirements*, revised, later in this report's Other Information section.

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 ten Assistant Secretaries [including the Inspector General (non-voting)], the Chief Information Officer, the Deputy Chief Financial Officer, the Deputy Legal Adviser, the Director for the Office of Budget and Planning, 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 Iraq Reconstruction, the Special Inspector General for Afghanistan Reconstruction, and the Government Accountability Office conduct reviews, audits, inspections, and investigations that are considered by management.

FMFIA ANNUAL ASSURANCE PROCESS



At the close of FY 2012, the Department reported a material weakness in internal controls related to the Educational and Cultural Affairs Summer Work Travel (SWT) program. Particularly, the Department had insufficient oversight to fully ensure the health, safety, and welfare of the SWT program participants. Prior to and throughout FY 2013, the Department took extensive action to address the weaknesses in the SWT program. Some of the FY 2013 accomplishments in improving the SWT program included the Department significantly increasing staff to provide greater supervision of the program, conducting 542 on-site visits in 39 States, providing robust monitoring and surveying to participants, and taking other administrative and substantive actions to ensure compliance. Completion of these accomplishments, in conjunction with the significant improvements made to the program prior to FY 2013, has demonstrated the Department's commitment to remediating issues with the program. For this reason, the Department elected to downgrade the material weakness to a significant deficiency.



The Senior Assessment Team (SAT) provided oversight during FY 2013 for the ICOFR program in place to meet Appendix A requirements. The SAT reports to the MCSC and is comprised of 15 senior executives from bureaus that have significant responsibilities relative to the Department's financial resources, processes, and reporting, and the Office of the Legal Adviser. An executive from the Office of Inspector General is a also 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 FY 2013 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.

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, provide the framework for monitoring and improving the Department's management controls on a continuous basis. Management will continue to direct focused efforts to resolve issues for all significant deficiencies in internal control identified by management and auditors.

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 system requirements, the standards promulgated by the Federal Accounting Standards Advisory Board, 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 (January

With USAID power meters above them, Pakistani Minister of Power and Water Khawaja Asif explains to U.S. Secretary of State in Islamabad how the equipment saves power for utilities and the government, August 1, 2013. ***Department of State***

2009 Memorandum to Executive Department Heads, Chief Financial Officers, and Inspectors General), results of OIG and GAO audit reports, annual financial statement audits, the Department's annual Federal Information Security Management Act (FISMA) 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. 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 financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board, and the USSGL at the transaction level. The Department appreciates that the Independent Auditor has noted certain weaknesses in our financial management systems. In our assessments and evaluations, the Department identified similar weaknesses but consider them deficiencies versus substantial non-conformances relative to substantial compliance with the requirements of the FFMIA. The Department will work with the Independent Auditor in FY 2014 and beyond to resolve these issues, and to assess compliance based upon the recently issued Appendix D to OMB Circular A-123. Appendix D provides a revised compliance model that entails an outcome-based approach to assess FFMIA compliance.

Federal Information Security Management Act

The Federal Information Security Management Act of 2002 (FISMA) requires Federal agencies to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency. The Office of Inspector General (OIG) performs an annual evaluation of the Department's compliance with FISMA requirements. The Department of State's 2013 FISMA and Privacy Management Report highlights how the Department continues to apply a layered approach of security risk management through the application of multiple levels of protection in a manner that is commensurate with the risk and impact facing the Department's information and information systems. It also notes the improvements based on earlier recommendations from the OIG.

During FY 2013, the Department continued to enhance its comprehensive risk-based and cost effective information security program through extensive engagement with stakeholders throughout the Department and the implementation of specific and tangible efforts that have enhanced the maturity level of a number of programs and procedures including:

- Continuous Monitoring Program:
  - At our annual PortfolioStat review meeting, the Federal Chief Information Officer (CIO) stated that due to the Department of State's leadership in the implementation of continuous monitoring, the Department should play a key role in integrating the National Institute of Standards and Technology's Risk Management Framework and the Department of Homeland Security's (DHS) Continuous Diagnostics and Mitigation (CDM) methodologies for the entire Federal Government.

- The Department's CIO signed the Memorandum of Understanding with DHS to allow the Department to be an "early adopter" of new CDM software tools that will be provided through the DHS contract awarded in August 2013. These tools will allow the Department to monitor our network and react to threats and active attacks in real time.
- The Bureau of Information Resource Management, Office of Information Assurance (IRM/IA) implemented a contract to determine the Department's CDM requirements to accelerate the procurement and implementation of the tools being provided by DHS.
- The Bureau of Diplomatic Security (DS) acquired a database scanning tool. The installation and integration of the tool is ongoing.

■ Security Configuration Management:

- The Bureau of Information Resource Management (IRM) and DS are working closely to further the Department's cybersecurity posture.
- IRM and DS have synchronized the process of updating the applicable sections of Department policy to remove conflicts and inconsistent guidance.
- DS has purchased and is installing a database monitoring tool which focuses on database security rather than just network security.
- IRM has completed a Continuity of Operations Plan that is inclusive of the financial systems.
- IRM/IA is in the process of hiring a full-time bureau emergency action coordinator for IRM.
- DS has provided three seats at the DS Foreign Affairs Cybersecurity Center to the Deputy CIO for Operations to allow for improved cybersecurity cooperation. IRM is working to staff these seats in the near future.

■ Risk Management and Security Authorization:

- During the past year, $1.8 million was spent to complete an Assessment and Authorization (A&A) of the OpenNet general support systems. OpenNet is the Department's unclassified computer network. OpenNet evaluation was divided into high and moderate impact enclaves. Common controls were introduced for the first time allowing security controls to be properly inherited by the major systems residing on OpenNet. Documentation was provided to the OIG at the end of May 2013. Accreditation teams are reviewing documents with the planned signing of the letter of authorization by the CIO in February 2014.
- Major emphasis this year has been placed on the Bureau of the Comptroller and Global Financial Services' A&A.
- An additional $1.5 million of FY 2013 funds are being applied to accelerate the Department's A&A effort.

■ Plans of Action and Milestones:

- Following the lead by Consular Affairs, IRM/IA is purchasing an enterprise license of ComplyVision. This tool will provide the Department with a data repository for accreditation and authorization documentation and Plans of Action and Milestones (POA&M). All Department of State security documents and POA&Ms will be managed through this software tool. This tool will be integrated with the Department's information technology asset management tracking system to provide a seamless view of the Department's security portfolio.
- The Department expended extraordinary resources to address two issues the OIG noted earlier: Assessment and Authorization (A&A) and Contingency Planning. A&A efforts are currently underway and an additional Government FTE will be hired to address the OIG's concerns regarding Contingency Planning and Continuity of Operations.
- Plans of Action and Milestones now include the estimated funding resources required to resolve the weakness.

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 cites weaknesses to enterprise-wide security they consider to be a significant deficiency in accordance with OMB memorandum M-14-04. While the Department acknowledges the weaknesses identified by the OIG, it does not agree that any of the findings, either individually or collectively, rises to the level of a significant deficiency that would require treating the matter as an additional material weakness in accordance with OMB M-14-04. The OMB memorandum defines a "significant deficiency…as a weakness in an agency's overall information systems security program...that significantly restricts 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. In this context, the risk is great enough that the agency head and other agencies must be notified and immediate or near-immediate action must be taken." The Department's management has defined corrective actions for the applicable weaknesses cited by the OIG, and will address each in a prioritized manner based upon the risk and impact posed to the Department's security posture. Through these activities, the Department continues to improve its information system documentation, policies, and procedures and to mitigate information security risks and weaknesses.

OTHER REGULATORY REQUIREMENTS

The Department is required to comply with a number of other legal and regulatory financial requirements, including the Improper Payment Elimination and Recovery Act, the Debt Collection Improvement Act, and the Prompt Pay 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, and collected 100 percent of amounts identified for recovery during the past two fiscal years. In addition, the Department does not refer a substantial amount of debts to Treasury for collection, and has successfully paid vendors timely 98 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.

AMERICAN RECOVERY AND REINVESTMENT ACT

Of the $787 billion appropriated for the American Recovery and Reinvestment Act (ARRA) of 2009, the Department of State received $562 million for projects and $2 million for Office of Inspector General oversight. The Department used ARRA funds to create and save jobs, repair and modernize domestic infrastructure crucial to the safety of American citizens, and expand consular services offered to American taxpayers. Details of the Department's ARRA implementation are posted on the website at *http://www.state.gov/recovery/*.

Construction Projects. In prior years, the Department completed a number of construction projects using ARRA funds. For example, the Department expanded its network of passport facilities to address public demand in previously underserved areas of the country ($15 million); opened new classrooms and installed new signage at the National Foreign Affairs Training Center ($5 million); and completed a domestic Enterprise Server Operations Center to provide for high availability, redundancy, disaster recovery, and capacity for the Department to achieve its goals in support of the Federal Data Center Consolidation Initiative ($120 million).

In FY 2013, environmental studies and master planning are near completion for the site identified as the preferred potential location of the Diplomatic Security Foreign Affairs Security Training Center ($70 million). This will provide a centralized location that supports security-related training for Department and other U.S. Government staff posted at U.S. embassies. Per OMB's direction, the Department is also conducting an alternate site analysis.

International Boundary and Water Commission (IBWC). ARRA funding ($220 million) accelerated the IBWC's modernization program by 20 years, remediating risks identified by geo-physical analysis suggesting that 60 percent of the levee system in high-priority areas was deficient. The IBWC projects are raising or making structural improvements to 237 miles of levees to ensure adequate protection and meet the Federal Emergency Management Agency's standards. At September 30, 2013, the construction is reported at 95 percent complete. The remaining IBWC work is expected to be fully completed by mid-year 2014.

Information Technology and Cybersecurity. In prior years, ARRA funding ($132 million) was used to deploy cybersecurity, information technology, and advanced telecommunications equipment. This equipment increased the integrity and resiliency of the Department's network, improved its ability to counter emerging threats, and significantly expanded its unclassified remote access and telework capabilities. No new activities took place during FY 2013.

Office of Inspector General. In prior years, funding ($2 million) permitted the Department's OIG to initiate 26 projects to assess Department and IBWC activities funded by ARRA. All OIG activities related to this funding concluded in July 2012 and no new activities took place during FY 2013.

The inside lobby of the Harry S Truman Building of the Department of State in Washington, D.C. where flags of every country with which the U.S. Government has diplomatic relations are on display. ***The DesignPond***

SECTION II:
Financial Section

Message from the Comptroller

I am pleased to present the Fiscal Year (FY) 2013 financial statements on behalf of the Department of State. The Department is firmly committed to delivering the highest standard of financial accountability and reporting in support of our critical foreign affairs mission. This Agency Financial Report (AFR) and the financial statements in the following pages represent the rigor and resolve to transparently communicate and demonstrate our effective management over the Department's finite financial resources. It is an informative and useful snapshot in time. More importantly, it embodies and reflects the immense work, drive for continuous improvement, and dedication displayed every day by our financial and management professionals in more than 270 locations and 180 countries around the globe.


James L. Millette

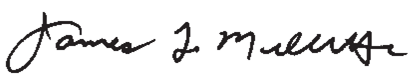
As highlighted in the Secretary's AFR message, the United States is faced with a broad range of foreign policy challenges that demand our attention: whether it's bringing stability to the Middle East and North Africa, deepening the rebalance to Asia, completing the transition in Afghanistan, tackling climate change, or promoting good governance and human rights. The scale and complexity of Department activities and corresponding financial management requirements are immense. Secretary Kerry has challenged us to improve our efficiency and effectiveness in tackling these and other challenges as we work to make the smart foreign policy investments now that increase America's prosperity and help avoid much costlier burdens down the road.

In support of these efforts, the Bureau of the Comptroller and Global Financial Services continues to prudently prioritize, manage, and implement vital investments in modern resource management systems that facilitate smart and standardized enterprise-wide financial business processes and accurate and timely financial data. We have emphasized our commitment to meet our day-to-day global financial services in disbursing, accounting, and compensation for the Department and other customer agencies by our commitment to ISO-9001 certified operations and the Capability Maturity Model Integration (CMMI) standard for financial systems development. At the same time, we strive to balance and meet the growing 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 ensure an environment of sound internal controls and strong performance on the annual external audit process and financial statements.

To that end, I am pleased to report that the Department has received an unmodified ("clean") audit opinion on its FY 2013 and 2012 Financial Statements, and with no material weaknesses identified by the Independent Auditor. As noted by the Independent Auditor, improvements were made in financial reporting and accounting for Foreign Service National after-employment benefits. At the same time, we remain committed to strong corporate governance and internal controls. The Department maintains a robust system of internal controls that are validated by senior leadership and administered by the Bureau of the Comptroller and Global Financial Services. For FY 2013, no material weaknesses in internal control were identified by senior leadership. A prior material weakness regarding the effective oversight of the Summer Work Travel Program for Student traveling to the United States for temporary and seasonal employment was downgraded to a significant deficiency given additional oversight and outreach steps taken by the Department over the last two years. In addition, no material weaknesses in internal control over financial reporting were identified by the Senior Assessment Team, the Management Control Steering Committee or senior leadership. As a result, the Secretary was able to provide reasonable assurance over 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.

I would like to express my sincere thanks and appreciation to the Department's financial management professionals, whose consistent efforts to plan, execute, and account for the Department's resources, often in the most challenging global environments, is the foundation for any success and financial stewardship. It has been a concerted and dedicated effort by all stakeholders involved, including the Department's Office of Inspector General and the Independent Auditor, Kearney & Company. The Department fully recognizes that there are a number of items noted in the AFR that will require our continued attention, diligence, and improvement. We are committed to addressing them. Given the global and complex nature of our financial operations, there will always be new concerns and opportunities for improvement. We are up to the task and resolved to continue to be efficient and effective stewards of the Department's resources in support of our vital foreign affairs mission and programs.

Sincerely,



James L. Millette
Comptroller
December 16, 2013

United States Department of State

The Inspector General

December 16, 2013

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Steve A. Linick

SUBJECT: Independent Auditor's Report on the U.S. Department of State 2013 and 2012 Financial Statements (AUD-FM-14-10)

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, 2013 and 2012, 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 2013 and 2012 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, 2013 and 2012, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America;

- no material weaknesses[1] in internal control over financial reporting; and

[1] A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

UNCLASSIFIED

- instances of reportable noncompliance with laws, regulations, contracts, and grant agreements tested, including instances in which the Department's financial management systems did not substantially comply with 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 Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements, dated December 12, 2013, 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.

KEARNEY& COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT
AUD-FM-14-10

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, 2013 and 2012, the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (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 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

KEARNEY& COMPANY

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, 2013 and 2012, 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.

Emphasis of Matters

As discussed in Note 1 to the financial statements, in FY 2013, the Department adopted new accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB)—specifically, Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, and Statement of Federal Financial Accounting Standards No. 43 – *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*. Additional information on the Department's asbestos cleanup costs is provided in Note 9, and additional information on the restatement of the FY 2012 financial statements due to the retrospective application of the dedicated collections standard is provided in Note 14. Our opinion is not modified with respect to these matters.

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 Schedule 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 FASAB, which consider it 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 it 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.

KEARNEY& COMPANY

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Financial Management Plans and Reports, the Management of Departmental Obligations, the Schedule of Spending, the Inspector General's Assessment of Management and Performance Challenges, the Management Challenges Response, the Summary of Financial Statement Audit and Management Assurances, and the Messages from the Secretary and the Comptroller are presented for purposes of additional analysis and are 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, we have also issued reports, dated December 12, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements for the year ended September 30, 2013. 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. 14-02 in considering the Department's internal control over financial reporting and compliance.

Kearney & Company

Alexandria, Virginia
December 12, 2013

KEARNEY& COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

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, 2013, and have issued our report thereon dated December 12, 2013. 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. 14-02, *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. 14-02. 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 preceding paragraphs 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 combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Department's internal control to be significant deficiencies.

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Significant Deficiencies

I. Financial Reporting

The Department compiled its financial statements through a multistep process using a combination of manual and automated procedures. Neither the Department's Global Financial Management System (GFMS) nor Hyperion, which is the system used to produce the proprietary trial balance, is used to fully compile the statements. The inability of the financial management system to track the necessary attributes related to financial reporting forces the Department to use a manual, labor-intensive process to develop its balance sheet, statement of net cost (SNC), statement of changes in net position, and statement of budgetary resources (SBR). The necessary data was extracted from multiple systems and source files and was sometimes manually keyed into crosswalk files or statement preparation templates (Microsoft Excel workbooks), which ultimately created the Department's financial statements. Manual adjustments require an increased measure of internal control and review, reduce the Department's ability to produce statements in a timely manner, and increase the likelihood of errors in the statements.

In our report on the Department's FY 2009 financial statements, we identified financial reporting as a material weakness. During FY 2010, the Department developed a corrective action plan to address selected control deficiencies and financial reporting risks surrounding the financial statement preparation process to reduce the material weakness. In FY 2011 and FY 2012, the audit process identified additional control deficiencies, which, when combined, resulted in a material weakness. In FY 2013, the Department addressed selected control deficiencies and improved underlying data, which reduced the risk associated with financial reporting. For example, the Department improved procedures relating to abnormal account balances and routine analytical reviews. Although the Department had made some improvements, not all issues were addressed, and so financial reporting continues to be a significant deficiency.

- Preparation of the Statement of Budgetary Resources – The SBR is predominantly derived from an entity's budgetary general ledger in accordance with budgetary accounting rules. Information on the SBR should reconcile with 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 United States Government to ensure the integrity of the numbers presented. We found that the Department had made numerous adjustments related to budgetary resources outside the financial system, most of which originated from automated calculations as well as manual journal entries. We identified a number of significant discrepancies in the adjustments made during the manual preparation of the Department's SF 133 workbooks.

  The Department did not use the full functionality of its accounting systems to capture all budgetary accounting events and automate SBR reporting procedures. In some cases, GFMS was not programmed to process certain budgetary transaction types in complete compliance with USSGL posting models. The manual nature of the process the Department used to compile its SBR was high risk and resource intensive.

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- Preparation of the Statement of Net Cost – The Department's SNC reports net costs by strategic goals based on the mapping of fund groups to individual strategic goals using data maintained in its accounting system. The mapping process originated in FY 2004, when the Department modified its Hyperion application to allocate costs and revenue among the Department's major programs based on its FY 2000 strategic goals. The Hyperion programming had not been updated to reflect the Department's current strategic goals. Therefore, in order to produce the SNC, the Department developed a multistep process using a combination of manual and automated procedures. The necessary data was extracted from multiple applications and source files. In FY 2013, the Department added an additional layer of manual mapping to allocate costs and revenues from the FY 2008 goals to the revised FY 2013 goals, which added to the complexity of the allocation methodology and SNC preparation.

  The Department did not take advantage of the full functionality of its accounting systems to capture cost accounting events and automate SNC reporting procedures. To automate the process, the Department would need to significantly reprogram the Hyperion application each time the Department's strategic goals were changed in order to align costs and revenues to the goals, which would require a commitment of time and resources. The manual and fragmented nature of the current allocation process for the compilation of the Department's SNC created a high risk of errors.

II. Property and Equipment

The Department reported over $17 billion in net property and equipment on its FY 2013 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 were initially reported in the audit of the Department's FY 2005 financial statements and subsequent audits. In FY 2013, 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 and disposal 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 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 and disposals were recorded in a timely and

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accurate manner. In addition, the Department's monitoring activities were not always effective to ensure proper financial reporting for personal property. The errors resulted in misstatements to the Department's 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.

- Recording Constructed Assets – The Department currently manages nearly $3 billion in overseas construction projects. All construction projects should be tracked in the Construction-in-Progress account until the project reaches completion. Once a construction project is complete, the Department transfers the asset to the real property asset account and the asset is depreciated over its estimated useful life. In FY 2013, we found that the Department had reclassified costs related to a large construction project that was completed in FY 2012. All costs relating to this project were incorrectly recorded as expenses during prior years. The Department used project codes to ensure construction activities were properly recorded; however, the unrecorded facility did not have a project code. The misclassification led to an understatement in property and an overstatement of expenses in the Department's financial statements.

  Operating Lease Disclosure – The Department manages over 15,600 real property leases throughout the world. The Department must disclose the future minimum lease payments (FMLP) related to the Department's operating lease obligations in the footnotes to the annual financial statements. We found numerous recorded lease terms that did not agree with supporting documentation and two leases that should have been capitalized but were inaccurately listed as operating leases. We also analyzed the Department's methodology for calculating the FMLP and found that the formulas did not sufficiently take into account payment escalations and inflationary adjustments. 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. In addition, the misclassification of two leases that met the Department's criteria for capitalization resulted in an understatement of assets and liabilities on the Department's balance sheet.

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 financial statements, we identified budgetary accounting as a significant deficiency. During FY 2013, 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:

- Unsupported Obligations – Obligations are definite commitments that will result in outlays, immediately or in the future. The Department should record only legitimate obligations, which would include a reasonable estimate of potential future outlays. We

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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 increased 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 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, approval, 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 financial statements were misstated.

- Effectiveness of Allotment Controls – Federal agencies use allotments to allocate funds in accordance with OMB apportionments or other 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. The Department's accounting systems did not have an automated control to prevent users from recording obligations that exceeded allotment amounts. Although the systems displayed a warning when users processed obligations in excess of allotted funds, users had the ability to override the warning. Overriding the allotment controls could lead to a violation of the Antideficiency Act and increased 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 not yet outlayed. 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 invalid ULOs amounting to approximately $243.7 million that

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had not been identified by the Department's review process. The current 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 sufficient to ensure that ULOs were consistently and systematically evaluated for validity and deobligation. As a result of the invalid ULOs, the Department's financial statements were misstated. In addition, funds that could have been used for other purposes might have remained in unneeded obligations. Weaknesses in controls over ULOs were initially reported in the audit of the Department's 1997 financial statements and subsequent audits.

V. Foreign Service Retirement and Disability Fund Data Inaccuracies and Timeliness

The Department's Foreign Service Retirement and Disability Fund (FSRDF) provides a variety of after-employment benefits to members of the Foreign Service, including active employees, retired annuitants, and surviving beneficiaries. The estimated liability for these benefits is calculated annually by an actuary for purposes of financial reporting and managing the FSRDF program. Annually, the Department provides certain data to the actuary, including information from its compensation and annuitant systems, to be used as the basis for the actuarial valuation. We identified errors in the data used for the FSRDF actuarial estimates, including specific amounts that had not been increased by allowable cost-of-living adjustments for several years. Further analysis by the Department and its actuary identified additional errors that also required correction.

Although the Department had implemented recurring data validation controls, these controls were ineffective in identifying and remediating the outdated annuitant information. The Department revalued its actuarial estimates to correct the understatement of liabilities that resulted from the outdated benefit information. The additional calculations and valuations required additional time and effort, which impacted the Department's ability to complete the FY 2013 reporting process in a timely manner.

