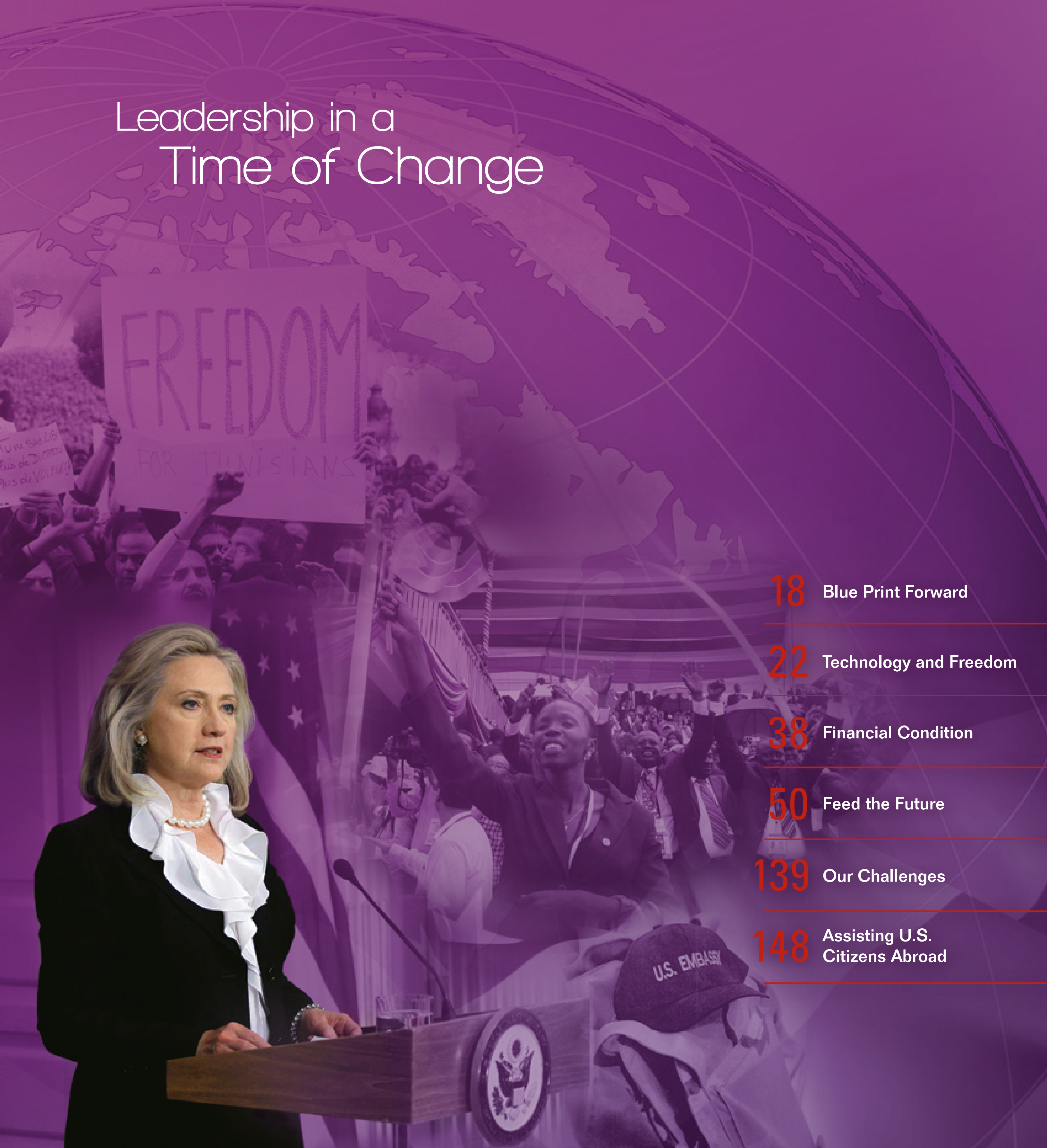
UNITED STATES DEPARTMENT OF STATE

FISCAL YEAR 2011 Agency Financial Report

Leadership in a Time of Change



ABOUT THIS REPORT

The United States Department of State's *Agency Financial Report* (AFR) for Fiscal Year (FY) 2011 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. See *www.state.gov/s/d/rm/rls/perfrpt/2011/index.htm*.

The AFR is the first of a series of three annual financial and performance reports for Federal agencies choosing to produce a separate AFR, an integrated Performance Budget, and a Summary of Performance and Financial Information. The reporting schedule includes: (1) an *Agency Financial Report* issued in November 2011; (2) a complete agency *Annual Performance Report* (APR) for FY 2011 and *Annual Performance Plan* (APP) for FY 2013 as part of the FY 2013 *Congressional Budget Justification* (CBJ), which is the Department's budget request to Congress, to be issued in February 2012; and (3) a *Summary of Performance and Financial Information*, to be released also in February 2012. The last report will be produced jointly with the United States Agency for International Development (USAID). These reports are available online at *http://www.state.gov/s/d/rm/c6113.htm.*

FY 2011 HIGHLIGHTS *(dollars in millions)*	Percent Change 2011 over 2010	2011	2010 (Restated)	2009 (Restated)	2008 (Restated)
Balance Sheet Totals as of September 30					
Total Assets	+8%	$ 73,811	$ 68,334	$ 59,553	$ 51,717
Total Liabilities	+5%	24,875	23,583	22,536	21,102
Total Net Position	+9%	48,936	44,751	37,017	30,615
Results of Operations for the Year Ended September 30					
Total Net Cost of Operations	+8%	$ 23,260	$