VI. Information Technology

The Department's information technology (IT) internal control structure, both for the general support systems 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 significant deficiency since FY 2009.

In accordance with the Federal Information Security Management Act of 2002 (FISMA), the Office of Inspector General (OIG) performed a review of the Department's information security program for FY 2013.[1] Overall, OIG found that the Department had implemented an information security program and had made progress during FY 2013 to address IT deficiencies

[1] *Audit of the Department of State Information Security Program* (AUD-IT-14-03, Nov. 2013).

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identified in prior FISMA reports, but OIG continued to identify weaknesses in the risk management framework, plans of action and milestones, and the continuous monitoring program, which were collectively reported as a FISMA significant deficiency. A significant deficiency is the highest level of severity under FISMA.

The scope of our audit was focused primarily on deficiencies that could lead to significant misstatements of or corruption to the Department's financial data. Based on IT deficiencies noted with the general support systems, we developed additional risk-based audit procedures to substantively test financial management system inputs and outputs. Our procedures did not identify any material misstatements that were caused by general support system deficiencies. In addition, we tested and confirmed certain compensating controls that would mitigate some of the risks that were attributable to the general support system weaknesses. Although the Department had addressed certain deficiencies in its financial reporting applications, we noted other IT deficiencies reported in prior years that had not been addressed and identified an additional deficiency. Collectively, the deficiencies noted by OIG during the FISMA evaluation and by us during the financial statement audit are considered to be a significant deficiency within the scope of our financial statement audit. The deficiencies noted during the financial statement audit are summarized as follows:

- Segregation of Duties – A fundamental element of internal control is the segregation of certain key duties. The basic idea underlying segregation of duties (SoD) is that no one individual should control all key aspects of a transaction or event. We found instances of SoD violations and incompatible functions in the Regional Financial Management System/Momentum (RFMS/M), the Consolidated American Payroll Processing System, and the Global Foreign Affairs Compensation System (GFACS). Additionally, the Department had not designed and implemented sufficient SoD controls for the Global Employment Management System. Inadequate SoD contributes to an overall weakening of the internal control environment and increases the risk that errors and irregularities can occur and remain undetected.

- Monitoring Audit Logs for Financial Applications – Monitoring activities or events within an application is a key control that is performed to detect suspicious behavior or malfunctions. An audit log is an automated record that contains specific events or activities within an application in an electronic form. The audit log enables administrators to have regular visibility into user access or other activities in a manageable way. In FY 2012, we found that the Department did not regularly review audit logs and investigate significant events for certain financial systems, including GFMS, RFMS, GFACS, and the Foreign Service National Payroll System. In FY 2013, the Department developed corrective action plans to implement effective monitoring procedures for each application; however, these action plans were not fully executed to mitigate existing weaknesses. By not reviewing the audit logs on a regular basis, the Department did not have reasonable assurance that inappropriate access or changes to user accounts would be identified in a timely manner.

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- Alteration of Global Foreign Affairs Compensation System Annuitants Historical Data – GFACS Annuitants is an annuity payment application built from the Oracle PeopleSoft Human Resource Management System. The Oracle system provides users with the option to configure how transactional data is stored and changed. One configuration option is "correction mode," which allows a user to modify previously entered data—thus enabling the user to alter the historical records used to calculate payments. We identified three supervisors who had used the correction mode functionality to alter annuitants' historical records on multiple occasions. Therefore, GFACS Annuitants did not have sufficient historical records that could be used to track changes made to annuitant payments. In addition, we found that the Department had not implemented sufficient compensating controls to monitor the use of the correction mode, such as automated audit logs and periodic reviews by an independent party. The ability to alter historical annuitant pay records without adequate monitoring controls contributes to an overall weakening of the internal control environment and increases the risk that errors and irregularities can occur and remain undetected. Further, this situation could lead to fraudulent activity or impede an investigation if required as the original transactional data might no longer be available.

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.

Summary of Significant Internal Control Deficiencies

In the Report on Internal Control included in the audit report on the Department's FY 2012 financial statements,[2] we noted several issues that were related to internal control over financial reporting. The status of these issues are summarized in Table 1, in addition to issues identified in FY 2013.

[2] *Independent Auditor's Report on the U.S. Department of State 2012 and 2011 Financial Statements* (AUD-FM-13-08, Nov. 2012).

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Table 1. Summary of Significant Internal Control Deficiencies

Control Deficiency	FY 2012 Status	FY 2013 Status
Financial Reporting	Material Weakness	Significant Deficiency
Foreign Service National After-Employment Benefits	Significant Deficiency	Management Letter
Property and Equipment	Significant Deficiency	Significant Deficiency
Budgetary Accounting	Significant Deficiency	Significant Deficiency
Validity and Accuracy of Unliquidated Obligations	Significant Deficiency	Significant Deficiency
Foreign Service Retirement and Disability Fund Data Inaccuracies and Timeliness	Not Reported	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

Department's Response to Findings

Department management has provided its response to our findings in a separate memorandum attached to this report. 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. 14-02, in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
December 12, 2013

KEARNEY& COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE PROVISIONS OF 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, 2013, and have issued our report thereon dated December 12, 2013. 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. 14-02, *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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material impact on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02, 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. 14-02 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 reapportionment, or in excess of the amount permitted by agency regulations. Our audit procedures identified Department of the Treasury fund symbols with negative balances that were potentially in violation of the Antideficiency Act.

- *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

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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.

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. The results of our tests of compliance with FFMIA noted certain instances, as described, in which the Department's financial management systems and related controls did not substantially comply with certain Federal systems requirements, Federal accounting standards, and the USSGL at the transaction level.

Federal Financial Management Systems Requirements

- 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 identified weaknesses with computer security that it reported collectively as representing a significant deficiency.[3]
- Certain subsidiary systems, including property systems, were not integrated with the core accounting system. An audit trail from data in the core financial system to detailed source transactions in feeder systems was not always readily available.
- There were deficiencies with the Department's account management processes for key financial applications, including inadequate monitoring of user access and changes to user accounts. In addition, adequate segregation of duties was not fully maintained in certain financial systems.
- The Department records numerous and material manual adjustments on a monthly basis to align budgetary balances to proprietary amounts. Without these adjustments, budgetary and proprietary accounts would not be in balance.
- Interest was not always paid on overdue domestic and overseas payments.

Applicable Federal Accounting Standards

- The Department's core accounting system did not produce complete, auditable financial statements without significant manual adjustments.

Standard General Ledger at the Transaction Level

- The Department's statements of budgetary resources and net cost were subject to numerous adjustments that were made outside the core accounting system and that could not be traced directly to USSGL account balances.

The Department had not implemented and enforced systematic financial management controls to ensure substantial compliance with FFMIA. The Department had not executed remediation

[3] *Audit of the Department of State Information Security Program* (AUD-IT-14-03, Nov. 2013).

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plans to address all instances of noncompliance. The Department's ability to meet Federal financial management system requirements and produce complete financial statements from its core accounting system was hindered by systemic limitations in systems and processes.

Except as noted above, our tests of compliance with the provisions of selected laws, regulations, contracts, and grant agreements disclosed no other instances of noncompliance that would be reportable under the standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin No. 14-02.

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 attached to this report. 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. 14-02 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
December 12, 2013

United States Department of State

Washington, D.C. 20520

UNCLASSIFIED

December 15, 2013

MEMORANDUM

TO: OIG – Steve A. Linick

FROM: CGFS – James L. Millette

SUBJECT: Draft Audit Report on the Department of State's Fiscal Year 2013 and 2012 Financial Statements

This memo is in response to your request for comments on the Draft Report of the Independent Auditor, Report on Internal Control, and Report of Compliance and other Matters (Report) on the U.S. Department of State's Fiscal Year 2013 and 2012 Financial Statements.

The Department operates in over 270 locations and 180 countries and in many challenging environments. The scale and complexity of Department activities and corresponding financial management requirements are immense. We understand and appreciate this dynamic as we pursue an efficient, accountable, and transparent financial management platform that enhances the Department's foreign affairs mission. Part of our accountability is the indispensable discipline of the annual external audit process and the disclosure of the Department's annual financial statements. Few outside the financial community likely realize the time and effort that go into conducting the audit and producing the AFR, as we all work to demonstrate our commitment to strong financial management practices. It is a robust 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 the professionalism and commitment by all parties, including the Office of the Inspector General and Kearney & Company, to work together throughout the audit process. While we know there will always be new challenges and concerns given our global operating environment and the ever-expanding scope of compliance requirements, we believe the Independent Auditor's Report reflects 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 outlined in the Independent Auditor's Report, we are pleased that the Department has received an unmodified ("clean") audit opinion on its FY 2013 and 2012 Financial Statements, and with no material weaknesses identified by the Independent Auditor. As noted by the Independent Auditor, improvements were made in several areas including financial reporting and accounting for FSN after-employment benefits.

We remain committed to strong corporate governance and internal controls as demonstrated by our robust system of internal controls overseen by our Management Control Steering Committee (MCSC) and validated by the senior leadership. For FY 2013, no material weaknesses in internal control over financial reporting were identified by the Senior Assessment Team, the MCSC or senior leadership. As a result, the Secretary was able to provide reasonable assurance for the Department's internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act.

Thank you for the opportunity to comment on the Draft Report. I would also like to extend our thanks to your staff and Kearney & Company for the professional and collaborative manner in which the audit was conducted. We fully recognize that there are a number of items identified in the Draft Audit Report that will require our continued attention, action, and improvement. We will continue to direct focused efforts to resolve issues for all significant deficiencies in internal control identified by management and the Independent Auditor. We look forward to working with you 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 2012 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 Schedule of Budgetary Resources that provides additional information on amounts presented in the **Combined Statement of Budgetary Resources**, information on deferred maintenance, and condition of heritage assets held by the Department.

CONSOLIDATED BALANCE SHEET

(dollars in millions)

As of September 30,	Notes	2013	2012 Restated (Note 14)
ASSETS	2		
Intragovernmental Assets:			
Fund Balances With Treasury	3	$ 47,557	$ 44,223
Investments, Net	4	17,408	16,928
Interest Receivable		163	170
Accounts Receivable, Net	5	311	321
Other Assets	8	822	918
Total Intragovernmental Assets		66,261	62,560
Accounts and Loans Receivable, Net	5	194	141
Cash and Other Monetary Assets	6	155	143
Property and Equipment, Net	7	17,559	16,087
Other Assets	8	598	641
Total Assets		$ 84,767	$ 79,572
Stewardship Property and Equipment; Heritage Assets	7		
LIABILITIES	9		
Intragovernmental Liabilities:			
Accounts Payable		$ 247	$ 364
Other Liabilities		365	348
Total Intragovernmental Liabilities		612	712
Accounts Payable		2,123	2,429
After-Employment Benefit Liability	10	20,566	19,893
International Organizations Liabilities	11	1,909	1,425
Other Liabilities	9,12	1,185	968
Total Liabilities		26,395	25,427
Contingencies and Commitments	13		
NET POSITION			
Unexpended Appropriations—Funds From Dedicated Collections		—	—
Unexpended Appropriations—Other Funds		38,212	35,312
Cumulative Results of Operations—Funds From Dedicated Collections	14	286	282
Cumulative Results of Operations—Other Funds		19,874	18,551
Total Net Position		58,372	54,145
Total Liabilities and Net Position		$ 84,767	$ 79,572

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,	2013	2012
Countering Security Threats and Advancing Global Security		
Total Cost	$ 5,942	$ 7,115
Earned Revenue	(377)	(789)
Net Program Costs	5,565	6,326
Managing Transitions in the Frontline States		
Total Cost	2,130	1,491
Earned Revenue	(75)	(126)
Net Program Costs	2,055	1,365
Expanding and Sustaining Stable States through Democratic Principles		
Total Cost	11,338	11,475
Earned Revenue	(863)	(465)
Net Program Costs	10,475	11,010
Providing Humanitarian Assistance and Supporting Disaster Mitigation		
Total Cost	2,284	1,619
Earned Revenue	(1)	—
Net Program Costs	2,283	1,619
Supporting American Prosperity through Economic Diplomacy		
Total Cost	121	75
Earned Revenue	(21)	(31)
Net Program Costs	100	44
Advancing U.S. Interests through Public Diplomacy and Programs		
Total Cost	894	1,314
Earned Revenue	(177)	(304)
Net Program Costs	717	1,010
Achieving Consular Excellence and a Secure U.S. Presence Internationally		
Total Cost	5,411	5,637
Earned Revenue	(3,709)	(3,543)
Net Program Costs	1,702	2,094
Executive Direction and Other Costs Not Assigned		
Total Cost	3,615	3,704
Earned Revenue	(1,805)	(1,486)
Net Program Costs Before Assumption Changes	1,810	2,218
Actuarial Loss on Pension Assumption Changes (Notes 1 and 10)	360	770
Net Program Costs	2,170	2,988
Total Cost and Loss on Assumption Changes	**32,095**	**33,200**
Total Revenue	**(7,028)**	**(6,744)**
Total Net Cost	**$ 25,067**	**$ 26,456**

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,	2013			2012
	Funds From Dedicated Collections	All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ (2,072)	$ 20,905	$ 18,833	$ 17,603
Change in Accounting Principle Adjustments (Notes 9 and 14)	2,354	(2,510)	(156)	—
Beginning Balances, as adjusted	282	18,395	18,677	17,603
Budgetary Financing Sources:				
Appropriations Used	—	27,075	27,075	28,124
Non-exchange Revenue	4	37	41	70
Donations	14	—	14	19
Transfers in(out) without Reimbursement	45	(94)	(49)	20
Other Financing Sources:				
Donations	—	—	—	12
Imputed Financing from Costs Absorbed by Others	—	156	156	160
Non-entity Collections	—	(687)	(687)	(719)
Total Financing Sources	**63**	**26,487**	**26,550**	**27,686**
Net Cost of Operations	(59)	(25,008)	(25,067)	(26,456)
Net Change	4	1,479	1,483	1,230
Total Cumulative Results of Operations	**286**	**19,874**	**20,160**	**18,833**
Unexpended Appropriations				
Beginning Balances	$ —	$ 35,312	$ 35,312	$ 31,915
Budgetary Financing Sources:				
Appropriations Received	—	32,573	32,573	31,840
Appropriations Transferred in(out)	—	(197)	(197)	(94)
Rescissions and Canceling Funds	—	(2,401)	(2,401)	(225)
Appropriations Used	—	(27,075)	(27,075)	(28,124)
Total Budgetary Financing Sources	—	2,900	2,900	3,397
Total Unexpended Appropriations	**—**	**38,212**	**38,212**	**35,312**
Net Position	**$ 286**	**$ 58,086**	**$ 58,372**	**$ 54,145**

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,	2013	2012
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 17,481	$ 13,460
Adjustment to unobligated balance brought forward, October 1	(19)	(336)
Unobligated balance brought forward, October 1, as adjusted	17,462	13,124
Recoveries of prior year unpaid obligations	1,717	1,630
Other changes in unobligated balance (+ or -)	(477)	691
Unobligated balance from prior year budget authority, net	18,702	15,445
Appropriations (discretionary and mandatory)	31,467	31,772
Borrowing authority (discretionary and mandatory)	1	1
Contract authority (discretionary and mandatory)	—	—
Spending authority from offsetting collections (discretionary and mandatory)	10,394	10,315
Total Budgetary Resources	**$ 60,564**	**$ 57,533**
Status of Budgetary Resources:		
Obligations incurred	$ 38,691	$ 40,052
Unobligated balance, end of year:		
Apportioned	20,009	16,450
Exempt from apportionment	354	290
Unapportioned	1,510	741
Total unobligated balance, end of year	21,873	17,481
Total Budgetary Resources	**$ 60,564**	**$ 57,533**
Change in Obligated Balance:		
Unpaid obligations, brought forward, Oct 1 (gross)	$ 27,543	$ 27,235
Adjustments to unpaid obligations, start of year (+ or -)	148	336
Obligations incurred	38,691	40,052
Outlays (gross) (-)	(38,001)	(38,450)
Actual transfers, unpaid obligations (net) (+ or -)	—	—
Recoveries of prior year unpaid obligations	(1,717)	(1,630)
Unpaid obligations, end of year	$ 26,664	$ 27,543
Uncollected payments:		
Uncollected payments, federal sources, brought forward, October 1 (-)	(784)	(416)
Adjustment to uncollected payments, federal sources, start of year (+ or -)	—	—
Change in uncollected payments, federal sources (+ or -)	(88)	(368)
Actual transfers, uncollected payments from federal source (net) (+ or -)	—	—
Uncollected payments, federal sources, end of year (-)	$ (872)	$ (784)
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -)	$ 26,907	$ 26,819
Obligated balance, end of year (net)	$ 25,792	$ 26,759
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 41,862	$ 42,088
Actual offsetting collections (discretionary and mandatory) (-)	(10,327)	(9,947)
Change in uncollected customer payments from federal sources (discretionary and mandatory) (+ or -)	(88)	(368)
Budget authority, net (discretionary and mandatory)	$ 31,447	$ 31,773
Outlays, gross (discretionary and mandatory)	38,001	38,450
Actual offsetting collections (discretionary and mandatory) (-)	(10,327)	(9,947)
Outlays, net (discretionary and mandatory)	27,674	28,503
Distributed offsetting receipts (-)	(452)	(394)
Agency outlays, net (discretionary and mandatory)	**$ 27,222**	**$ 28,109**

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

Notes to the Principal Financial Statements

Organization

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

1 Summary of Significant Accounting Policies

Reporting Entity and Basis of Consolidation

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

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

Basis of Presentation and Accounting

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

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

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

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

Revenues and Other Financing Sources

Department operations are financed through appropriations, reimbursement for the provision of goods or services to other Federal agencies, proceeds from the sale of property, certain consular-related and other fees, and donations. In addition, the Department collects passport, visa, and other consular fees that are not retained by the Department but are deposited directly to a Treasury account. The passport and

Congress established the U.S. Department of State, the senior executive department of the United States Government, in 1789. As head of the Department, the Secretary of State is the President's principal advisor on foreign affairs, April 19, 2013. *©AP Image*

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 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 U.S. 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; and the U.S. Agency for International Development (USAID). In addition, the Department receives allocation transfers, as the child, from USAID.

Fund Balances with Treasury and Cash and Other Monetary Assets

The Fund Balances with Treasury are 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

Intergovernmental Accounts Receivable are due principally from other Federal agencies for ICASS services, reimbursable agreements, and Working Capital Fund (WCF) 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.

The Art Bank Program was established in 1984 to acquire artworks that could be displayed throughout the Department's offices and annexes. It includes "58th and Lindbergh" (2007), Larry Francis, gouache.

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 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 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 ADP 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
Automated Data Processing Equipment	3 to 6 years
Reproduction Equipment	3 to 15 years
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 leases 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 (FEGLIP). FEGLIP automatically covers eligible employees for basic life insurance in amounts equivalent to an employee's annual pay, rounded up to the next thousand dollars plus $2,000. The Department pays one-third and employees pay two-thirds of the premium. Enrollees and their family members are eligible for additional insurance coverage but the enrollee is responsible for the cost of the additional coverage.

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

Future Workers' Compensation Benefits

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

Foreign Service Retirement and Disability Fund

See Note 10, *After-Employment Benefit Liability*, for the Department's accounting policy for Foreign Service retirement-related benefits and the Actuarial Present Value of Projected Plan Benefits for the Foreign Service Retirement and Disability Program.

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.

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 Organization Liabilities

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

Contingent Liabilities

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

Net Position

The Department's net position contains the following components:

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

Cumulative Results of Operations – The cumulative results of operations include (1) the accumulated difference between revenues and financing sources less expenses since inception; (2) the Department's investment in capitalized assets financed by appropriation; (3) donations; and (4) unfunded liabilities, whose liquidation may require future congressional appropriations or other budgetary resources.

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

Foreign Currency

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

Fiduciary Activities

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

Use of Estimates

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

Comparative Data

Certain Fiscal Year 2012 amounts have been reclassified to conform to the Fiscal Year 2013 presentation.

Change in Accounting Principles

Dedicated Collections: SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, was issued by the FASAB on June 1, 2012. SFFAS No. 43 became effective for fiscal years beginning after September 30, 2012. The standard changes the term "earmarked funds" to "funds from dedicated collections" and defines a Fund from Dedicated Collections as funds that contain at least one source of funding external to the Federal Government. The standard excludes funds established to account for pensions, other retirement benefits, other postemployment or other benefits provided for federal employees and requires a restatement of the FY 2012 statements. As a result, the following funds were previously reported as Earmarked Funds and are now included in Other Funds on the Balance Sheet.

Treasury Fund Symbol	Description
19X5497	Foreign Service National Defined Contributions Fund
19X8186	Foreign Service Retirement and Disability Fund
19X8340	Foreign Service National Separation Liability Trust Fund
19X8341	Foreign Service National Separation Liability Trust Fund
19X8812	Gifts and Bequests, National Commission on Educational, Scientific and Cultural Cooperation

See Note 14 for additional information on *Funds from Dedicated Collections*.

Environmental Liability associated with Asbestos Cleanup: FASAB Technical Bulletins (TB) 2006-1, 2009-1, and 2011-2 became effective for fiscal years beginning after September 30, 2012. TB 2006-1 requires the recognition of a liability for the cleanup costs associated with friable and non-friable asbestos containing materials. The environmental liability for asbestos-related cost is reported on the Balance Sheet and on the Statement of Changes in Net Position as an adjustment to cumulative results of operations for prior period adjustments due to changes in accounting principles.

The Department has elected to recognize the estimated total cleanup cost as a liability upon implementation of TB 2006-1 as the majority of the Department's related property and equipment has been in service for a substantial portion of its estimated useful life. See Note 9.

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, 2013 and 2012, 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 Balances with Treasury

Fund Balances with Treasury at September 30, 2013 and 2012, are summarized below *(dollars in millions)*.

Fund Balances	2013	2012
Appropriated Funds	$ 45,451	$ 42,484
Revolving Funds	1,558	1,265
Trust Funds	379	324
Special Funds	153	149
Deposit & Receipt Accounts	16	1
Total	$ 47,557	$ 44,223

Status of Fund Balances	2013	2012
Unobligated Balances Available	$ 20,363	$ 16,740
Unobligated Balances Unavailable	1,510	741
Obligated Balances not yet Disbursed	25,668	26,741
Total Unobligated and Obligated	47,541	44,222
Deposit and Receipt Funds	16	1
Total	$ 47,557	$ 44,223

The Ambassador's residence in Hanoi, Vietnam was built in 1921. Its recent renovation preserves the property's historical integrity. The house was designed by M. LaCollonge, the facade is defined by tall windows, wrought iron balconies, and a high-style slate mansard roof punctuated with dormers. ***Department of State/OBO***

4 INVESTMENTS

SUMMARY OF INVESTMENTS

Investments at September 30, 2013 and 2012, are summarized below *(dollars in millions)*. All investments are classified as Intragovernmental Securities.

At September 30, 2013:	**Net Investment**	**Market Value**	**Maturity Dates**	**Interest Rates Range**	**Interest Receivable**
Non-Marketable, Par Value:					
Special Issue Securities	$ 17,364	$ 17,364	2014-2028	1.375%-6.500%	$ 163
Subtotal	17,364	17,364			163
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2015	0.250%	—
Eisenhower Exchange Fellowship Fund	8	8	2014-2019	3.000%-8.875%	—
Middle Eastern-Western Dialogue Fund	15	15	2013-2019	0.250%-1.250%	—
Gift Funds, Treasury Bills	16	16	2014-2017	0.750%-3.125%	—
Subtotal	44	44			—
Total Investments	$ 17,408	$ 17,408			$ 163

At September 30, 2012:	**Net Investment**	**Market Value**	**Maturity Dates**	**Interest Rates Range**	**Interest Receivable**
Non-Marketable, Par Value:					
Special Issue Securities	$ 16,893	$ 16,893	2013-2027	1.375%-5.875%	$ 170
Subtotal	16,893	16,893			170
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	4	4	2014-2016	0.250%-0.875%	—
Eisenhower Exchange Fellowship Fund	8	8	2013-2019	3.000%-8.875%	—
Middle Eastern-Western Dialogue Fund	15	15	2012-2019	0.250%-4.250%	—
Gift Funds, Treasury Bills	8	8	2012-2019	2.625%-3.625%	—
Subtotal	35	35			—
Total Investments	$ 16,928	$ 16,928			$ 170

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 U.S. 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 U.S. 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 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 U.S. Treasury to make future benefits 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 and Loans Receivable, Net at September 30, 2013 and 2012, are summarized here *(dollars in millions)*. All are entity receivables.

	2013			2012		
	Entity Receivables	Allowance for Uncollectible	Net Receivables	Entity Receivables	Allowance for Uncollectible	Net Receivables
Intragovernmental Accounts Receivable	$ 362	$ (51)	$ 311	$ 374	$ (53)	$ 321
Non-Intragovernmental Accounts and Loans Receivable	234	(40)	194	175	(34)	141
Total Receivables	$ 596	$ (91)	$ 505	$ 549	$ (87)	$ 462

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 FY 2013, net of allowance for uncollectible accounts, is $505 million. This balance consists of $362 million in Federal intragovernmental reimbursable agreements for providing goods and services to other Federal agencies. The $234 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 $232 million consist mainly of civil monitory fines and penalties and Value Added Taxes (VAT). Civil monitory 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 Athens, Greece Chancery was designed by one of the great masters of 20th Century architecture, Walter Gropius. The Department is currently planning a rehabilitation of the facility, and intends to upgrade the facility to meet modern standards, while maintaining the historic character of Gropius' original design. ***Department of State/OBO***

6 Cash and Other Monetary Assets

The Cash and Other Monetary Assets at September 30, 2013 and 2012, are summarized below *(dollars in millions)*. There are no restrictions on entity cash. Non-entity cash is restricted as discussed below.

	2013			2012		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
After-Employment Benefit Assets	$ 135	$ —	$ 135	$ 123	$ —	$ 123
Emergencies in the Diplomatic and Consular Service	5	—	5	5	—	5
Chancery Development Trust Accounts:						
Treasury Bills, at par	—	15	15	—	15	15
Unamortized Discount	—	—	—	—	—	—
Total	$ 140	$ 15	$ 155	$ 128	$ 15	$ 143

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 $135 million and $123 million as of September 30, 2013 and 2012, 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, 2013 and 2012, are shown in the following table *(dollars in millions)*.

	2013			2012		
Major Classes	**Cost**	**Accumulated Depreciation**	**Net Value**	**Cost**	**Accumulated Depreciation**	**Net Value**
Real Property:						
Overseas —						
Land and Land Improvements	$ 2,216	$ (51)	$ 2,165	$ 2,131	$ (52)	$ 2,079
Buildings and Structures	15,276	(5,683)	9,593	13,889	(5,232)	8,657
Construction-in-Progress	2,980	—	2,980	2,685	—	2,685
Assets Under Capital Lease	108	(39)	69	79	(29)	50
Leasehold Improvements	473	(281)	192	407	(249)	158
Domestic —						
Structures, Facilities and Leaseholds	1,191	(379)	812	1,121	(347)	774
Construction-in-Progress	184	—	184	222	—	222
Land and Land Improvements	81	(7)	74	81	(7)	74
Total — Real Property	22,509	(6,440)	16,069	20,615	(5,916)	14,699
Personal Property:						
Aircraft	842	(348)	494	929	(430)	499
Vehicles	1,007	(447)	560	913	(424)	489
Communication Equipment	27	(18)	9	30	(23)	7
ADP Equipment	135	(86)	49	106	(75)	31
Reproduction Equipment	11	(7)	4	12	(7)	5
Security	187	(74)	113	182	(64)	118
Software	404	(320)	84	388	(296)	92
Software-in-Development	98	—	98	66	—	66
Other Equipment	178	(99)	79	176	(95)	81
Total — Personal Property	2,889	(1,399)	1,490	2,802	(1,414)	1,388
Total Property and Equipment, Net	$ 25,398	$ (7,839)	$ 17,559	$ 23,417	$ (7,330)	$ 16,087

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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 eight separate collections of art and furnishings: the Diplomatic Reception Rooms Collection, the Art Bank Program, Art in Embassies Program, 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, and the Blair House. 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 Year Ended September 30, 2013

	Diplomatic Reception Rooms Collection	Art Bank Program	Art in Embassies Program	Cultural Heritage 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**
Acquisition and Withdrawal	Acquired through donation or purchase using donated funds. Excess items are sold.	Acquired through purchase.	Acquired through purchase or donation. Excess items are sold.	The program provides assessment, preservation, and restoration as needed.
Condition	Good to excellent	Good to excellent	Good to excellent	Good to excellent
Number of Assets - 9/30/2011	3,483	2,401	968	15,089
Acquisitions	11	51	25	2,633
Adjustments	(1,718)		(6)	
Disposals	9	1		852
Number of Assets - 9/30/2012	1,767	2,451	987	16,870
Deferred Maintenance - 9/30/2012	N/A	N/A	N/A	N/A
Acquisitions	14	22	73	606
Adjustments	14	2		629
Disposals	13	50	6	205
Number of Assets - 9/30/2013	1,782	2,425	1,054	17,900
Deferred Maintenance - 9/30/2013	N/A	N/A	N/A	N/A

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Secretary of State John Kerry shows NATO Secretary General Anders Fogh Rasmussen the desk on which the Treaty of Paris was signed in 1783 in the John Quincy Adams State Drawing Room at the Department of State in Washington, D.C., May 30, 2013.

Department of State

HERITAGE ASSETS *(continued)*
For the Year Ended September 30, 2013

	Library Rare & Special Book Collection	Secretary of State's Register of Culturally Significant Property	U.S. Diplomacy Center	Blair House
Description	Collectibles - Rare books and other publications of historic value	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
Acquisition and Withdrawal	Acquired through donation.	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.
Condition	Poor to good	Poor to excellent	Good to excellent	Good to excellent
Number of Assets - 9/30/2011	1,000	20	6,308	2,017
Acquisitions	40	5	527	9
Adjustments	32		(4,114)	584
Disposals	20		2	1
Number of Assets - 9/30/2012	1,052	25	2,719	2,609
Deferred Maintenance - 9/30/2012	N/A	$0	N/A	N/A
Acquisitions	13		107	
Adjustments			13	8
Disposals	4		12	1
Number of Assets - 9/30/2013	1,061	25	2,827	2,616
Deferred Maintenance - 9/30/2013	N/A	$1,737,000	N/A	N/A

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, 2013 and 2012, are summarized to the right *(dollars in millions)*.

	2013	2012
Intragovernmental Assets:		
Other Advances and Prepayments	$ 822	$ 918
Non-Intragovernmental Advances:		
Salary Advances	9	9
Travel Advances	12	13
Other Advances and Prepayments	562	608
Inventory	15	11
Total Other Assets	$ 1,420	$ 1,559

9 Other Liabilities

The Department's Other Liabilities at September 30, 2013 and 2012, are summarized below *(dollars in millions)*.

	2013			2012		
	Current	Non-Current	Total	Current	Non-Current	Total
Intragovernmental						
Deferred Revenue	$ 258	$ —	$ 258	$ 219	$ —	$ 219
Custodial Liability	60	—	60	87	—	87
Other Liabilities	47	—	47	42	—	42
Total Intragovernmental	365	—	365	348	—	348
Federal Employees Compensation Act Benefits	88	—	88	79	—	79
Capital Lease Liability	11	78	89	8	62	70
Accrued Salaries Payable	244	—	244	223	—	223
Contingent Liability	—	30	30	—	10	10
Pension Benefits Payable	59	—	59	58	—	58
Accrued Annual Leave	—	354	354	—	347	347
Funds Held in Trust and Deposit Accounts	—	15	15	—	15	15
Environmental Liability	—	156	156	—	—	—
Other Liabilities	148	—	148	153	—	153
Deferred Revenues	2	—	2	13	—	13
Subtotal	552	633	1,185	534	434	968
Total Other Liabilities	$ 917	$ 633	$ 1,550	$ 882	$ 434	$ 1,316

Environmental Liability associated with Asbestos Cleanup: The Department has estimated both friable, $18 million, and nonfriable, $138 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, 2013, consistent with the current guidance in 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.* See Note 1.

NOTE 9: Other Liabilities (continued)

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, 2013 and 2012, are summarized to the right *(dollars in millions)*.

Liabilities Not Covered by Budgetary Resources	2013	2012
Intragovernmental Liabilities		
Unfunded FECA Liability	$ 21	$ 20
Custodial Liability	60	87
Total Intragovernmental Liabilities	81	107
International Organizations Liabilities	1,261	1,100
After-Employment Benefit Liability:		
Foreign Service Retirment Actuarial Liability	2,592	2,423
Foreign Service Nationals (FSN):		
Defined Contributions Fund	135	123
Defined Benefit Plans	79	106
Lump Sum Retirement and Voluntary Services	285	230
Total After-Employment Benefit Liability	3,091	2,882
Accrued Annual Leave	354	347
Environmental Liability	156	—
Capital Lease Liability	89	70
Contingent Liability	30	10
Other Liabilities	71	174
Total Liabilities Not Covered By Budgetary Resources	5,133	4,690
Total Liabilities Covered By Budgetary Resources	21,262	20,737
Total Liabilities	$ 26,395	$ 25,427

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,	2013	2012
Foreign Service Officer		
Foreign Service Retirement and Disability Fund	$ 20,067	$ 19,434
Foreign Service Nationals		
Defined Contributions Fund	135	123
Defined Benefit Plans	79	106
Lump Sum Retirement and Voluntary Severance	285	230
Total FSN	499	459
Total After-Employment Benefit Liability	$ 20,566	$ 19,893

Details for these plans are presented as follows.

FOREIGN SERVICE RETIREMENT AND DISABILITY FUND

The Foreign Service Retirement and Disability Fund 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 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 cost percentages for FY 2013 and FY 2012.

Normal Cost:	FY 2013	FY 2012
FSRDS	38.85%	37.32%
FSPS	32.52%	31.15%

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, 2013 and 2012 *(dollars in millions)*.

For the Year Ended September 30,	2013	2012
Pension Actuarial Liability, Beginning of Year	$ 19,434	$ 18,219
Pension Expense:		
Normal Cost	528	498
Interest on Pension Liability	857	858
Actuarial (Gains) or Losses:		
From Experience	(188)	(53)
From Assumption Changes		
Interest Rate	500	742
Other Assumptions	(168)	46
Prior Year Service Costs	—	—
Other	(2)	(2)
Total Pension Expense	1,527	2,089
Less Payments to Beneficiaries	894	874
Pension Actuarial Liability, End of Year	20,067	19,434
Less: Net Assets Available for Benefits	17,475	17,011
Actuarial Pension Liability - Unfunded	$ 2,592	$ 2,423
Actuarial Assumptions:		
Rate of Return on Investments	4.25%	4.45%
Rate of Inflation	2.43%	2.46%
Salary Increase	2.68%	2.71%

Net Assets Available for Benefits at September 30, 2013 and 2012, consist of the following *(dollars in millions)*.

At September 30,	2013	2012
Fund Balance with Treasury	$ —	$ —
Accounts and Interest Receivable	185	190
Investments in U.S. Government Securities	17,364	16,893
Total Assets	17,549	17,083
Less: Liabilities Other Than Actuarial	74	72
Net Assets Available for Benefits	$ 17,475	$ 17,011

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 46,000, 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), Foreign Service Retirement and Disability System (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 local social security system (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 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 Department pays to the Fund 12 percent of each participant's salary. 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 together with investment returns from the contributions. The Department's obligation is determined by the amounts to be contributed 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 and funds in U.S. Treasury securities on behalf of the Department. Payroll contributions are sent to the third party administrator, while separation and retirement benefits are processed by the Department upon receipt of funds from the third party. As of September 30, 2013, approximately 10,000 FSNs in 29 countries participate in such plans.

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 FY 2013 and FY 2012 were $21.5 million and $26.9 million, respectively. Total liability reported for the FSN DCF is $135 million and $123 million as of September 30, 2013 and 2012, respectively.

Local Defined Contribution Plans

In 39 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 FY 2013 and FY 2012 were $20.8 million and $18.3 million, respectively.

Defined Benefit Plans

In 12 countries, involving over 3,400 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 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 Standard (IAS) No. 19, *Employee Benefits*. In accordance with IAS No. 19, the Department reported the net defined benefit liability of $79 million and $106 million as of September 30, 2013 and 2012, respectively, as an After-Employment Liability in the Consolidated Balance Sheet. As detailed below, the net defined benefit liability is comprised of the present value of the defined benefit obligation less the fair value of plan assets. The Department recognizes the change in the net defined benefit liability for its FSN defined benefit plans on the Consolidated Statement of Net Cost under the Executive Direction and Other Costs Not Assigned. The change was a decrease of $27 million and $34.9 million in FY 2013 and FY 2012, respectively.

The material FSN defined benefit plans include plans in Germany and the United Kingdom (UK) which represent 80 percent of total assets, 81 percent of total projected benefit obligations, and 84 percent of net defined benefit liability at September 30, 2013. The Germany Plan's most recent evaluation report, dated November 11, 2013, is as of August 31, 2013. The UK Plan's most recent evaluation, dated October 8, 2013, is as of April 6, 2013. The cost method used for the valuation of the liabilities associated with these plans is the Projected Unit Credit (PUC) actuarial cost method. For the Germany Plan, the change in the net defined benefit liability was a decrease of $39.5 million in FY 2013 and $3.7 million in FY 2012, while for the UK Plan, the change was a decrease of $11 million in FY 2013 and $21.9 million in FY 2012. For FY 2013, the decreases in the net defined benefit liability were primarily due a one-time employer deficit contribution of $39.7 million for the Germany Plan. The decrease in FY 2012 was due to a one-time employer deficit funding contribution of $54 million for the UK Plan. Adjustments from the date of the evaluation to September 30, 2013 were determined not to be necessary.

The tables below show the changes in the projected benefit obligation and plan assets during FY 2013 and FY 2012 for the Germany and UK plans *(dollars in millions)*.

Change in Benefit Obligations:	2013	2012
Benefit obligation beginning of year	$ 311	$ 288
Service Cost	3	2
Interest Cost	12	8
Actuarial (gain) loss on assumption change	—	5
Other actuarial (gain) loss	—	(2)
Value of New Benefit	—	12
Other	1	(2)
Benefit obligation end of year	$ 327	$ 311

Change in Plan Assets:	2013	2012
Fair value of plan assets beginning of year	$ 194	$ 147
Return on plan assets	19	3
Contributions less Benefits Paid	44	43
Other	3	1
Fair value of plan assets end of year	260	194
Net Defined Benefit Liability	$ 67	$ 117

The table below shows the allocation of plan assets by category during FY 2013 and 2012 for the German and UK plans.

	2013	2012
Insurance Policies	40%	31%
Equity Securities	26%	31%
Money Market and Cash	11%	15%
Debt Securities	22%	14%
Mixed (Debt & Equity Securities)	—	8%
Property	1%	1%
Total	100%	100%

The principal actuarial assumptions used for 2013 and 2012 for the Germany and UK plans are presented below:

Actuarial Assumptions:	2013	2012
Discount Rate	4.00 – 5.90%	4.00 – 5.87%
Salary Increase Rate	2.25 – 4.70%	2.25 – 5.40%
Pension Increase Rate	2.00 – 3.40%	2.00 – 3.47%

Retirement and Voluntary Severance Lump Sum Payments

In 72 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, 2013, approximately 23,000 FSN's participate in such plans.

The cost method used for the valuation of the liabilities associated with these plans is the Projected Unit Credit (PUC) actuarial cost method. The participant's benefit is first determined using both their projected service and salary at the retirement date. The projected benefit is then multiplied by the ratio of current service to projected service at retirement in order to determine an allocated benefit. The Projected Benefit Obligation (PBO) for the entire plan is calculated as the sum of the individual PBO amounts for each active member. Further, this calculation, requires certain actuarial assumptions be made, such as voluntary withdraws, assumed retirement age, death and disability, as well as economic assumptions. For economic assumptions, available market data was scarce for many of the countries where eligible posts are located. Due to the lack of creditable global market data, an approach consistent with that used for the September 30, 2013 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, 2013 and September 30, 2012 are:

	2013	2012
Discount Rate	3.66%	4.03%
Rate of inflation	2.43%	2.46%
Salary Increase	3.31%	2.71%

Based upon the projection, the total liability reported for the Retirement and Voluntary Severance Lump Sum Payment is $285 million and $230 million as of September 30, 2013 and 2012, respectively, as shown below *(dollars in millions)*:

At September 30,	2013	2012
Retirement	$ 89	$ 73
Voluntary Severance	196	157
Total	$ 285	$ 230

11 International Organization Liabilities

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

A liability is established for assessments received and unpaid and for pledges made and accepted by an international organization. Congress in the past has mandated withholding 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 Contributions to International Organizations, Contributions for International Peacekeeping Activities, and International Organizations and Programs 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, 2013 and 2012.

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

As of September 30,	2013	2012
Regular Membership Assessments Payable to UN	$ 795	$ 744
Dues Payable to UN Peacekeeping Missions	631	353
International Organization Liabilities	1,197	1,043
	2,623	2,140
Less Amounts not Authorized to be Paid	714	715
International Organization Liabilities	$ 1,909	$ 1,425
Funded Amounts	$ 648	$ 325
Unfunded Amounts	1,261	1,100
Total International Organization Liabilities	$ 1,909	$ 1,425

12 LEASES

The Department is committed to over 9,300 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 $89.7 million of the lease costs.

CAPITAL LEASES

The Department has various leases for overseas real property that meet the criteria for 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 term depending on 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 Leases and Future Minimum Lease payments as of September 30, 2013 and 2012 *(dollars in millions)*. Lease liabilities are not covered by budgetary resources.

	2013	2012
Net Assets Under Capital Leases:		
Buildings	$ 108	$ 79
Accumulated Depreciation	(39)	(29)
Net Assets under Capital Leases	$ 69	$ 50

Future Minimum Lease Payments:

2013

Fiscal Year	Lease Payments
2014	$ 11
2015	11
2016	13
2017	11
2018	10
2019 and thereafter	160
Total Minimum Lease Payments	216
Less: Amount Representing Interest	(127)
Liabilities under Capital Leases	$ 89

2012

Fiscal Year	Lease Payments
2013	$ 8
2014	8
2015	8
2016	8
2017	8
2018 and thereafter	156
Total Minimum Lease Payments	196
Less: Amount Representing Interest	(126)
Liabilities under Capital Leases	$ 70

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 1 year as of September 30, 2013 and 2012 for each of the next 5 years and in aggregate are as follows *(dollars in millions)*:

Year Ended September 30, 2013	Operating Lease Amounts
2014	$ 413
2015	301
2016	201
2017	115
2018	77
2019 and thereafter	232
Total Minimum Future Lease Payments	$ 1,339

Year Ended September 30, 2012	Operating Lease Amounts
2013	$ 487
2014	372
2015	268
2016	146
2017	93
2018 and thereafter	225
Total Minimum Future Lease Payments	$ 1,591

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 $1 to $37 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 2013 and 2012 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: The Department has operated three rewards programs for information that have been critical to combating international terrorism, narcotics trafficking, and war crimes for over 20 years. In FY 2013, the rewards program expanded to include the Transnational Organized Crime Rewards Program. This fourth program offers rewards targeting significant transnational organized crime figures not included under the existing reward authority.

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 under 22 U.S.C. 2708 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 $778 million. Under the programs, we have paid out $186 million since FY 2003. Reward payments are funded from Diplomatic and Consular Programs prior year expired, unobligated balances using available transfer authorities as necessary. In the opinion of management and legal counsel, no further contingent liability is required because probable payments do not materially affect the financial position or operations of the Department.

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.

Restatement of 2012 Consolidated Balance Sheet: As discussed in Note 1 'Change in Accounting Principles', changes to the classification of funds previously reported as "Earmarked" were required as part of the adoption of SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds.* As a result, in 2013, five of the Department's funds with assets of $18 billion that were previously reported as earmarked, are not considered to be funds from dedicated collections. As a result, the Consolidated Balance Sheet reflects $2.5 billion previously reported as Cumulative Results of Operations – Earmarked Funds to now be reported in Cumulative Results of Operations – Other Funds. Total Net Position remains unchanged. The new standard required that the 2012 amounts in the Consolidated Balance Sheet be restated for comparative purposes.

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 USC 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 USC 809, 1046
19X8822	Conditional Gift Fund	22 USC 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, 2013 and 2012 *(dollars in millions)*.

	2013	2012
Balance Sheet as of September 30		
Assets:		
Fund Balances with Treasury	$ 145	$ 149
Investments	44	35
Other Assets	97	98
Total Assets	**$ 286**	**$ 282**
Net Position:		
Cumulative Results of Operations	$ 286	$ 282
Total Liabilities and Net Position	**$ 286**	**$ 282**
Statement of Net Cost for the Year Ended September 30		
Gross Program Costs	$ 59	$ 51
Less: Earned Revenues	—	—
Net Program Costs	59	51
Net Cost of Operations	**$ 59**	**$ 51**
Statement of Changes in Net Position for the Year Ended September 30		
Net Position Beginning of Period	$ 282	$ 269
Budgetary Financing Sources	63	64
Net Cost of Operations	(59)	(51)
Change in Net Position	4	13
Net Position End of Period	**$ 286**	**$ 282**

15 Statement of Net Cost

The Consolidated Statement of Net Cost reports the Department's gross cost and net cost for its strategic goals. The net cost of operations is the gross (i.e., total) cost incurred by the Department, less any exchange (i.e., earned) revenue.

The Consolidating Schedule of Net Cost categorizes costs and revenues by strategic goal and responsibility segment. A responsibility segment is the component that executes a mission or major line of activity, and whose managers report directly to top management. For the Department, a bureau

CONSOLIDATING SCHEDULE OF NET COST

For the Year Ended September 30, 2013
(dollars in millions)

	Under Secretary for							
STRATEGIC GOAL	Arms Control, Int'l Security	Economic Growth, Energy and Environment	Civilian Security, Democracy and Human Rights	Political Affairs	Public Diplomacy and Public Affairs	Management-Consular Affairs	Intra-Departmental Eliminations	Total
Countering Security Threats and Advancing Global Security								
Total Cost	$ 509	$ 31	$ 955	$ 5,068	$ 34	$ —	$ (655)	$ 5,942
Earned Revenue	(71)	(7)	(53)	(876)	(2)	—	632	(377)
Net Program Costs	438	24	902	4,192	32	—	(23)	5,565
Managing Transitions in the Frontline States								
Total Cost	157	—	530	1,469	—	—	(26)	2,130
Earned Revenue	(3)	—	(8)	(90)	—	—	26	(75)
Net Program Costs	154	—	522	1,379	—	—	—	2,055
Expanding and Sustaining Stable States through Democratic Principles								
Total Cost	502	118	1,351	9,677	12	—	(322)	11,338
Earned Revenue	(62)	(11)	(98)	(1,002)	—	—	310	(863)
Net Program Costs	440	107	1,253	8,675	12	—	(12)	10,475
Providing Humanitarian Assistance and Supporting Disaster Mitigation								
Total Cost	—	—	2,222	93	10	—	(41)	2,284
Earned Revenue	—	—	(36)	(4)	—	—	39	(1)
Net Program Costs	—	—	2,186	89	10	—	(2)	2,283
Supporting American Prosperity through Economic Diplomacy								
Total Cost	—	—	—	131	—	—	(10)	121
Earned Revenue	—	—	—	(31)	—	—	10	(21)
Net Program Costs	—	—	—	100	—	—	—	100
Advancing U.S. Interests through Public Diplomacy and Programs								
Total Cost	26	8	43	168	820	—	(171)	894
Earned Revenue	(18)	(2)	(18)	(200)	(104)	—	165	(177)
Net Program Costs	8	6	25	(32)	716	—	(6)	717
Achieving Consular Excellence and a Secure U.S. Presence Internationally								
Total Cost	—	—	—	1,538	646	4,432	(1,205)	5,411
Earned Revenue	—	—	—	(419)	(146)	(4,307)	1,163	(3,709)
Net Program Costs	—	—	—	1,119	500	125	(42)	1,702
Executive Direction and Other Costs Not Assigned								
Total Cost	5	8	126	6,059	742	—	(3,325)	3,615
Earned Revenue	(4)	(5)	(90)	(4,445)	(534)	—	3,273	(1,805)
Net Program Costs Before Assumption Changes	1	3	36	1,614	208	—	(52)	1,810
Actuarial Loss on Pension Assumption Changes	—	—	6	316	38	—	—	360
Net Program Costs	1	3	42	1,930	246	—	(52)	2,170
Total Cost	1,199	165	5,233	24,519	2,302	4,432	(5,755)	32,095
Total Revenue	(158)	(25)	(303)	(7,067)	(786)	(4,307)	5,618	(7,028)
Total Net Cost	$ 1,041	$ 140	$ 4,930	$17,452	$ 1,516	$ 125	$ (137)	$25,067

(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).

Certain FY 2012 amounts in the Consolidated Statement of Net Cost have been reclassified to conform to the FY 2013 presentation.

The presentation of program results by strategic goals is based on the Department's current Strategic Plan, established pursuant to the Government Performance and Results Act of 1993. The Department's strategic goals and strategic priorities were updated in FY 2013 and are defined in Management's Discussion and Analysis section of this report.

Executive Direction and Other Costs Not Assigned relate to high-level executive direction (e.g., Office of the Secretary, Office of the Legal Adviser), international commissions, general management, and certain administrative support costs that cannot be directly traced or reasonably allocated to a particular program. For the years ended September 30, 2013 and 2012, these consist of costs and earned revenue summarized below *(dollars in millions)*:

	2013			2012		
Program	Total Prior to Eliminations	Intra-Departmental Eliminations	Total	Total Prior to Eliminations	Intra-Departmental Eliminations	Total
Costs:						
Executive Direction & Other	$ 2,727	$ 868	$ 1,859	$ 3,533	$ 1,148	$ 2,385
FSRDF	1,527	608	919	1,301	565	736
ICASS	2,546	1,848	698	2,244	1,800	444
International Commissions	140	1	139	140	1	139
Total Costs	6,940	3,325	3,615	7,218	3,514	3,704
Less Earned Revenue:						
Executive Direction & Other	1,060	830	230	1,080	1,046	34
FSRDF	1,359	608	751	1,355	565	790
ICASS	2,644	1,834	810	2,449	1,800	649
International Commissions	15	1	14	14	1	13
Total Earned Revenue	5,078	3,273	1,805	4,898	3,412	1,486
Actuarial Loss on Pension Assumption Changes	360	—	360	770	—	770
Total Net Cost for Executive Direction and Other Costs Not Assigned	$ 2,222	$ 52	$ 2,170	$ 3,090	$ 102	$ 2,988

PROGRAM COSTS

These costs include the full cost of resources consumed by a program, both direct and indirect, to carry out its activities. Direct costs can be specifically identified with a program. Indirect costs include resources that are commonly used to support two or more programs and are not specifically identified with any program. Indirect costs are assigned to programs through allocations. Full costs also include the costs of goods or services received from other Federal entities (referred to as inter-entity costs) regardless of whether the Department reimburses that entity.

Indirect Costs: Indirect costs consist primarily of Achieving Consular Excellence charges for central support functions performed in 2013 and 2012 under the Under Secretary for Management by the following organizations *(dollars in millions)*:

Bureau (or equivalent)	2013	2012
Bureau of Diplomatic Security	$ 1,890	$ 2,816
Office of Overseas Buildings Operations	1,471	1,627
Bureau of Administration	1,491	1,172
Bureau of the Comptroller and Global Financial Services	990	988
Bureau of Personnel	706	681
Bureau of Information Resource Management	508	580
Foreign Service Institute	223	221
Medical Services and Other	167	103
Total Central Support Indirect Costs	$ 7,446	$ 8,188

The totals for these support costs have been reduced as a result of the reclassification to conform to the current strategic goal presentation. These support costs were distributed to programs on the basis of a program's total base salaries for its full-time employees, as a percentage of total base salaries for all full-time employees, except for the Office of Overseas Buildings Operations (OBO). Since OBO supports overseas operations, its costs were allocated based on the percentage of budgeted cost by program for the regional bureaus. The distribution of support costs to programs in 2013 and 2012 was as follows *(dollars in millions)*:

Program Receiving Allocation	2013	2012
Countering Security Threats and Advancing Global Security	$ 566	$ 610
Managing Transitions in the Frontline States	297	302
Expanding and Sustaining Stable States through Democratic Principles	2,060	2,092
Providing Humanitarian Assistance and Supporting Disaster Mitigation	83	41
Supporting American Prosperity through Economic Diplomacy	23	24
Advancing U.S. Interests through Public Diplomacy and Programs	174	176
Achieving Consular Excellence and a Secure U.S. Presence Internationally	2,416	2,874
Executive Direction and Other Costs Not Assigned	1,827	2,069
Total	$ 7,446	$ 8,188

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 2013 and 2012 was as follows *(dollars in millions)*:

Under Secretary	2013	2012
Political Affairs	$ 14,573	$ 14,837
Management (Consular Affairs)	2,193	2,015
Public Diplomacy and Public Affairs	1,478	1,667
Arms Control, International Security Affairs	549	1,968
Civilian Security, Democracy, and Human Rights	1,258	712
Economic Growth, Energy and Environment	122	112
Total	$ 20,173	$ 21,311

Inter-Entity Costs and Imputed Financing: 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, 2013 and 2012 *(dollars in millions)*:

Inter-Entity Cost	2013	2012
Other Post-Employment Benefits:		
Civil Service Retirement Program	$ 39	$ 33
Federal Employees Health Benefits Program	116	126
Federal Employees Group Life Insurance Program	1	1
Litigation funded by Treasury Judgment Fund	—	—
Subtotal – Imputed Financing Source	156	160
Future Workers' Compensation Benefits	19	16
Total Inter-Entity Costs	$ 175	$ 176

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, 2013 and 2012, intragovernmental costs and earned revenues were as follows *(dollars in millions)*:

	2013	2012
Gross Cost		
Intragovernmental	$ 2,753	$ 3,190
With the Public	29,342	30,010
Total Gross Cost	32,095	33,200
Earned Revenue		
Intragovernmental	(2,792)	(3,272)
With the Public	(4,236)	(3,472)
Total Earned Revenue	(7,028)	(6,744)
Total Net Cost of Operations	$25,067	$26,456

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 all passport, visa, and other consular fees. Earned revenues for the years ended September 30, 2013 and 2012, consist of the following *(dollars in millions)*:

	2013			2012		
Program	Total Prior to Eliminations	Intra-Departmental Eliminations	Total	Total Prior to Eliminations	Intra-Departmental Eliminations	Total
Consular Fees:						
Passport, Visa and Other Consular Fees	$ 676	$ —	$ 676	$ 705	$ —	$ 705
Machine Readable Visa	1,672	—	1,672	1,473	—	1,473
Expedited Passport	173	—	173	164	—	164
Passport, Visa and Other Surcharges	787	—	787	768	—	768
Fingerprint Processing, Diversity Lottery, and Affadavit of Support	20	—	20	16	—	16
Subtotal – Consular Fees	3,328	—	3,328	3,126	—	3,126
FSRDF	1,359	608	751	1,355	565	790
ICASS	2,644	1,834	810	2,449	1,800	649
Other Reimbursable Agreements	3,352	1,896	1,456	4,631	2,743	1,888
Working Capital Fund	1,284	1,174	110	1,055	959	96
Other	679	106	573	270	75	195
Total	$ 12,646	$ 5,618	$ 7,028	$ 12,886	$ 6,142	$ 6,744

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 Foreign Service Retirement and Disability System (FSRDS) and the Foreign Service Pension System (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 2013 and 2012 were $350 million and $343 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) the FSRDS disbursements attributable to military service; and (4) the FSPS supplemental liability payment. The U.S. Government contributions for 2013 and 2012 were $333 million and $297 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2013 and 2012 were $675 million and $715 million, respectively.

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

16 Statement of Budgetary Resources

The 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, 2013 and 2012. 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, 2013 and 2012, the Department received approximately $60.6 billion and $57.5 billion in budgetary resources, respectively, primarily consisting of the following:

Source of Budgetary Resources *(dollars in billions)*	**2013**	**2012**
Budget Authority:		
Direct or related appropriations	$ 30.5	$ 30.7
Authority financed from Trust Funds	1.0	1.0
Spending authority from providing goods and services	10.4	10.3
Unobligated Balances – Beginning of Year	17.5	13.1
Other	1.2	2.4
Total Budgetary Resources	$ 60.6	$ 57.5

Apportionment Categories of Obligations Incurred
(dollars in millions)

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2013			
Obligations Apportioned Under			
Category A	$ 7,295	$ 1,347	$ 8,642
Category B	21,256	8,787	30,043
Exempt from Apportionment	6	—	6
Total	$ 28,557	$ 10,134	$ 38,691

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2012			
Obligations Apportioned Under			
Category A	$ 7,118	$ 3,523	$ 10,641
Category B	23,066	6,345	29,411
Exempt from Apportionment	—	—	—
Total	$ 30,184	$ 9,868	$ 40,052

Per OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, revised, Category A obligations represent resources apportioned for calendar quarters. Category B obligations represent resources apportioned for other time periods; for activities, projects, and objectives or for a combination, thereof.

STATUS OF UNDELIVERED ORDERS

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

The amount of budgetary resources obligated for UDO for all activities as of September 30, 2013 and 2012 was approximately $23.6 billion and $24.6 billion, respectively. This includes amounts of $1.1 billion for September 30, 2013 and $1 billion for September 30, 2012, 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 $174.5 million and $138.2 million for 2013 and 2012, respectively. The permanent indefinite appropriation provides payments to the Foreign Service Retirement and Disability Fund 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 STATEMENT OF BUDGETARY RESOURCES TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The reconciliation of the Statement of Budgetary Resources and the actual amounts reported in the Budget of the United States Government (Budget) as of September 30, 2012 is presented in the table below. Since these financial statements are published before the Budget, this reconciliation is based on the FY 2012 Statement of Budgetary Resources because actual amounts for FY 2012 are in the most recently published Budget (i.e., FY 2014). The Budget with actual numbers for September 30, 2013 will be published in the FY 2015 Budget and available in early February 2014. 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, 2012 ***(dollars in millions)***	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources (SBR)	$ 57,533	$ 40,052	$ 394	$ 28,109
Distributed Offsetting Receipts			(394)	394
Funds not Reported in the Budget:				
Expired Funds	(488)	—	—	—
International Assistance Program	(3,032)	(1,585)	—	(1,423)
Undelivered Orders Adjustment	(277)	—	—	—
Other and Rounding errors	(57)	85	—	97
Budget of the United States	$ 53,679	$ 38,552	$ —	$ 27,177

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 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 FY 2013 and FY 2012, the Department collected $45 million and $52 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)*	**2013**	**2012**
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 38,691	$ 40,052
Spending Authority from Offsetting Collections and Recoveries	(12,111)	(11,945)
Offsetting Receipts	(452)	(394)
Net Obligations	26,128	27,713
Imputed Financing	156	160
Other Resources	678	648
Total Resources Used to Finance Activities	**26,962**	**28,521**
Resources Used to Finance Items not Part of Net Cost:		
Resources Obligated for Future Costs - goods ordered but not yet provided	989	266
Resources that Finance the Acquisition of Assets	(2,468)	(2,311)
Resources that Fund Expenses Recognized in Prior Periods	(670)	(1,229)
Other	(14)	581
Total Resources Used to Finance Items not Part of Net Cost	**(2,163)**	**(2,693)**
Total Resources Used to Finance the Net Cost of Operations	**24,799**	**25,828**
Components of the Net Cost of Operations that will not require or generate Resources in the Current Period:		
Increase in Actuarial Liability	633	1,215
Passport Fees Reported as Revenue Returned to Treasury General Fund	(687)	(719)
Depreciation and Amortization	812	758
Interest Income of Trust Funds	(675)	(716)
Other	185	90
Total Components of the Net Cost of Operations that will not require or generate Resources in the Current Period	**268**	**628**
Net Cost of Operations	**$ 25,067**	**$ 26,456**

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 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 note.

Schedule of Fiduciary Activity

As of September 30,
(dollars in millions)

	2013				2012			
	19-X-6038	**19-X-6224**	**19-X-6225**	**Total**	**19-X-6038**	**19-X-6224**	**19-X-6225**	**Total**
Fiduciary Net Assets, Beginning of Year	$ 132	$ —	$ 1	$ 133	$ 220	$ 10	$ 1	$ 231
Contributions	—	—	146	146	—	—	49	49
Disbursements to and on behalf of beneficiaries	(29)	—	(146)	(175)	(88)	(10)	(49)	(147)
Increases/(Decreases) in Fiduciary Net Assets	(29)	—	—	(29)	(88)	(10)	—	(98)
Fiduciary Net Assets, End of Year	$ 103	$ —	$ 1	$ 104	$ 132	$ —	$ 1	$ 133

Fiduciary Net Assets

As of September 30,
(dollars in millions)

	2013				2012			
Fiduciary Assets	**19-X-6038**	**19-X-6224**	**19-X-6225**	**Total**	**19-X-6038**	**19-X-6224**	**19-X-6225**	**Total**
Cash & Cash Equivalents	$ 5	$ —	$ 1	$ 6	$ 9	$ —	$ 1	$ 10
Investments	98	—	—	98	123	—	—	123
Total Fiduciary Net Assets	$ 103	$ —	$ 1	$ 104	$ 132	$ —	$ 1	$ 133

Required Supplementary Information

COMBINING SCHEDULE OF BUDGETARY RESOURCES

For the Year Ended September 30, 2013 *(dollars in millions)*

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budgetary Resources:						
Unobligated balance brought forward, October 1	$ 8,610	$ 64	$ 91	$ 1,447	$ 7,269	$ 17,481
Adjustment to unobligated balance brought forward, October 1	(1)	—	—	(14)	(4)	(19)
Unobligated balance brought forward, October 1, as adjusted	8,609	64	91	1,433	7,265	17,462
Recoveries of prior year unpaid obligations	1,336	8	9	74	290	1,717
Other changes in unobligated balance	(36)	(5)	(1)	(268)	(167)	(477)
Unobligated balance from prior year budget authority, net	9,909	67	99	1,239	7,388	18,702
Appropriations (discretionary and mandatory)	13,555	3,386	113	1,436	12,977	31,467
Borrowing authority (discretionary and mandatory)	1	—	—	—	—	1
Contract authority (discretionary and mandatory)	—	—	—	—	—	—
Spending authority from offsetting collections (discretionary and mandatory)	10,280	—	12	63	39	10,394
Total Budgetary Resources	**$ 33,745**	**$ 3,453**	**$ 224**	**$ 2,738**	**$ 20,404**	**$ 60,564**
Status of Budgetary Resources:						
Obligations incurred	$ 23,196	$ 3,184	$ 142	$ 1,945	$ 10,224	$ 38,691
Unobligated balance, end of year:						
Apportioned	9,323	269	75	654	9,688	20,009
Exempt from apportionment	354	—	—	—	—	354
Unapportioned	872	—	7	139	492	1,510
Unobligated balance, end of year	10,549	269	82	793	10,180	21,873
Total Status of Budgetary Resources	**$ 33,745**	**$ 3,453**	**$ 224**	**$ 2,738**	**$ 20,404**	**$ 60,564**
Change in Obligated Balance:						
Unpaid Obligations:						
Unpaid obligations, brought forward, Oct 1 (gross)	$ 12,794	$ 156	$ 71	$ 1,324	$ 13,198	$ 27,543
Adjustments to unpaid obligations, start of year (+ or -)	(26)	—	—	14	160	148
Obligations incurred	23,196	3,184	142	1,945	10,224	38,691
Outlays (gross) (-)	(22,010)	(3,015)	(124)	(1,279)	(11,573)	(38,001)
Actual transfers, unpaid obligations (net) (+ or -)	—	—	—	—	—	—
Recoveries of prior year unpaid obligations (-)	(1,336)	(8)	(9)	(74)	(290)	(1,717)
Unpaid obligations, end of year (gross)	$ 12,618	$ 317	$ 80	$ 1,930	$ 11,719	$ 26,664
Uncollected payments:						
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	$ (680)	$ —	$ (3)	$ (1)	$ (100)	$ (784)
Adjustments to uncollected pymts, Fed sources, start of year (+ or -) (Note 28)	—	—	—	—	—	—
Change in uncollected customer payments from Federal sources (+ or -)	(102)	—	(4)	—	18	(88)
Actual transfers, uncollected payments from Federal source (net) (+ or -)	—	—	—	—	—	—
Uncollected customer payments from Federal sources, end of year (-)	$ (782)	$ —	$ (7)	$ (1)	$ (82)	$ (872)
Memorandum (non-add) entries						
Obligated balance, start of year (+ or -)	12,088	156	68	1,337	13,258	26,907
Obligated balance, end of year (+ or -)	11,836	317	74	1,928	11,637	25,792

(continued on next page)

COMBINING SCHEDULE 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)	$ 23,836	$ 3,386	$ 125	$ 1,499	$ 13,016	$ 41,862
Actual offsetting collections (discretionary and mandatory) (-)	(10,212)	—	(8)	(63)	(44)	(10,327)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(102)	—	(4)	—	18	(88)
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	—	—	—	—	—	—
Budget authority, net (discretionary and mandatory)	13,522	3,386	113	1,436	12,990	31,447
Outlays, gross (discretionary and mandatory)	22,010	3,015	124	1,279	11,573	38,001
Actual offsetting collections (discretionary and mandatory) (-)	(10,212)	—	(8)	(63)	(44)	(10,327)
Outlays, net (discretionary and mandatory)	11,798	3,015	116	1,216	11,529	27,674
Distributed offsetting receipts (-)	(452)	—	—	—	—	(452)
Agency outlays, net (discretionary and mandatory)	**$ 11,346**	**$ 3,015**	**$ 116**	**$ 1,216**	**$ 11,529**	**$ 27,222**

DEFERRED MAINTENANCE FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

The Department occupies more than 3,014 government-owned or long-term leased real properties at more than 270 overseas locations and IBWC. It uses a condition assessment survey method to evaluate the asset's condition, and determine the repair and maintenance requirements for its overseas buildings and IBWC properties.

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, requires that deferred maintenance (measured using the condition survey method) and the description of the requirements or standards for acceptable operating condition be disclosed. 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.

From a budgetary perspective, funding for maintenance and repair has been insufficient in the past. As a result, the Department has identified current maintenance and repair backlogs of $148 million in 2013 and $143 million in 2012 for buildings and facilities-related equipment and heritage assets that have not been funded.

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, 2013

Category	Number of Assets	Condition
Diplomatic Reception Rooms Collection	1,782	Good to Excellent
Art Bank Program	2,425	Good to Excellent
Art in Embassies Program	1,054	Good to Excellent
Cultural Heritage Collection	17,900	Good to Excellent
Library Rare & Special Book Collection	1,061	Poor to Good
Secretary of State's Register of Culturally Significant Property	25	Poor to Excellent
U.S. Diplomacy Center	2,827	Good to Excellent
Blair House	2,616	Good to Excellent

U.S. Secretary of State John Kerry, right, with young alumni of State Department programs looks at the 14th Century Tomb of Muslim rulers during their walk at Lodhi Gardens, in New Delhi, India, June 24, 2013. *©AP Image*

SECTION III:

Other Information

Schedule of Spending

The 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 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 Schedule of Spending.

The Department's total resources for the year ended September 30, 2013, were $60.6 billion. During FY 2013, the Department spent $38.7 billion of these resources as summarized below *(dollars in millions)*.

SCHEDULE OF SPENDING

For the Year Ended September 30, 2013 ***(dollars in millions)***

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
What Money is Available to Spend?						
Total Resources	$ 33,745	$ 3,453	$ 224	$ 2,738	$ 20,404	$ 60,564
Less Amount Available but Not Agreed to be Spent	9,677	269	75	654	9,688	20,363
Less Amount Not Available to be Spent	872	—	7	139	492	1,510
Total Amounts Agreed to be Spent	$ 23,196	$ 3,184	$ 142	$ 1,945	$ 10,224	$ 38,691
How was the Money Spent/Issued?						
Personnel Compensation & Benefits	$ 6,922	$ —	$ 25	$ 9	$ 274	$ 7,230
Contractual Services & Supplies	11,391	—	47	1,170	1,500	14,108
Acquisition of Assets	1,759	—	29	6	70	1,864
Grants and Fixed Charges	1,704	3,175	32	674	8,076	13,661
Other	1,420	9	9	86	304	1,828
Total Amounts Agreed to be Spent	$ 23,196	$ 3,184	$ 142	$ 1,945	$ 10,224	$ 38,691

Inspector General's Assessment of Management and Performance Challenges

The Reports Consolidation Act of 2000 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:

Deputy Inspector General, Harold W. Geisel

1. Protection of People and Facilities
2. Contract and Procurement Management
3. Information Security and Management
4. Financial Management
5. Military to Civilian-Led Transitions—Iraq and Afghanistan
6. Foreign Assistance Coordination and Oversight
7. Public Diplomacy
8. Consular Operations
9. Leadership
10. Rightsizing

1 Protection of People and Facilities

Protecting Department employees and facilities overseas remains a significant management challenge. An OIG audit of five high-threat overseas posts found that they were not always in compliance with physical and procedural security standards.[1] A separate audit examined whether selected embassies in Africa complied with current physical security standards.[2] Here too, OIG identified common physical and procedural security deficiencies. Some deficiencies occurred because embassies did not receive the resources necessary to address known deficiencies while awaiting relocation to new embassy compounds, leaving them vulnerable for three or more years during construction. In addition, OIG found that some personnel were permanently located in off-compound facilities that did not meet physical security standards.

The tragic loss of life in Benghazi underscored a significant challenge the Department faces when considering when to open and close diplomatic facilities and whether to maintain diplomatic facilities in certain locations at all. When assessing risk, the Department must consider not only the benefit of having a presence, but also the threat environment, mitigating measures and cost, and the willingness and ability of the host nation to provide security support under terms of the Vienna Convention. Recent OIG recommendations highlight this challenge.[3]

The Department established a High Threat Post (HTP) directorate in the Bureau of Diplomatic Security. The Department will need to review continually the designation of HTPs, noting emergent conditions that significantly change the risk of operating there. Identifying high-threat posts is not enough, however. The Department also needs to accelerate security upgrades at high-threat posts. Several OIG reports over the past decade recommended needed physical security upgrades; the Department has implemented some but not all of these recommendations.

2 Contract and Procurement Management

The Department continues to face challenges with the proper management, oversight, and accountability of contracts and procurements, including grants and cooperative and interagency agreements.

1 *Audit of Department of State Compliance With Physical and Procedural Security Standards at Selected High Threat Level Posts* (AUD-SI-13-32, June 2013).

2 *Audit of Department of State Compliance with Physical Security Standards at Selected Posts within the Bureau of African Affairs* (AUD-HCI-13-40, September 2013).

3 *Special Review of the Accountability Review Board Process* (ISP-I-13-44A) (ISP-S-13-44A).

Department procurement activities, which increased from $1.8 billion in FY 2001 to $8.2 billion in FY 2012, are largely directed by the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM). A/LM/AQM charges bureaus and offices a one-percent fee to administer contracts and grants; a fee intended to provide improved services. OIG found that while A/LM/AQM had used some of these fees as intended,[4] at least $26 million was used to subsidize other activities. In addition, A/LM/AQM did not have a mechanism to track procurement goals. Without measuring performance, A/LM/AQM cannot assess whether it is providing improved services.

An OIG audit of Task Order 5 of the Worldwide Protective Services contract in Baghdad determined that the contracting officer's representative (COR) approved contractor invoices totaling $1.8 million that included unallowable, unsupported, or erroneous costs because the COR had not verified the contractor's invoices against supporting documentation or had not verified that contract goods and services had been received. OIG also found that the Department had not analyzed staffing requirements prior to awarding the task order, resulting in extraneous staffing. The Department took action to de-scope the task order, enabling it to save and put to better use approximately $362 million over the life of the contract.[5]

Proper closeout of grants is the critical final step in the grant life cycle and is an essential part of the grants oversight process. Although the Department had updated and reinforced closeout procedures, OIG found that three bureaus were responsible for 865 of 955 expired grants, totaling $67.4 million in unspent funds that had not been closed. OIG sampled 51 of 865 grants and determined that, if proper closeout procedures were applied, the Department could put $9.4 million in unspent funds to better use.[6]

OIG inspections continue to find shortcomings in the design and oversight of information technology contracts. In some cases, contractors perform inherently governmental functions. OIG also found instances of poor oversight. For example, FSI used time and materials task orders awarded against five blanket purchase agreements to support its system modernization projects. These task orders reduced the contractors' incentive to perform in a timely manner and to control costs. OIG also found that the Bureau of Information Resources Management, Office of Information Assurance (IRM/IA) lacked adequate controls to monitor its contracts, task orders, and blanket purchase agreements, valued at $79 million.

3 Information Security and Management

The Department still faces difficulties meeting the requirements of the Federal Information Security Management Act of 2002 (FISMA) and implementing a fully effective information security management program. During the FY 2013 FISMA audit, OIG determined that the Department had not effectively implemented the National Institute for Standards and Technology requirements for risk management, continuous monitoring management, account management and remote access, or the FISMA and Office of Management and Budget (OMB) requirements for a Plan of Actions and Milestones process. These conditions have existed over several years and OIG considers the collective security weaknesses a significant deficiency.

In FY 2013, OIG found that the Department had not effectively followed and administered proper classification policies and procedures as required by Executive Order 13526, "Classified National Security Information." Specifically, the Department overstated—by as many as 2.4 million—the classification decisions reported in its annual submission to the National Archives and Records Administration, Information Security Oversight Office.[7]

OIG's inspections also found weaknesses in the management of information security. IRM/IA, established to address information security requirements outlined in Title III of the E-Government Act of 2002, was not fulfilling all of these requirements. The absence of a single bureau responsible for the information systems security officer program resulted in confusion and led to wasted resources.

4 *Audit of Department of State Application of the Procurement Fee to Accomplish Key Goals of Procurement Services* (AUD-FM-13-29, May 2013).

5 *Audit of Bureau of Diplomatic Security Worldwide Protective Services Contract – Task Order 5 for Baghdad Movement Security* (AUD-MERO-13-25, March 2013).

6 *Audit of Grant Closeout Processes for Selected Department of State Bureaus* (AUD-CG-13-31, June 2013).

7 *Evaluation of Department of State Implementation of Executive Order 13526, Classified National Security Information* (AUD-SI-13-22, March 2013).

IRM/IA's mishandling of the certification and accreditation process contributed to expired authorizations to operate 52 of the Department's 309 systems.

The re-emergence of multiple dedicated Internet network connections at overseas missions represents another information security deficiency.[8] A few years ago, the Department sought to improve information security by limiting the number of network connections at missions and issuing strict approval procedures for establishing such connections. However, OIG has seen a proliferation of dedicated Internet network connections, including 10 at one mission. These networks introduce additional vectors of attack for those who would seek to compromise U.S. Government networks.

Inspections of the Foreign Service Institute (FSI) and the Bureau of International Information Programs (IIP) highlighted the complexity of systems development.[9] At FSI, OIG found weaknesses in project management, contracting, and budgeting, all of which resulted in poor tracking of major application development costs and timelines. FSI did not ensure accountability through use of consistent control gates, decision points, and deliverables for projects ranging in cost from $500,000 to $23 million. Similarly, IIP did not track the cost of developing individual projects and was unable to provide OIG the amount of money spent. IIP also did not define the scope of various projects or user requirements.

Cloud computing is a continuing challenge. Although cloud computing is the Department's second highest information technology goal,[10] the Department has not yet made key decisions and promulgated standards related to its implementation. IRM's Systems and Integration Office, the lead office in the Department developing cloud technology, has developed a plan to implement cloud computing requirements by 2014. However, future progress by IRM's Systems and Integration Office depends on strategic and business requirements outlined by Department's senior officials.

4 Financial Management

The Department made progress in resolving financial management concerns but considerable challenges remain. In FY 2012, the Department took steps to address a potentially material issue related to after-employment benefits for locally employed staff that had led to a qualified opinion on its FY 2011 financial statements. These actions resulted in the restatement of FY 2011 Foreign Service National after-employment balances, and the Department received an unqualified opinion on its FY 2012 and FY 2011 financial statements. These corrective actions reduced the risk of significant misstatements, but several deficiencies remained, including an inaccurate list of posts with after-employment plans and inaccurate personnel information. The audit also identified other serious concerns related to financial reporting, property and equipment, budgetary accounting, un-liquidated obligations, and information technology.[11]

Improper payments represent another management challenge. OIG reported[12] that the Department had taken steps to prevent improper payments, such as performing risk assessments for programs with significant changes, developing risk assessment policies, and considering qualitative risk factors. However, the methods the Department used to identify significant changes and to perform qualitative assessments needed improvement. The Department implemented internal controls to prevent, detect, and recapture improper payments and identified $11.1 million in improper payments in FY 2012, but it excluded a significant number of payments from its recapture audits.

OIG inspections determined that the Department has had some success using technology to lower costs. For example, e-mail, travel, procurement, and accounting systems now allow for remote and lower cost voucher processing. The Charleston Global Financial Service Center processes vouchers for $12 per strip code, well below the worldwide average of $34. More missions are using Charleston but OIG continues to identify missions that process their own vouchers even when there are lower cost options.

8 Dedicated Internet Networks are non-OpenNet Plus connections to the Internet.

9 *Inspections of the Bureau of International Information Programs* (ISP-I-13-28) and the *Foreign Service Institute* (ISP-I-13-22).

10 Department of State IT Strategic Plan, Fiscal Years 2011–2013.

11 *Independent Auditor's Report on the U.S. Department of State 2012 and 2011 Financial Statements* (AUD-FM-13-08, November 2012).

12 *Audit of Department of State FY 2012 Compliance With Improper Payments Requirements* (AUD-FM-13-23, March 2013).

5 Military to Civilian-led Transitions—Iraq and Afghanistan

The United States completed a transition from a military-led to a civilian-led presence in Iraq in December 2011 and is planning a similar transition in Afghanistan in 2014. The Department needs to apply lessons learned from the Iraq transition to the pending transition in Afghanistan.

Iraq: On January 1, 2012, the Department became solely responsible for the U.S. Mission–Iraq (USM–I) and its associated foreign policy goals, which are designed to foster a sustainable economy and stronger democracy in Iraq. Embassy Baghdad, the Bureau of Near Eastern Affairs, and the Bureau of the Comptroller and Global Financial Services have made substantial progress establishing consulates and other support facilities and sustaining programs and operations. Nonetheless, the Department continues to experience challenges sustaining and rightsizing USM–I as security remains volatile and the Iraqi government's commitment to the U.S. presence and its programs remains unclear for security. In 2012, USM–I required $3.38 billion solely for Iraq operations.[13]

In August 2013, OIG reported that USM–I had taken and planned significant steps to reduce the U.S. presence in Iraq by closing nine sites and reducing staff by 61 percent, from approximately 16,200 to 6,320.[14] In addition, USM–I ended a police development program that the Government of Iraq had not supported, and significantly reduced security assistance and cooperation activities. The process for determining staffing requirements did not include a systematic analysis that fully considered U.S. foreign policy priorities.[15] As a result, there is no assurance that the reduced staff of 6,320 would provide the proper number or skill mix of personnel needed to meet priorities while minimizing security risk and optimizing costs.

The Baghdad Master Plan was prepared to guide USM–I when it assumed facilities management responsibilities at military-operated facilities after the transition to a civilian-led mission. However, the plan was based on the continuation of the U.S. presence for approximately 16,200 staff and became obsolete as USM–I reduced its staffing. The Bureau of Overseas Buildings Operations has worked with USM–I to consolidate staff onto existing facilities in Baghdad and Erbil and to address infrastructure needs in Basrah. But the frequent rotation of construction project directors, a lack of consistent oversight, poor contractor performance, delays in material shipments, and weak coordination among projects have negatively affected construction quality and delayed critical security projects.

Afghanistan: The Department continues to face challenges in supporting and sustaining the civilian presence in Afghanistan as the U.S. military withdraws. OIG plans to report on the effectiveness of the Department's and Embassy Kabul's planning for the transition to a reduced U.S. military presence in Afghanistan in October 2013. OIG and the Special Inspector General for Afghanistan Reconstruction have reported that security remains a primary challenge. Low literacy levels and lack of basic vocational skills have hindered the development of the Afghan National Security Forces. The Department continues to face significant costs and security issues related to convoy protection and movement security and monitoring private security contractors. Most Afghanistan Infrastructure Fund projects are experiencing acquisition and funding delays, causing interruptions in project execution schedules. The uncertainty of the size and composition of the Afghan security forces over the next few years could result in inefficient and costly procurements if not closely managed.

A bilateral security agreement, which will outline the status and role of U.S. military forces after the North Atlantic Treaty Organization (NATO) combat mission ends December 31, 2014, has not been completed, and as of August 28, 2013, negotiations for the agreement were suspended. The completion of the agreement is necessary for the mission to plan for both the number and locations of staff outside Kabul since security issues greatly affect provincial operations. The Department will need to react quickly once decisions are made regarding the agreement and post-2014 U.S. or NATO troop levels.

Establishing additional facilities in Afghanistan increases the Department's costs as it becomes responsible for supplies and all services. Adequate oversight and monitoring of funds will be especially important as the transition takes place.

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[13] *Audit of the U.S. Mission Iraq Staffing Process* (AUD-MERO-13-33, August 2013).

[14] Ibid.

[15] *Inspection of Embassy Baghdad and Constituent Posts* (ISP-I-13-25A).

In addition, it will become steadily more difficult for both implementing and oversight agencies to monitor projects in Afghanistan, even as the United States plans to increase direct assistance to Afghanistan.

6 Foreign Assistance Coordination and Oversight

The Department continues to face obstacles in oversight and coordination of foreign assistance. OIG continues to find opportunities to coordinate assistance programs better.[16] For example, the U.S. Special Envoy for Sudan and South Sudan does not routinely coordinate its $10 million in programs with the embassy and other agencies. It is therefore unclear whether the programs duplicate or complement other programs in country valued at $1.2 billion. In Kyiv, there is no consolidated tally of U.S. Government spending on nonproliferation and related assistance. Assistance coordination in Rabat and Baghdad need strengthening. At some missions,[17] ambassadors make a concerted effort to inventory and coordinate all assistance programs. Although the Office of U.S. Foreign Assistance Resources' goal of coordinating all assistance programs has yet to be achieved, a recent OMB bulletin directing all agencies to report on their foreign assistance programs should further this effort.[18] The Office of U.S. Foreign Assistance Resources continues to improve a tracking system designed to inventory all State and USAID programs.

Identifying officers with the skills needed to oversee assistance programs has proven challenging. At four missions in 2013,[19] OIG found that officers overseeing foreign assistance did not have appropriate training or required certifications. Insufficient staffing prevented Embassies Juba and Khartoum from properly monitoring refugee and other humanitarian programs.[20] Embassy Baghdad failed to verify that Iraqi government employees attending Department-funded antiterrorism training remained in their positions for a minimum of two years, a condition designed to ensure that the $5 million in annual antiterrorism assistance builds host-country capacity. Four additional inspections recommended the Department develop more effective assistance monitoring plans.[21]

The Department has taken steps to better monitor and evaluate foreign assistance. In 2012, it issued guidance requiring bureaus to conduct periodic evaluations of their highest cost programs. In 2013, the Department awarded a contract to facilitate these evaluations. The Department also issued guidance requiring that certified grant officer representatives oversee all grants worth more than $100,000.[22]

Budget cuts, likely to continue in the future, highlight the importance of designing sustainable assistance programs. A number of OIG reports address this challenge.[23] In Khartoum, activities to further women's peace and security are unlikely to continue when U.S. funding runs out, significantly reducing the impact of this $470,000 grant. In Abuja, where the United States provided almost $480 million in AIDS assistance in 2012, the Nigerian government is not on track to meet funding commitments it made. In Baghdad, OIG noted that only three of 29 projects included cost-sharing provisions.

7 Public Diplomacy

Public diplomacy is an important diplomatic tool and is increasingly using social media. While the Department has embraced social media (all missions employ social media through Facebook, Twitter, or other media), more oversight is needed. OIG continues to find missions and bureaus that focus too much on raising fan numbers or general engagement statistics rather than specific public diplomacy goals.[24]

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16 *Inspections of Embassies Juba, South Sudan* (ISP-I-13-29A), *Kyiv, Ukraine* (ISP-I-13-45A), *Rabat, Morocco* (ISP-I-13-30A), and *Baghdad, Iraq* (ISP-I-13-25A).

17 *Inspection of Embassy Phnom Penh, Cambodia* (ISP-I-13-08A).

18 *Inspection of the Office of the Director of U.S. Foreign Assistance* (ISP-I-11-57), 1 FAM 033, March 2006 National Security Strategy; OMB Bulletin 12-01, Guidance on Collection of Foreign Assistance Data.

19 *Inspections of Embassies Baghdad, Iraq* (ISP-I-13-25A), *Bangui, Central African Republic* (ISP-I-13-13A), *Kyiv, Ukraine* (ISP-I-13-45A), and *Moscow, Russia* (ISP-I-13-48A).

20 *Inspections of Embassies Khartoum, Sudan* (ISP-I-13-37A) and *Juba, South Sudan* (ISP-I-13-29A).

21 *Inspections of the Office to Monitor and Combat Trafficking in Persons* (ISP-I-12-37), *Office of the Global AIDS Coordinator* (ISP-I-13-47), and *Embassies Manila, Philippines* (ISP-I-13-10A) and *Baghdad, Iraq* (ISP-I-13-25A).

22 *Grants Policy Directive Number 16, Revision 3.*

23 *Inspections of Embassies Bangui, Central African Republic* (ISP-I-13-13A), *Abuja, Nigeria* (ISP-I-13-16A), and *Baghdad, Iraq* (ISP-I-13-25A).

24 *Inspection of the Bureau of International Information Programs* (ISP-I-13-28).

The Bureau of International Information Programs spent $630,000 on two campaigns that succeeded in increasing the number of its English Facebook page fans. OIG found the bureau could reduce spending and increase its strategic impact by focusing advertising on specific public diplomacy goals. The Department's social media working group has recognized this challenge and endorsed "judicious and targeted use of paid advertising."[25] Recent guidance advocates "selective use of social media advertising" in a "strategically planned, well-targeted" campaign with preset goals and evaluation.[26]

A number of missions, bureaus, and functional bureaus use social media to discuss the same event. OIG raised concerns about duplication, cost effectiveness, and policy coordination. For example, in 2011 OIG recommended the Department clarify roles and responsibilities of various bureaus in clearing social media content.[27] The Department has not yet clarified these responsibilities.[28]

Management oversight of exchange visitor programs, especially the Summer Work Travel program, is a continuing challenge and a significant deficiency. The Bureau of Educational and Cultural Affairs has taken steps to provide better oversight.[29] OIG recommended additional measures in 2013[30] including requiring U.S. sponsors to disclose all sponsor fees charged to exchange visitors; conduct an annual independent audit of sponsors of all J visa programs; and submit a proposal to the Deputy Secretary of State for Management and Resources to determine the viability of ending or transferring its responsibility for physician, au pair, intern, teacher, and trainee categories.

8 Consular Operations

Demand for American visas has increased dramatically and slow visa processing can be detrimental to bilateral relations. Because of the positive impact foreign visitors have on U.S. travel and tourism industries, President Obama instructed the Department to increase its non-immigrant visa (NIV) processing capacity in Brazil and China by 40 percent over the ensuing year, and to ensure that 80 percent of NIV applicants were interviewed within three weeks of receipt of an application.[31] OIG inspected both operations. Embassy Brasilia met the President's goals by increasing staffing using first and second-tour officers and the limited non-career appointment (LNA) mechanism that hires language-qualified officials for 18-month periods.[32] The LNA mechanism allowed Embassy Brasilia to increase its workforce quickly and could prove helpful if immigration legislation is passed that requires additional visa adjudicators. Embassy Moscow has sufficient staff and resources to meet its visa workload, but has not met the three-week goal because consular managers have not adequately trained staff or monitored operations.[33]

The Department recently awarded a worldwide contract, valued at $2.8 billion over 10 years, to provide visa applicants with information, make appointments, collect biometrics and fees, and deliver documents. The contract is designed to improve customer service.[34] In Brazil, where contract payments could reach $186 million over six years, OIG found consular managers do not have access to contract documents and therefore cannot determine whether contractors were meeting service standards.[35]

9 Leadership

Maintaining excellence in the Department's top leadership positions remains a challenge. OIG identified significant leadership problems in two domestic bureaus in 2013. In the Bureau of International Information Programs, the front office created an atmosphere that lead to poor

25 *Social Media Working Group Report*, November 23, 2012, Memo for Tara Sonenshine.

26 13 State 06411 Social Media Guidance Cable #1: *Social Media Advertising.*

27 *Inspection of the Bureau of Near Eastern Affairs* (ISP-I-11-49A).

28 *Report of the Social Media Working Group*, DTD November 2012.

29 *Compliance Follow-up Review, Bureau of Educational and Cultural Affairs* (ISP-C-13-51).

30 Ibid.

31 *Executive Order 13597.*

32 *Inspection of Embassy Brasilia and Constituent Posts, Brazil* (ISP I-13-40A).

33 *Inspection of Embassy Moscow and Constituent Posts, Russia* (ISP-I-13-48A).

34 Ibid.

35 *Inspection of Embassy Brasilia and Constituent Posts, Brazil* (ISP-I-13-40A).

policy implementation, low morale, and wasteful practices, including potential problems with more than half the front office's travel vouchers.[36] The Bureau of Information Resource Management, Office of Information Assurance was not fulfilling its role of providing effective oversight of cybersecurity.[37]

OIG's FY 2013 overseas inspections generally found positive leadership but also identified deficiencies including failure to communicate goals, lack of feedback, and micromanagement.[38] In 2010 and 2012,[39] OIG sent memoranda to the Department aimed at improving mission leadership. The 2012 report stated that, while most ambassadors and deputy chiefs of mission were performing well, approximately 25 percent had weaknesses that negatively impacted effectiveness and morale. OIG recommended the Department institute a system to assess performance that included (1) a confidential survey of staff and (2) a provision that assistant secretaries follow up with corrective actions. Department officials are piloting such a system in the Bureau of South and Central Asian Affairs.[40] Such a system is particularly important because OIG inspection teams no longer produce evaluation reports on Department leaders during routine inspections.

10 RIGHTSIZING

OIG continues to find examples of the Department assigning tasks to overseas personnel when those tasks could be performed less expensively from the United States. Consequently, more employees and their families face security risks associated with being overseas. Annual costs for overseas positions average $232,000 more per person than domestic positions; establishing a new position overseas costs $361,547 more than establishing a new position domestically.[41]

In 2012, OIG found regional positions that the Department could eliminate or place in the United States or a more cost-effective location.[42] For example, 99 regional information management officer positions are located overseas to provide services requiring an immediate response. However, the majority of support they provide is routine or could be provided remotely from the United States. OIG recommended reducing these information management positions by 80 percent, which could yield more than $18 million annual cost savings. More importantly, the reductions could limit the risk to employees, including the eight posted to Cairo. Regional procurement agent salaries in Frankfurt are among the highest in the world; relocating those functions to a lower cost mission could save $1 million annually.

The OIG found no compelling reasons to maintain a consulate in Casablanca, less than 60 miles from Embassy Rabat. Embassy Rabat could absorb the workload and five positions could be eliminated, for a savings of more than $2.5 million per year. The Department could also forgo construction of a new consulate building in Casablanca, estimated at $170 million. OIG has recommended closing a number of consulates over the last five years. Reviewing potential consulate closures is a task associated with the Quadrennial Diplomacy and Development Review (QDDR) goal of "Working Smarter."[43] A list of potential consulate closures is under review in the Deputy Secretary's office.[44]

[36] *Inspection of the Bureau of International Information Programs* (ISP-I-13-28).

[37] *Inspection of the Bureau of Information Resource Management, Office of Information Assurance* (ISP-I-13-38).

[38] *Inspections of Embassies Khartoum, Sudan* (ISP-I-13-37A), *Rabat, Morocco* (ISP-I-13-30A), and *Bangui, Central African Republic* (ISP-I-13-13A).

[39] *Implementation of a Process to Assess and Improve Leadership and Management of Department of State Posts and Bureaus* (ISP-I-10-68), *Improving Leadership at Posts and Bureaus* (ISP-I-12-48).

[40] *Improving Leadership at Posts and Bureaus* (ISP-I-12-48) and *Compliance Analysis* 13 MDA 7772.

[41] *Inspection of Regional Information Management Centers* (ISP-I-13-14), The Bureau of Budget and Planning's FY 2014 New Position Cost Model.

[42] *Inspections of Regional Information Management Centers* (ISP-I-13-14), *Regional Procurement Support Offices, Frankfurt, Germany, and Fort Lauderdale, United States* (ISP-I-13-34), and *Regional Support Center Frankfurt, Germany* (ISP-I-13-32).

[43] Appendix I of the 2011 QDDR Implementation Guidance related to "Working Smarter".

[44] July 25, 2012 compliance correspondence related to ISP-I-11-64A.

Management's Response to Inspector General

In FY 2013, the Department of State's Office of Inspector General (OIG) identified management and performance challenges in the areas of: protection of people and facilities; contract and procurement management; information security and management; financial management; military to civilian-led transitions—Iraq and Afghanistan; foreign assistance coordination and oversight; public diplomacy; consular operations; leadership; and rightsizing. 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 Department employees and facilities overseas remains a significant management challenge.**
Actions Taken	In 2013, the Department formed and deployed Interagency Security Assistance Teams (ISATs) to survey 19 posts identified as "high-threat, high-risk" (HTHR). The ISATs assessed each HTHR post's operating environment, the host government's willingness and capabilities to protect the U.S. presence, and physical security posture and security assets. These reviews resulted in over 200 recommendations. These HTHR posts receive increased focus and attention on threat response, threat mitigation efforts, and security resources.
Actions Remaining	The Department will accomplish multiple projects in the near future. The Department intends to complete the remaining ISAT recommended actions; hire and deploy additional Diplomatic Security personnel; increase the number of Marine Security Guard detachments; deploy additional armored vehicles; conduct and complete perimeter security projects; upgrade compound access control points; design and construct post safe haven areas; and conduct research, development, and deployment of new security technologies.
2. CONTRACT AND PROCUREMENT MANAGEMENT	
Challenge Summary	**The Department continues to face challenges with the proper management, oversight, and accountability of contracts and procurements, including grants and cooperative and interagency agreements.**
Actions Taken	In 2013, the Bureau of Administration strengthened its grants management practices. The Department received a monthly report from GrantSolutions.gov which listed all grants ready for closeout. Grants officers and specialists then de-obligated funds and closed expired grants. The Department closed 186 of 955 expired grants in the last two years, resulting in the de-obligation of over $9 million.
Actions Remaining	The Department hired a new director to identify enhanced performance measurement practices and create a plan to implement them.
3. INFORMATION SECURITY AND MANAGEMENT	
Challenge Summary	**The Department still faces difficulties meeting the requirements of the Federal Information Security Management Act of 2002 and implementing a fully effective information security management program.**
Actions Taken	In 2013, the Department worked to identify, document, and finalize a risk management framework for information systems. Efforts continue to complete the full assessment and authorization (A&A) of all the classified and unclassified general support and related contractor systems, in accordance with National Institute of Standards and Technology's Special Publication 800-53, Revision 3.
Actions Remaining	The Department added two dedicated staff to the A&A team, and more dedicated staff will be added in 2014. The Department will communicate all information assurance requirements driven by changes in processes, tools, or templates. All classified and unclassified systems are slated to achieve full A&A.

4. FINANCIAL MANAGEMENT	
Challenge Summary	**The Department made progress in resolving financial management concerns but considerable challenges remain.**
Actions Taken	In FY 2013, the Department continued to improve the management of FSN after-employment benefits, including establishing a comprehensive inventory by country. With regard to financial reporting, the Department improved procedures relating to the review of abnormal account balances and routine analytical reviews. The Department also considerably increased the centralization of vouchering services from posts, and continued to improve its global financial platform to meet the Department's 21st Century diplomatic needs. At the same time, additional focus was directed at improving our improper payment processes. Specifically, the Department updated its policies and procedures, redefined its programs and activities to be in alignment with the manner that funding is received, performed a risk assessment of all programs and activities, and expanded the number and type of payments subject to recapture audits.
Actions Remaining	The Department will continue efforts at addressing concerns in property and equipment, budgetary accounting, and unliquidated obligations. The Department will also continue its efforts to modernize, standardize, and consolidate its global financial platform to improve our financial business processes and produce greater efficiencies and effectiveness.
5. MILITARY TO CIVILIAN-LED TRANSITIONS—IRAQ AND AFGHANISTAN	
Challenge Summary	**The Department continues to experience challenges sustaining and rightsizing U.S. Mission–Iraq (USM–I) as security remains volatile and the Government of Iraq's commitment to the U.S. presence and its programs remains unclear for security.**
Actions Taken	Overall staffing at USM–I was reduced from approximately 16,000 at the time of Departments of Defense-State transition in 2012 to approximately 6,000. OIG's August 2013 report, "Audit of U.S. Mission Iraq Staffing Process," concluded that the downsizing did not include a systematic analysis that fully considered U.S. foreign policy priorities. The Department disagreed with this conclusion and their response is included in an Appendix to the publication.
Actions Remaining	The Ambassador insists that all stakeholders actively participate in Iraq transition planning and hold agency heads accountable for the execution of their parts of the transition plans. Now that the transition is nearly complete, the Ambassador requested a right-sizing review, which will occur early in 2014.
Challenge Summary	**The Department continues to face challenges in supporting and sustaining the civilian presence in Afghanistan as the U.S. military withdraws.**
Actions Taken	The Department has established processes, based on lessons learned in Iraq and coordinated by a Transition Office in Embassy Kabul, designed to continuously review challenges related to supporting and sustaining U.S. civilian presence in an uncertain environment. As the Administration continues to review troop levels for a post-2014 security assistance mission, the Department has worked to ensure it has adequate funding to develop a viable civilian platform that supports whatever option the President may choose.
Actions Remaining	Security considerations will continue to impact decisions on civilian operations, affecting, among other issues, the costs and logistics associated with personnel movements and maintaining private contracts for security support. The planned U.S. Department of Defense train, advise, and assist mission will continue to shape the size and composition of the Afghan security forces.
6. FOREIGN ASSISTANCE COORDINATION AND OVERSIGHT	
Challenge Summary	**The Department continues to face obstacles in oversight and coordination of foreign assistance.**
Actions Taken	The Department's Bureau of Budget and Planning (BP) and Office of U.S. Foreign Assistance Resources (F), with USAID, coordinate the management of bureau and mission strategic and resource planning. Strategic planning is separate from and precedes resource planning to allow missions and bureaus to align their annual resource requests with achieving strategic goals. The strategies require collaboration across bureaus and among all U.S. agencies at posts to improve efficiency and coordination of efforts. BP, F, and USAID also conduct and/or manage additional ongoing reviews to inform resource decisions, such as data-driven reviews of agency priority goals, roundtables to learn about bureau programs and budget priorities, the annual collection of qualitative and quantitative foreign assistance performance data from missions worldwide, and a requirement that bureaus conduct evaluations of all large programs.
Actions Remaining	To strengthen the use of evidence in the oversight and coordination of foreign assistance programs, BP and F will augment the evaluation policy guidance to clarify the use of evaluation findings by appropriate Bureau officials to inform program decisions. Further, BP and F will consult with the QDDR office regarding the specification of program and project management guidelines, as well as capacity building for these activities, in the 2014 QDDR.

7. PUBLIC DIPLOMACY	
Challenge Summary	**Management oversight of exchange visitor programs, especially the Summer Work Travel program, is a continuing challenge and a significant deficiency.**
Actions Taken	The Department significantly reformed Summer Work Travel regulations and has greatly increased monitoring and oversight of the program in order to protect the health, safety, and welfare of participants and strengthen the program's core cultural purpose.
Actions Remaining	To further strengthen these reform efforts, the Department is considering further changes to the specific regulations. The Department is also considering the OIG recommendation to determine the appropriate oversight responsibility for the Exchange Visitor Program's physician, au pair, intern, teacher, and trainee categories.
8. CONSULAR OPERATIONS	
Challenge Summary	**Demand for American visas has increased dramatically and slow visa processing can be detrimental to bilateral relations.**
Actions Taken	The Consul General at one inspected post tasked the non-immigrant visa (NIV) unit to develop a plan to interview 1,200 visa applicants per day (increased from approximately 800 per day), plus adjudicate drop box cases, by the start of the Summer Work Travel peak visa season, which begins in Spring 2014. This plan requires evaluating workflow, officer and staff productivity, infrastructure limitations, and other factors. The Consul General at this post has already scheduled a strategy session for 2014 for all officers and NIV staff to evaluate the NIV process.
Actions Remaining	The Consul General at this one post tasked the organization to develop an updated internal website for posting of Consular policy notices, standard operating procedures, links to references and regulations, and calendars. The updated SharePoint site has recently been completed and is in the clearance process prior to launch. The Bureau of Consular Affairs is providing management training and its 1CA toolkit to Consular sections around the world. These sections are using the toolkit to implement the 1CA management framework and "leaning out" their workflows by removing steps that do not add value.
9. LEADERSHIP	
Challenge Summary	**Maintaining excellence in the Department's top leadership positions remains a challenge.**
Actions Taken	The Department has developed and field-tested a "Chief of Mission Survey" at nine posts in the Bureau of South Central Asia. Based on the results of this pilot program, the Department will adapt the survey deployment and data collection processes for fielding to 180 posts.
Actions Remaining	The Department intends to field the full survey early in 2014. Department Assistant Secretaries will receive the survey results and address areas of concern identified with the individual Chiefs of Mission.
10. RIGHTSIZING	
Challenge Summary	**OIG continues to find examples of the Department assigning tasks to overseas personnel when those tasks could be performed less expensively from the United States.**
Actions Taken	Management Policy, Rightsizing, and Innovation agreed to conduct a rightsizing review of Regional Information Management Centers. This review will provide a further analytical basis from which to make reasonable and rational staffing decisions.
Actions Remaining	Select bureaus have follow-up actions to address rightsizing concerns. For example, the Bureau of Near East Asia will further assess an OIG recommendation to close U.S. Mission operations in Casablanca, Morocco, and move those operations to the U.S. Embassy in Rabat.

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: **Yes**

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Financial Reporting	1	0	1	0	0
Total Material Weaknesses	**1**	**0**	**1**	**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**					
ECA Summer Work Travel Program	1	0	1	0	0	0
Total Material Weaknesses	1	0	1	0	0	0
CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	**Systems conform to financial system management requirements**					
Total Non-conformances	0	0	0	0	0	0

	AGENCY	AUDITOR
COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
1. System Requirements	No noncompliance noted	Noncompliance noted
2. Accounting Standards	No noncompliance noted	Noncompliance noted
3. USSGL at Transaction Level	No noncompliance noted	Noncompliance 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.

Consolidation: 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 by IPERA

The Improper Payments Information Act of 2002 (IPIA), Public Law No. 107-300, requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments. During FY 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 FY 2002 Defense Authorization Act, Public Law No. 107-107). IPERA significantly increases agency payment recapture efforts – by expanding the types of payments that can be reviewed and lowering the threshold of annual outlays that requires agencies to conduct payment recapture audit programs. IPERA defines significant improper payments as annual improper payments in a program that exceed both 2.5 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, AS AMENDED BY IPERA, 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. For example, the Embassy Security, Construction, and Maintenance Appropriation is comprised of several programs for Improper Payment reviews. Two examples include the Short-term Residential Lease and Construction programs. The Congressional Budget Justification represents the Department's annual funding request to the Congress and provides important information about the Department's programs and activities, organizational performance targets relating to the Department's Strategic Plan, and the resources needed to achieve the Department's performance goals.

The Department conducted a risk assessment of all programs and activities in FY 2013. Risk assessments of programs and activities involve an evaluation of the risk factors described in OMB Circular A-123 Appendix C, as well as consideration of the work performed in compliance with OMB Circular A-123 Appendix A, internal Department information regarding the operation of programs and activities, results of audits performed by the Office of Inspector General, the GAO, the Special Inspector General for Afghanistan Reconstruction, the Special Inspector General for Iraq Reconstruction, and other relevant information. In addition, during FY 2013 the Department expanded its methodology for conducting risk assessments by integrating results from the prior OIG review of IPERA recommendations, reviews conducted to meet compliance requirements with OMB Circular A-123 Appendix A, as well as with our FMFIA program. Based on this series of internal control review techniques, 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.

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.

OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS						
Agency Source	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PYs)	Amount Recovered (PYs)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
CGFS Office of Claims	$11.2 million	$9.9 million	$26.7 million	$26.0 million	$37.9 million	$35.9 million
OIG	$10.8 million	$10.8 million	$27.7 million	$27.7 million	$38.5 million	$38.5 million
CY=FY 2013, PYs=FY's 2012 and earlier						

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 IPERA efforts and ensure the integrity and accuracy of Department payments. The CGFS has established a two-tiered improper payment monitoring and review program that consists of activity performed by the Office of Claims (OC) and the Office of Oversight and Management Analysis (OMA). Improper payment reviews are performed initially by OC as an integral part of our post-payment review process, and secondly by OMA. 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 OC 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.

Overpayments Recaptured Outside of Payment Recapture Audits

Improper payment identification and collection are essential functions of the accounts payable process and the paying office's operations. As such, OC has established an internal debt management unit, whose primary mission is to identify and collect improper payments. Historically, this activity represented the majority of the Department's recapture results. However, starting in FY 2011 based on the revised IPERA guidance from OMB, it is classified and reported as overpayments recaptured outside of recapture payment audits activity. OC results represent the majority of the $41.1 million amounts shown as prior years' activity in the Payment Recapture Audit Reporting on the following page, while activity since 2011 has accumulated in the table above entitled Overpayments Recaptured Outside of Payment Recapture Audits.

During FY 2013, OC's efforts identified and confirmed transactions totaling $11.2 million of actual duplicate/improper payments, of which we recovered $9.7 million, in addition to collecting $205 thousand of the prior year unrecovered balance of $728 thousand. Thus, total amounts recovered in FY 2013 (i.e. current year) were $9.9 million. At the end of FY 2013, the Department has collected all but $1.5 million of the current year identified amount and $523 thousand of the prior years' identified amount, resulting in the cumulative outstanding balance of approximately $2 million. Additionally, the Office of Inspector General conducted investigations spanning a breadth of content, including fraud, embezzlement, bribery and kickbacks, false statements, and employee misconduct. Recoveries obtained as a result of OIG investigations are also presented in the table above.

Payment Recapture Audit Reporting

The OMA conducts a monthly query of domestic vendor payments. These payments represent the largest category of Department-made payments subject to IPERA 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, during FY 2013 OMA expanded the IPERA recapture audit procedures for the Department by including quarterly IPERA recapture audits of the Department's overseas payments subject to review. The CGFS approach

	PAYMENT RECAPTURE AUDIT REPORTING								
Program or Activity	**Type of Payment**	**Amount Subject to Review for Reporting (CY)**	**Actual Amount Reviewed and Reported (CY)**	**Amount Identified for Recovery (CY)**	**Amount Recovered (CY)**	**% of Amount Recovered out of Amount Identified (CY)**	**Amount Outstanding (CY)**	**% of Amount Outstanding out of Amount Identified (CY)**	**Amount Determined Not to be Collectable (CY)**
**combined*	Contracts	$10.8 billion	$10.2 billion	$2,253	$2,253	100%	$0	0%	$0

	PAYMENT RECAPTURE AUDIT REPORTING *(continued)*							
Program or Activity	**Type of Payment**	**% of Amount Determined Not to be Collectable out of Amount Identified (CY)**	**Amounts Identified for Recovery (PYs)**	**Amounts Recovered (PYs)**	**Cumulative Amounts Identified for Recovery (CY + PYs)**	**Cumulative Amounts Recovered (CY + PYs)**	**Cumulative Amounts Outstanding (CY+PYs)**	**Cumulative Amounts Determined Not to be Collectable (CY+PYs)**
**combined*	Contracts	0%	$41.1 million	$41.1 million	$41.1 million	$41.1 million	$0	$0
	CY=FY 2013, PYs=FY's 2012 and earlier							
	** Represents the collective amounts reviewed, identified, and recovered. The CY amounts identified and recovered are shown by individual program in the following three tables.*							

has incorporated 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. Grant payments made on behalf of the Department by the Department of Health and Human Services through their Payments Management System are not currently included in the automated analysis using IDEA due to system and data limitations.

Beginning in FY 2011, this activity represents the Department's recapture results, pursuant to revised IPERA guidance from OMB, as the Department concluded only this internal activity fits the definitions and purpose of the IPERA Recapture Audit program requirements. These results are presented in the table entitled Payment Recapture Audit Reporting.

For FY 2013, $10.2 billion in domestic payments and $600 million in overseas payments were subjected to recapture audits. Of those amounts, 116,945 domestic payments totaling $10.2 billion and overseas payments totaling $46 million were reviewed, resulting in the identification of 2 transactions totaling $2,253 as improper payments (that are not duplicative of the results first identified by the Office of Claims). The Department has collected all $2,253 of the current year identified amount, resulting in a recovery rate of 100 percent, in addition to recovering the prior year outstanding balance of $215. The recaptured funds were returned to the originating appropriation. The Department performs analysis to determine the cause of improper payments and has determined the primary reasons are linked to vendor billing issues and initial approval for payment. Increased quality control processes by OC in both the payment generation and internal post-payment review processes have contributed to lower improper recapture audit amounts. Specifically, the majority of improper payments identified through recapture audits has already been identified by the Office of Claims, and as such, are reported in the Overpayments Recaptured Outside of Payment Recapture Audits table.

The CGFS automated duplicate or improper payment program using the domestic payment file for recapture audit analysis has proven to be a cost effective tool. The domestic file presently includes the majority of payments

PAYMENT RECAPTURE AUDIT TARGETS							
Program or Activity	Type of Payment	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered / Amount Identified)	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	CY + 3 Recovery Rate Target
Diplomatic policy and support	Contract	$2,175	$2,175	100%	90%	90%	90%
ICASS	Contract	$78	$78	100%	90%	90%	90%

AGING OF OUTSTANDING OVERPAYMENTS				
Program or Activity	Type of Payment	CY Amount Outstanding (0-6 months)	CY Amount Outstanding (6 months to 1 year)	CY Amount Outstanding (over 1 year)
Diplomatic policy and support	Contract	$0	$0	$0
ICASS	Contract	$0	$0	$0

DISPOSITION OF RECAPTURED FUNDS							
Program or Activity	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
Diplomatic policy and support	Contract	$0	$0	$0	$2,175	$0	$0
ICASS	Contract	$0	$0	$0	$78	$0	$0

subject to IPERA requirements, such as domestic vendor payments. In 2005 and 2006, the Department contracted with an external firm to perform recapture audit activities. However, after 2006, the contracted firm determined it was not cost-effective to continue this function. CGFS realizes that additional recapture audit opportunities may exist and will continue to collectively assess areas of greater risk of improper and improper payments and implement recapture audit measures deemed cost-effective.

SENSITIVE PAYMENTS

The Department does not have programs determined risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. However, in addition to the required annual IPERA reviews, Departments are also encouraged to conduct reviews of programs and activities that are prone to misinterpretation or misapplication of Federal guidelines and various sensitive payment areas. Sensitive payments are those where the dollar amounts involved are usually not significant, but the public disclosure of improper payments may result in significant criticism of the agency. The Department has identified several areas of sensitive payments for review. They include: Premium Class Travel, Executive Compensation, Representation Costs, Speaking Honoraria and Gifts, Executive Perquisites, and the American Recovery and Reinvestment Act payments. Premium Class Travel and American Recovery and Reinvestment Act payments are reviewed annually, and the other areas are reviewed on a rotating schedule depending on their level of risk and sensitivity.

The Department performed elective procedures in FY 2013 to determine if improper payments were made in association with Premium Class Travel and American Recovery and Reinvestment Act payments.

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.

Beginning with FY 2006, the Department has annually selected a random sample and supporting documentation was reviewed. There have been no instances where evidence was found that a business class travel payment was unapproved and needed to be recovered, or where the travelers flying business class were found to be ineligible. However, there have been instances where proper supporting documentation was not readily available. Those errors represent an error rate of 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. During FY 2014, the Department will undertake efforts to correct the deficiencies noted during the FY 2013 review.

American Recovery and Reinvestment Act (ARRA) Reviews

The Department received $564 million in funding from the American Recovery and Reinvestment Act. The Department obligated these funds during FY 2009 and FY 2010 and expended the majority of the funding during fiscal years 2010 – 2012, making a concerted effort to expend the monies as quickly as possible to positively contribute to the facilitation of the country's recovery from the recent recession. Of the remaining work performed during FY 2013, a random sample of ARRA expenses was selected and supporting documentation was reviewed. As in the past years, all expenses were found to be appropriate, in compliance with the Department's policies regarding ARRA activity, and supported by adequate documentation.

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 FY 2013, the Department assessed $41 million in new penalties against three companies, and collected $37 million of outstanding penalties from six companies. In addition, the total outstanding balance due was reduced by $32 million as a result of adjustments associated with remedial compliance measures. The balance outstanding at September 30, 2013, was $58 million.

Debt Management

Outstanding debt from non-Federal sources (net of allowance) decreased from $111.7 million at September 30, 2012 to $81.3 million at September 30, 2013. Civil Monetary Penalties decreased by $28 million at September 30, 2013, 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),

U.S. Secretary of State John Kerry addresses his fellow foreign ministers at the outset of an ASEAN ministerial meeting in Bandar Seri Bagawan, Brunei Darussalam, July 1, 2013. *Department of State*

the Department referred $2.8 million to Treasury for cross-servicing in FY 2013. Of the current and past debts referred to Treasury, $1.1 million was collected in FY 2013.

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

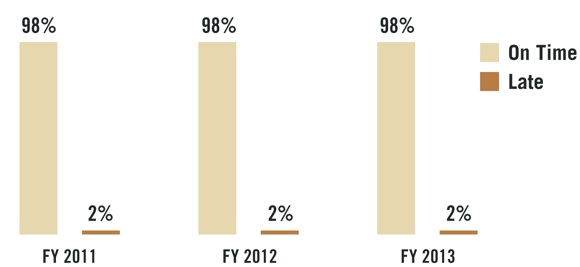
	FY 2013	FY 2012	FY 2011
Number of Accounts	1,189	1,189	920
Amounts Referred *(dollars in millions)*	$2.8	$3.6	$2.1
Amounts Collected *(dollars in millions)*	$1.1	$0.9	$1.0

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 FY 2013, the Department timely paid 98 percent of the 553,886 payments subject to PPA regulations. The following chart reflects the timeliness of the Department's payments from FY 2011 through FY 2013. During FY 2013, the Department paid $226 thousand in interest penalties, compared to $209 thousand in FY 2012, an eight percent increase.

TIMELINESS OF DOS PAYMENTS (FY 2011 - FY 2013)



Electronic Payments

The payments made through Electronic Funds Transfer (EFT) were nearly 98 percent of the total payments made for domestic and overseas payments. Domestic operations accomplished over 98 percent of its payments with EFT this year. Overseas operations have a slightly lower EFT percentage (97 percent) than domestic operations due to the complexities of banking operations in some foreign countries. For FY 2013, approximately 3.6 million payments were disbursed for the Department of State.

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 unqualified ("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 resource management 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.

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 effectively leverage upgrades in our core financial system software, new locally employed (LE) staff and American payroll and time and attendance (T&A) deployments, new cashiering system deployment and integrations/interfaces with other Department corporate systems to improve our processes and support of financial operations.

We have made significant progress in modernizing and consolidating Department resource management systems. CGFS' financial systems development activities are now operated under Capability Maturity Model Integration (CMMI) industry standards. 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. OMB has reviewed our core financial systems plans as part of their U.S. Government-wide review of major financial system investments. OMB resoundingly approved our investment path and segmented delivery approach. We have embarked on a multi-year effort to consolidate resource management systems to CGFS, specifically within the Global Financial Management Systems Directorate. This includes budget systems such as the Bureau of Budget and Planning's (BP) Central Resource Management System (CRMS) and Budget Resource Management System (BRMS), International Cooperative Administrative Support Services (ICASS), and Resource Allocation and Budget Integration Toolkit (WebRABIT), which were developed independently in past years. We expect our financial systems to meet user and Federal requirements, share a common platform and architecture, reflect rationalized standard business processes, be developed using CMMI, and be compliant, controlled, and secure.

OMB continues its initiative to standardize Government-wide business processes to address the Federal Government's long-term need to improve financial management 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 multiple 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.

GFMS is based on commercial off-the-shelf (COTS) software with updated annual releases. In June 2013, an update of GFMS was launched to all Department users, providing over 150 enhancements. The update also eliminated numerous costly customizations which will result in lower maintenance costs.

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. In FY 2013, CGFS started a multi-year project to update RFMS to the newest release. The RFMS update is scheduled for an FY 2015 second quarter implementation.

Through the GFMS/RFMS Virtual Merge initiative, the Department continues to leverage the MomentumTM platform's integration software tools to improve business processes and lower the total cost of ownership of its financial systems. The agency also expanded the integration between GFMS and RFMS for vendor information and obligation documents.

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 Reporting, COAST Encryption, COAST Cashiering, and COAST Payroll Reporting.

COAST Cashiering is replacing the legacy Windows Automated Cashiering System (WinACS). It improves on the core functionality of WinACS including improved security for cashiering activities by enforcing greater adherence to the Department's Foreign Affairs Manual and Foreign Affairs Handbook regulations and providing greater controls to financial management officers overseas. The global deployment of COAST Cashiering is ongoing. COAST Cashiering has been successfully deployed in 20 posts at the close of FY 2013. Deployment to additional posts will continue in FY 2014.

Planning and Budget Program

In FY 2013, the Department initiated a consolidated Next Generation Budgeting System to standardize, consolidate, and simplify the budgeting systems currently used. The first phase of the project will be the replacement of the CRMS, a legacy system that dates from 1999. Other budget systems are the WebRABIT and ICASS systems identified earlier.

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. The next major release, scheduled for the first quarter of FY 2014, will further increase compliance with the controls established in National Institute of Standards and Technology's Special Publication 800-53, Recommended Securing Controls for Federal Information Systems and Organizations.

WebRABIT is an application used by all the regional bureaus for program and Public Diplomacy execution year budgets at their posts. In FY 2013, functionality was added to allow overseas missions to incorporate, in their budget planning and execution, funding that involves the Bureau of Consular Affairs and the Bureau of International Narcotics and Law Enforcement Affairs.

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 service provider to other agencies. In FY 2013, CGFS continued developing and testing new software to transition to a centrally hosted system.

Travel Program

The E-Gov Travel Service (ETS), including the second generation ETS2 system, is a Government-wide, web-based, world-class travel management service, launched in 2003 to save significantly on costs and improve employee productivity. It serves as the gateway to optimize the Government's scale and full market leverage to lower travel costs. ETS serves as the backbone of GSA's managed travel programs providing access to air, car, and lodging as well as the foundation for implementing a shared service for civilian agency travel management.

During FY 2013, the Department focused on evolutionary changes to its web-based COTS software that improves the user interface and incorporates additional Department requirements in the COTS package. As of September 2013, all domestic bureaus and 180 posts have been migrated.

Grants Program

The Department continued to make significant progress migrating to a Grants Management Line of Business solution in FY 2013. OMB's line of business initiative seeks to cut costs and improve service by consolidating computer networks and functions into a few agencies that act as service providers to other agencies. Implementation of the Department of

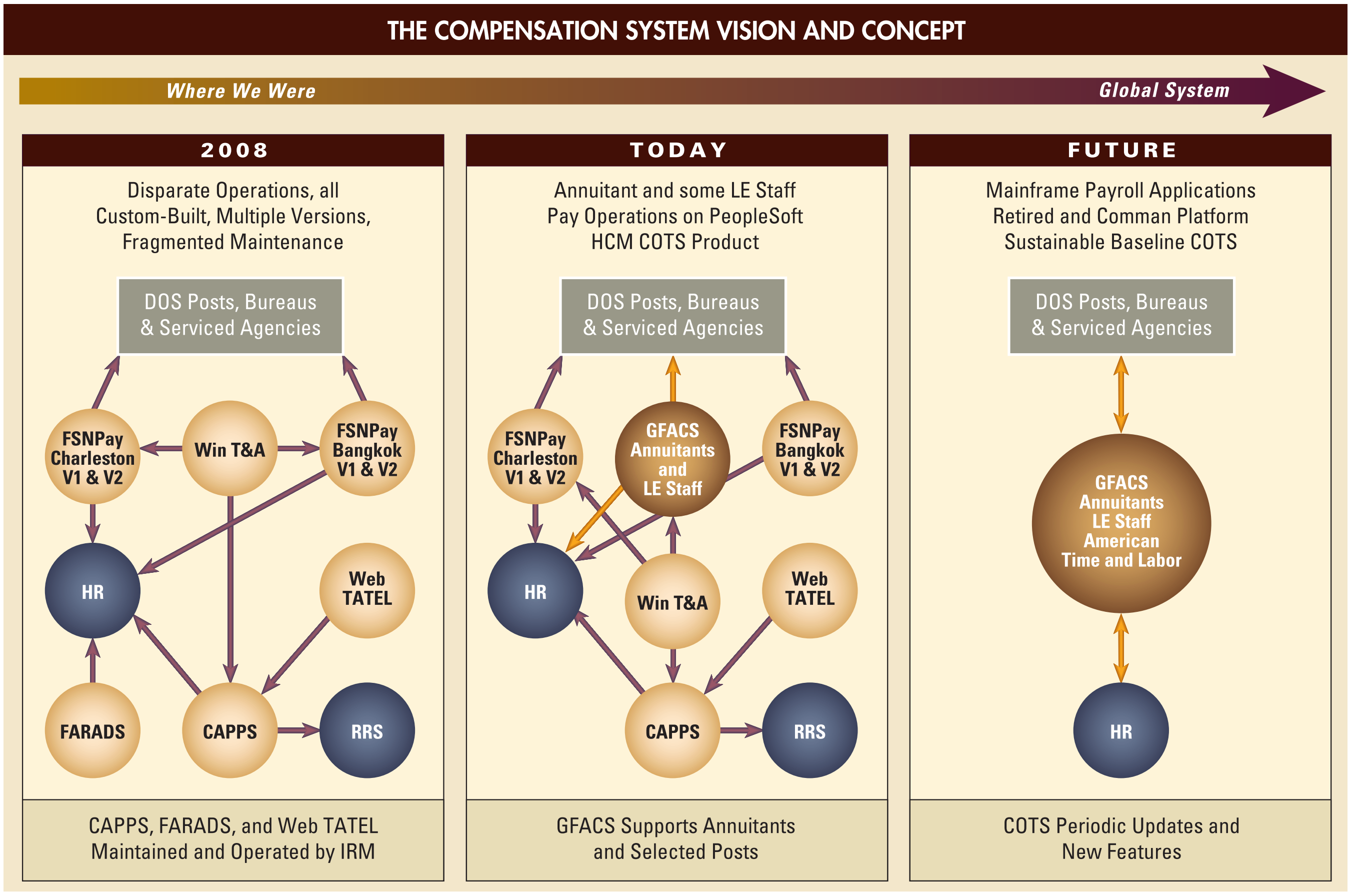
Health and Human Services' GrantSolutions system as the single, standard system at the Department will replace the collection of separate, stovepipe Federal assistance systems used across the agency. Internally, we refer to this system as the State Assistance Management System (SAMS).

During FY 2013, the Department expanded deployment to 24 bureaus. By the end of FY 2014, the Department will have expanded deployment to the remaining two additional bureaus. The result will be a single, automated system that is integrated with the GFMS. SAMS will standardize the Department's assistance-related business process from solicitation through award and close-out thereby ensuring a high degree of consistency and manageability. In addition, Department-wide deployment will bring about compliance with key U.S. Government initiatives such as Grants.gov and reporting requirements such as the Federal Funding Accountability and Transparency Act of 2006 and the Federal Assistance Award Data System. Requirements analysis is to begin in FY 2014 for overseas use of SAMS.

Compensation Program

The Department continued to execute a phased deployment strategy as depicted in the diagram below that, when completed, will completely replace eight legacy payroll systems with a single, COTS-based solution better suited to address the widely diverse requirements of the Department and the other 45 civilian agencies that rely on the Department for overseas payroll. Not only will the Global Foreign Affairs Compensation System (GFACS) address common requirements in a more consistent and efficient manner, it 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, perhaps more importantly, the local laws and practices applicable to the many countries in which civilian agencies operate.

The GFACS LE staff payroll module was implemented in December 2012 with Guatemala as the first converted



country. Twenty-five additional countries are planned for conversion in CY 2013. The Department plans to have all countries converted to GFACS by early CY 2015.

The last pay module to be implemented in GFACS is American payroll. It is currently scheduled for full implementation in the latter half of CY 2014. The web-based global T&A product, based on the same technology as GFACS, is scheduled for initial implementation late in CY 2014. 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

Domestically, and in support of Department-wide reporting, the GFMS Data Warehouse was implemented in FY 2007. Based on a modern, browser-based technology platform, the data warehouse enables users to access financial information from standard, prepared reports or customized queries. It reports in real-time to compile the financial information needed for informed decision making on a day-to-day basis. The data warehouse also provides, on a daily basis, critical financial information to the Department's data warehouse. In FY 2013, a major technical upgrade to a more current technology platform was completed. Progress was also made on the development of dashboards and supporting infrastructure for the loading and reporting of budget and travel data in the data warehouse, with full implementations of both scheduled for FY 2014.

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 FY 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.

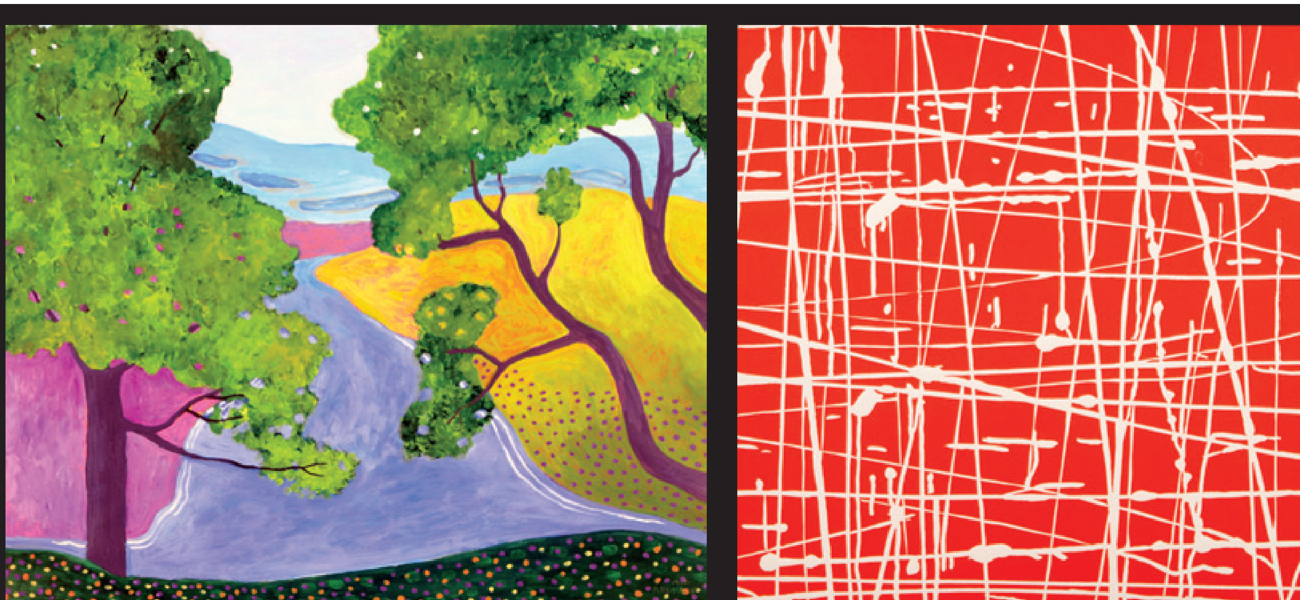
Heritage Assets

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 eight categories: the Diplomatic Reception Rooms Collection, Art Bank Program, Art in Embassies Program, Cultural Heritage Collection, Library Rare & Special Book Collection, the Secretary of State's Register of Culturally Significant Property, the U.S. Diplomacy Center, and the Blair House. Items in the Register of Culturally Significant Property category are classified as multi-use heritage assets due to their use in general government operations.

Diplomatic Reception Rooms Collection

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

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



Art Bank works include "Something Intimate" (2010), Bruno Andrade, acrylic (left) and "Flora III (red)" (2007), Nate Cassie, woodcut (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.

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.

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.

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.

New Delhi Chancery, built in the 1950s, was the first major embassy building project approved in the Eisenhower years. The Chancery was designed by master architect Edward Durell Stone, who captured history and fantasy in a memorable symbol of the United States' commitment to India after its independence. The Chancery expresses the characteristic American preference for efficiency and straightforwardness. ***Department of State/OBO***

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 FY 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.

Honoring the close friendship between President Abraham Lincoln and the Blairs, the Lincoln Room of Blair House displays Civil War-era artifacts from the family collection, including rare political cartoons and prints, a Mathew Brady photograph, and documents signed by Lincoln. ***Photographs in the Carol M. Highsmith Archive, Library of Congress, Prints and Photographs Division.***

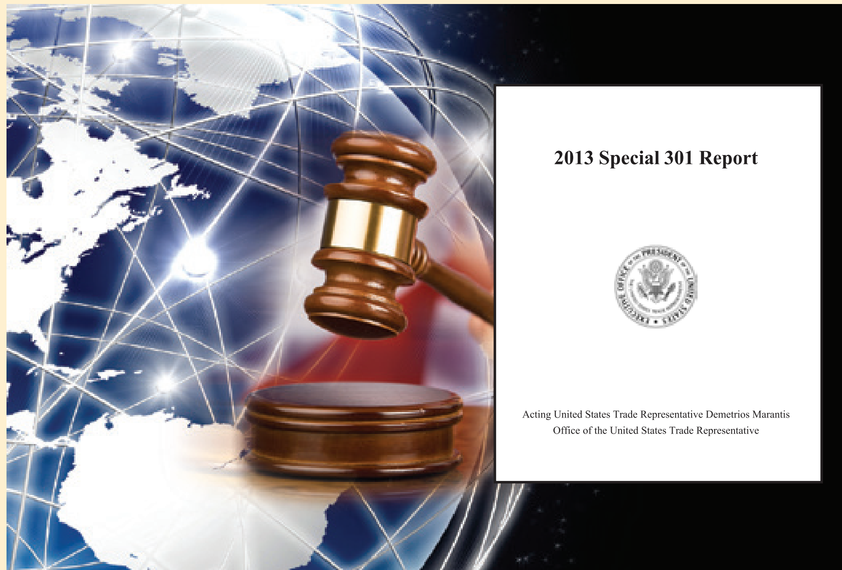
Intellectual Property Enforcement Promotes U.S. Innovation

The Department promotes U.S. innovation by advocating for the effective protection and enforcement of intellectual property rights (IPR) around the world. Its advocacy seeks to strengthen economic rules and norms, increase U.S. business and private sector growth and investment, and improve market access for U.S. goods and services.

The Department actively participates in multilateral and bilateral negotiations and discussions on IPR-related issues, and distributes training and technical assistance funds to help build IPR law enforcement capacity in developing countries, aligning with the Department's strategic goal five: support American prosperity through economic diplomacy. The Department is also active in interagency efforts to combat trade in counterfeit and pirated goods.

Strong IPR protection spurs innovation, economic growth, and job creation in the United States and other countries. It turns innovative ideas into valuable business assets, is integral to the rule of law, and promotes public health and safety. The Office of the U.S. Trade Representative, in coordination with the Department and other partner Federal Government agencies, is responsible for the preparation of the annual Special 301 Report. This report reviews the global state of intellectual property rights protection and enforcement. It also identifies the initiatives to strengthen IPR, including:

- Advancing the Trans-Pacific Partnership Agreement to strengthen U.S. trade and investment interests in the Asia-Pacific region.
- Launching negotiations on the Transatlantic Trade and Investment Partnership Agreement between the United States and the European Union.



The 2013 Special 301 Report reviews the global state of intellectual property rights protection and enforcement. *Office of the United States Trade Representative*

- Leading partner engagement on IPR issues via the multilateral structure of World Trade Organization agreements.
- Working with trading partners through bilateral and regional agreements, including free trade agreements.
- Bringing the Anti-Counterfeiting Trade Agreement into force to combat the proliferation of commercial-scale counterfeiting and piracy.
- Coordinating the review of IPR practices in connection with trade preference programs.

LEARN MORE

For more information, please read the 2013 Special 301 Report:
http://www.ustr.gov/about-us/press-office/reports-and-publications/2013/2013-special-301-report

As part of its heritage asset responsibilities, the Department of State operates as steward of the Blair House, the President's Guest House. The walls of Blair House's Jackson Place Dining Room are decorated with scenic murals featuring Washington D.C.'s most historic monuments and buildings painted by American artist Robert Jackson. ***Photographs in the Carol M. Highsmith Archive, Library of Congress, Prints and Photographs Division.***

Appendices

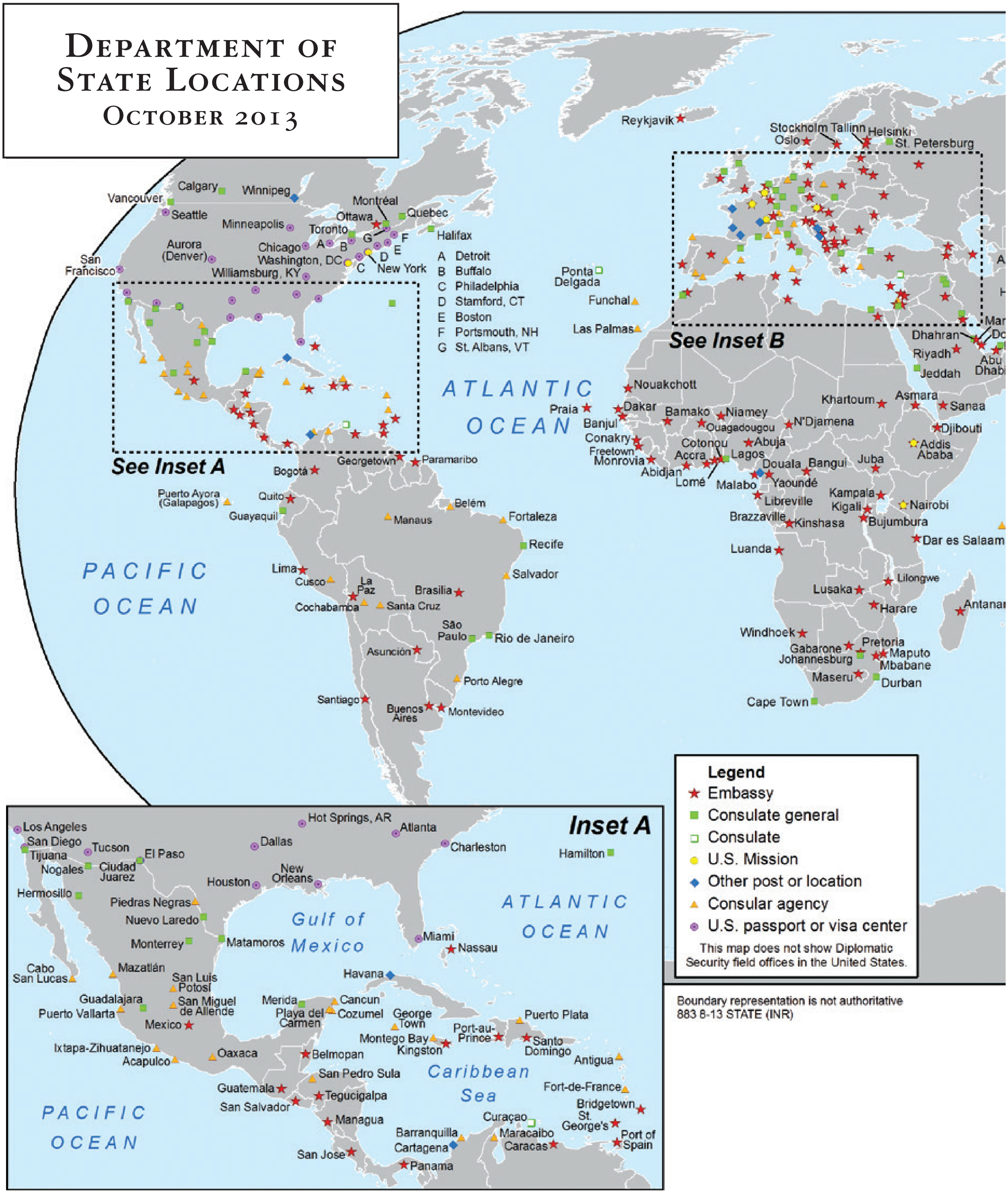
Appendix A: Abbreviations and Acronymns

A	Bureau of Administration (DOS)
A&A	Assessment and Authorization
ADP	Automated Data Processing
AF	Bureau of African Affairs (DOS)
AFR	Agency Financial Report
AGA	Association of Government Accountants
AIDS	Acquired Immunodeficiency Syndrome
AML	Anti-Money Laundering
AP	Associated Press
APG	Agency Priority Goal
APP	Annual Performance Plan
Appendix A	OMB Circular A-123, Appendix A
APQC	American Productivity and Quality Center
APR	Annual Performance Report
AQM	Office of Acquisitions Management (DOS)
ARB	Accountability Review Board
ARD	Accounts Receivable Division (DOS)
ARRA	American Recovery and Reinvestment Act of 2009
ASEAN	Association of Southeast Asian Nations
BCA	Budget Control Act of 2011
BDT	Bomb Disposal Team
BIDS	Business Information Database System
BP	Bureau of Budget and Planning (DOS)
BRMS	Budget Resource Management System
CA	Bureau of Consular Affairs (DOS)
CAP	Cross-Agency Priority
CBJ	Congressional Budget Justification
CDM	Continuous Diagnostics and Mitigation
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
CGFS	Bureau of the Comptroller and Global Financial Services (DOS)
CIF	Capital Investment Fund
CIO	Chief Information Officer
CMMI	Capability Maturity Model Integration
COAST	Consolidated Overseas Accountability Support Toolbox
COR	Contracting Officer's Representative
COTS	Commercial Off-the-Shelf
CRMS	Central Resource Management System
CSO	Bureau of Conflict and Stabilization Operations (DOS)
CSRS	Civil Service Retirement System
CTF	Counterterrorism Finance
CY	Current Year
D&CP	Diplomatic and Consular Programs (DOS)
DCF	Defined Contributions Fund
DCFO	Deputy Chief Financial Officer (DOS)
Department	U.S. Department of State
DHS	U.S. Department of Homeland Security
DoD	U.S. Department of Defense
DOL	U.S. Department of Labor
DOS	U.S. Department of State
DR	Democratic Republic
DS	Bureau of Diplomatic Security (DOS)
E	Under Secretary for Economic Growth, Energy and Environment (DOS)
EAP	Bureau of East Asian and Pacific Affairs (DOS)
EC-LEDS	Enhancing Capacity – Low Emission Development Strategies
ECA	Bureau of Educational and Cultural Affairs (DOS)
ECE	Educational and Cultural Exchange Programs
EFT	Electronic Funds Transfer
E-Gov	E-Gov Travel Service
ERMA	U.S. Emergency Refugee and Migration Assistance

ESCM	Embassy Security, Construction, and Maintenance
ESF	Economic Support Fund
EU	European Union
EUR	Bureau of European and Eurasian Affairs (DOS)
F	Office of U.S. Foreign Assistance Resources (DOS)
FAO	Food and Agriculture Organization (UN)
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FECA	Federal Employees Compensation Act
FEGLIP	Federal Employees Group Life Insurance Program
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FISMA	Federal Information Security Management Act of 2002
FMF	Foreign Military Financing
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMLP	Future Minimum Lease Payments
FSI	Foreign Service Institute
FSN	Foreign Service National
FSNAEB	Foreign Service Nationals' After-Employment Benefits
FSN DCF	Foreign Service National Defined Contributions Fund
FSNLTF	Foreign Service National Separation Liability Trust Fund
FSO	Foreign Service Officer
FSRDF	Foreign Service Retirement and Disability Fund
FSRDS	Foreign Service Retirement and Disability System
FSPS	Foreign Service Pension System
FTE	Full-Time Equivalent
FWCB	Federal Workers' Compensation Benefits
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GeT	Global E-Travel Maintenance Program
GFACS	Global Foreign Affairs Compensation System
GFE	Government Furnished Equipment
GFMS	Global Financial Management System
GHP	Global Health Programs
GIRoA	Government of the Islamic Republic of Afghanistan
GMRA	Government Management Reform Act of 1994
GPI	Global Partnership Initiative
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
GSA	U.S. General Services Administration
HHS	U.S. Department of Health and Human Services
HIV	Human Immunodeficiency Virus (AIDS)
HTP	High Threat Post
HTHR	High-Threat, High-Risk
IA	Bureau of Information Assurance (DOS)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBWC	International Boundary and Water Commission
ICAO	International Civil Aviation Organization (UN)
ICASS	International Cooperative Administrative Support Services (DOS)
ICOFR	Internal Control Over Financial Reporting
IdEA	International diaspora Engagement Alliance
IDP	International Displaced Person
IG	Inspector General
IIP	Bureau of International Information Programs (DOS)
ILMS	Integrated Logistics Management System
IMET	International Military Education and Training
INCLE	International Narcotics Control and Law Enforcement
INL	Bureau of International Narcotics and Law Enforcement (DOS)
INR	Bureau of Intelligence and Research (DOS)
IO	Bureau of International Organizations (DOS)
IPE	Office of Intellectual Property Enforcement (DOS)
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
IPR	Intellectual Property Rights
IRM	Bureau of Information Resources Management (DOS)
ISAT	Interagency Security Assistance Team
ISP	Increased Security Proposal
IT	Information Technology
J	Under Secretary for Civilian Security, Democracy and Human Rights (DOS)
LDP	Language Designated Position
LEED	Leadership in Energy and Environmental Design
LE Staff	Locally Employed Staff
LM	Office of Logistics Management (DOS)
LNA	Limited Non-Career Appointment

LSSS	Local Social Security System
M	Under Secretary for Management (DOS)
MCSC	Management Control Steering Committee (DOS)
MD&A	Management's Discussion and Analysis
MRA	Migration and Refugee Assistance
NADR	Nonproliferation, Antiterrorism, Demining, and Related Programs
NATO	North Atlantic Treaty Organization
NEA	Bureau of Near Eastern Affairs (DOS)
NGO	Non-Governmental Organization
NIST	National Institute of Standards and Technology
NIV	Non-Immigrant Visa
OAS	Organization of American States
OBO	Overseas Buildings Operations (DOS)
OC	Office of Claims (DOS)
OCO	Overseas Contingency Operations (DOS)
OECD	Organization for Economic Cooperation and Development
OI	Other Information
OIG	Office of Inspector General (DOS)
OMA	Office of Oversight and Management Analysis (DOS)
OMB	U.S. Office of Management and Budget
OPCW	Organization for the Prohibition of Chemical Weapons
OPM	U.S. Office of Personnel Management
OSCE	Organization for Security and Co-operation in Europe
P	Under Secretary for Political Affairs (DOS)
P&B	Planning and Budgeting Program
PBO	Projected Benefit Obligation
PEPFAR	President's Emergency Plan for AIDS Relief
PKO	Peacekeeping Organization
PMS	Payment Management System (HHS)
PPA	Prompt Payment Act
PRM	Bureau of Population, Refugees, and Migration (DOS)
PSA	Personal Services Agreement
PSC	Personal Services Contractor
PUC	Projected Unit Credit
PY	Prior Year
QDDR	Quadrennial Diplomacy and Development Review
R	Under Secretary for Public Diplomacy and Public Affairs (DOS)
RLA	Resident Legal Advisor
RFMS	Regional Financial Management System
RSI	Required Supplementary Information
SAMS	State Assistance Management System
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SCA	Bureau of South and Central Asian Affairs (DOS)
SFFAS	Statements of Federal Financial Accounting Standards
SG	Strategic Goal
SIGAR	Special Inspector General for Afghanistan Reconstruction
SNC	Statement of Net Cost
SoD	Segregation of Duties
SOS	Schedule of Spending
SWT	Summer Work Travel
T	Under Secretary for Arms Control and International Security Affairs (DOS)
T&A	Time and Attendance
TB	Technical Bulletin
TPP	Trans-Pacific Partnership
Treasury	U.S. Department of Treasury
TSP	Thrift Savings Plan
TTIP	Transatlantic Trade and Investment Partnership
UDO	Undelivered Orders
UK	United Kingdom
ULO	Unliquidated Obligations
UN	United Nations
UNEP	United Nations Environment Programme (UN)
UNESCO	United Nations Educational, Scientific and Cultural Organization (UN)
UNVIE	U.S. Mission to International Organizations in Vienna
USAID	U.S. Agency for International Development
USC	U.S. Code
USM–I	U.S. Mission – Iraq
USSGL	U.S. Standard General Ledger
VAT	Value Added Taxes
WCF	Working Capital Fund
WebRABIT	Resource and Budget Integration Toolkit
WHA	Bureau of Western Hemisphere Affairs (DOS)
WinACS	Windows Automated Cashiering System
WSP	Worldwide Security Protection

Appendix B: Department of State Locations



Boundary representation is not authoritative
883 8-13 STATE (INR)


Cities with multiple Department of State facilities
Addis Ababa:
Embassy Addis Ababa
US Mission to the African Union
Brussels:
Embassy Brussels
US Mission to European Union
US Mission to NATO
Geneva:
US Mission Geneva
Consular Agency Geneva
Paris:
Embassy Paris
US Mission to OECD
US Mission to UNESCO
Montréal:
Consulate General Montréal
US Mission to ICAO
Jakarta:
Embassy Jakarta
US Mission to ASEAN
Nairobi:
Embassy Nairobi
US Mission to UNEP and Habitat
New York:
US Mission to UN
New York Passport Center
Portsmouth, NH:
National Passport Center
National Visa Center
Rome:
Embassy Rome
Embassy Holy See
US Mission to FAO
Vienna:
Embassy Vienna
US Mission to OSCE
US Mission to UNVIE
Washington, DC:
Department of State
US Mission to OAS
Washington Passport Agency
ARCTIC OCEAN
PACIFIC OCEAN
INDIAN OCEAN
Yekaterinburg
Astana
Ulaanbaatar
Bishkek
Almaty
Tashkent
Ashgabat
Dushanbe
Mazar-e Sharif
Herat
Kabul
Peshawar
Islamabad
Lahore
New Delhi
Manama
Doha
Dubai
Abu Dhabi
Muscat
Karachi
Kathmandu
Chengdu
Wuhan
Shanghai
Vladivostok
Shenyang
Beijing
Yuzhno-Sakhalinsk
Sapporo
Seoul
Busan
Fukuoka
Tokyo
Nagoya
Osaka-Kobe
Naha (Okinawa)
Dhaka
Guangzhou
Kolkata
Chiang Mai
Hanoi
Hong Kong
Mumbai
Hyderabad
Rangoon
Vientiane
Manila
Chennai
Bangkok
Phnom Penh
Ho Chi Minh City
Cebu
Colombo
Koror
Kolonia
Majuro
Honolulu
Kuala Lumpur
Bandar Seri Begawan
Medan
Singapore
Victoria
Jakarta
Surabaya
Bali (Denpasar)
Dili
Port Moresby
Honiara
Apia
Suva
Papeete (French Polynesia)
Antananarivo
Port Louis
Perth
Canberra
Sydney
Melbourne
Auckland
Wellington
Inset B
North Sea
ATLANTIC OCEAN
Black Sea
Caspian Sea
Mediterranean Sea
Edinburgh
Belfast
Dublin
Copenhagen
Riga
Vilnius
Moscow
Minsk
Bremen
Hamburg
Warsaw
The Hague
Amsterdam
Berlin
Poznan
London
Dusseldorf
Leipzig
Brussels
Frankfurt
Prague
Krakow
Kyiv
Luxembourg
Paris
Strasbourg
Munich
Vienna
Budapest
Rennes
Zurich
Bratislava
Chisinau
Bern
Geneva
Lyon
Ljubljana
Zagreb
Belgrade
Milan
Bordeaux
Genoa
Venice
Banja Luka
Bucharest
Toulouse
Nice
Sarajevo
Florence
Marseille
Mostar
Pristina
Sofia
Rome
Holy See
Podgorica
Skopje
A Coruña
Tirana
Tbilisi
Barcelona
Naples
Thessaloniki
Istanbul
Madrid
Yerevan
Baku
Ankara
Valencia
Lisbon
Palma de Mallorca
Palermo
Izmir
Athens
Sevilla
Adana
Fuengirola (Málaga)
Algiers
Tunis
Valletta
Erbil
Kirkuk
Nicosia
Rabat
Beirut
Damascus
Casablanca
Tripoli
Haifa
Baghdad
Tel Aviv
Amman
Jerusalem
Alexandria
Al Basrah
Cairo
Kuwait

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

Supreme Court Justice Elena Kagan swears in Secretary of State John Kerry on February 1, 2013 in the Foreign Relations Committee Room in the Capitol. They were joined by his wife Teresa, daughter Vanessa, brother Cameron, and his Senate staff. *Department of State*

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)
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 Robert O. Blake participates in a Facebook chat on U.S.-India relations, July 2, 2013. *Department of State*

Thank you for your interest in the U.S. Department of State and its Fiscal Year 2013 Agency Financial Report. Electronic copies of this report and prior years' reports are available through the Department's website: *www.state.gov.*

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

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/dghr/statemag*.

DipNote – U.S. Department of State Official Blog: *www.blogs.state.gov*

Facebook: *www.facebook.com/usdos*

Flickr: *www.flickr.com/photos/statephotos*

Google+: *www.plus.google.com/+StateDept#+StateDept/posts*

RSS Feeds: *www.state.gov/misc/echannels/66791.htm*

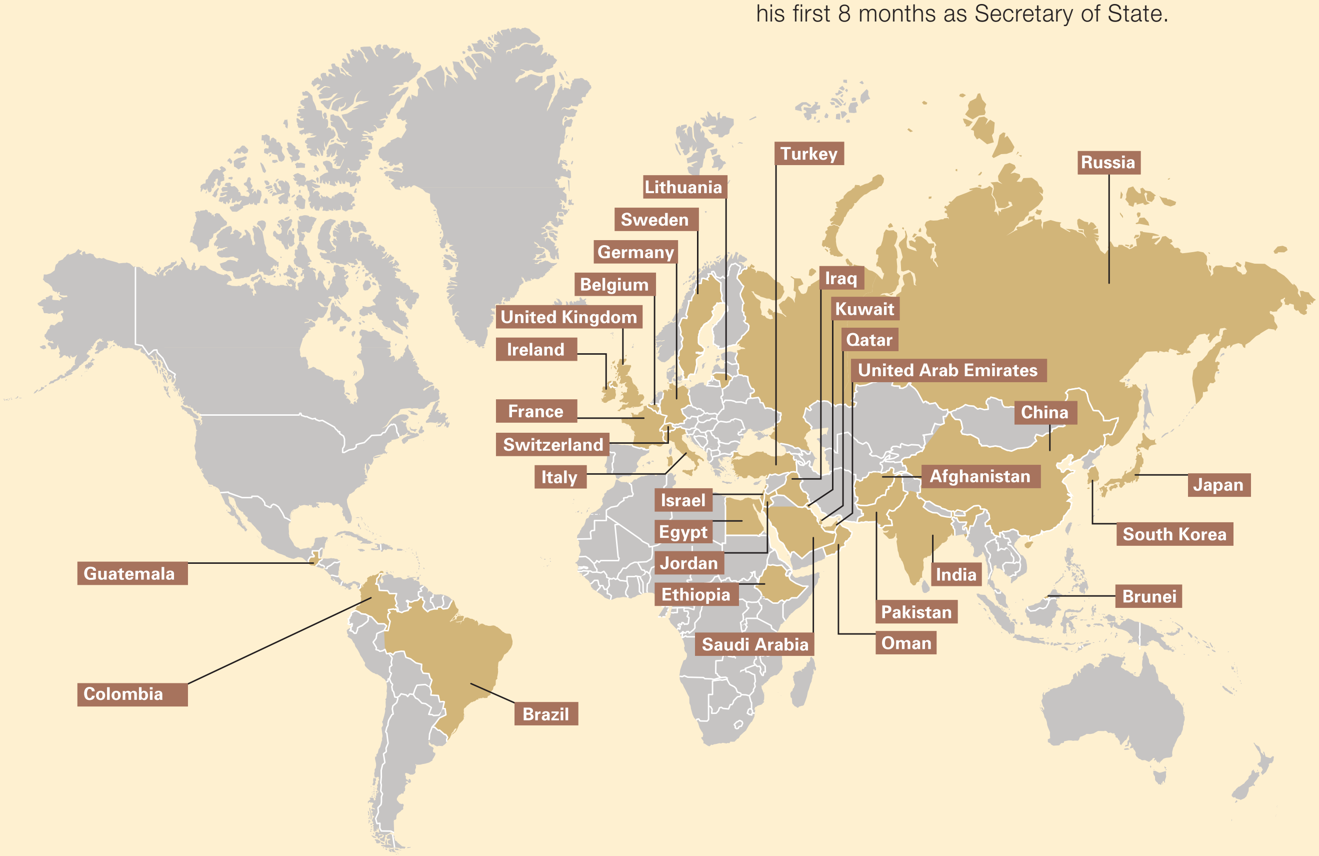
Tumblr: *www.statedept.tumblr.com*

Twitter: @StateDept

YouTube Channel: *www.youtube.com/user/statevideo*

Global Diplomacy Travels

John Forbes Kerry has visited more than 30 countries, traveling over 191,000 miles, during his first 8 months as Secretary of State.



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Department of State: *Cover (top left and right), Inside Front Cover, Table of Contents, pages 6, 8, 9, 10, 15, 19, 20, 23, 25, 27, 28, 29, 30, 32, 34, 37, 43, 52, 92, 94, 98, 138, 144, 146, 154, 155*
iStock: *Page 36*
Office of the United States Trade Representative: *Page 147*
Photographs in the Carol M. Highsmith Archive, Library of Congress, Prints and Photographs Division: *Pages 146, 148*
State Magazine: *Page 17*
The DesignPond: *Page 56*

Table of Contents Image Captions

Inside Front Cover: U.S. Secretary of State John Kerry departs the United Kingdom en route to the Republic of Korea after participating in the G8 ministerial meetings in London, United Kingdom, April 11, 2013. *Department of State*
Table of Contents: Images (Left) to (Right): (1) U.S. Secretary of State John Kerry delivers a speech to U.S. foreign service workers at the U.S. Embassy in Tokyo during a "Meet and Greet" gathering, April 15, 2013. *©AP Image*; (2) Under Secretary for Political Affairs Wendy Sherman greets Berta Soler, Spokesperson for the Ladies in White (Damas de Blanco), before their meeting at the U.S. Department of State in Washington, D.C., October 24, 2013. *Department of State*; and (3) The State Department promotes new science outreach platforms – the Science, Technology and Innovation Expert Partnership and the Networks of Diasporas in Engineering and Science – as integral components of U.S. diplomacy. *Department of State.*

Acknowledgements

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

Office of the Deputy Chief Financial Officer:

Timothy Macdonald, Managing Director of Financial Policy, Reporting & Analysis

Carol Gower, Director, Reporting & Analysis

Monika Moore and Joseph Peter, AFR Editors

Brad Biondi, Nadine Bradley, Carolyn Brown, Melissa Clark, Carole Clay, Tomoko Davis, Nancy Durham, Nicole Durity-Thomas, Cindy Fleming, Michelle Greene, Matthew H. Johnson, Gregory Jones, Anne Kahle, Yen Le, Daniel Louie, Ava Lun, Trevor McNamara, Caroline Rabil, Frank Rosado, Troy Scaptura, Colleen Stakem, Kelley Tynan, Donald Wood, Khalida Yousuf, and Nima Zabahi.

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

Other Contributors:

Stephanie Cabell, Theresa Gagnon, Luis L. Gonzalez, Juan Kays, Yaropolk T. Kulchyckyj, David Podgorski, Robinson Ramirez, Patricia Sommers, Matthew Walsh, Rebecca Webb, and John Zakrajsek.

We would also like to acknowledge the Office of Inspector General for their objective review of the Department's performance and Kearney & Company for the professional manner in which they conducted the audit of the FY 2013 financial statements.

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

The *Agency Financial Report for Fiscal Year 2013* is published by the

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

An electronic version is available on the World Wide Web at

http://www.state.gov/s/d/rm/rls/perfrpt/2013/index.htm

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

U.S. Department of State Publication
Bureau of Public Affairs
December 2013

U.S. Secretary of State John Kerry steps aboard an Air Force C-17 aircraft following his visit to Baghdad, March 24, 2013.
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Note: The Bureau of Public Affairs, Office of Website Management (PA/WM) assisted the Bureau of the Comptroller and Global Financial Services with the production of the *FY 2013 Agency Financial Report*, including images from AP/Wide World.

2201 C Street, N.W.
Washington, D.C. 20520
(202) 647-4000

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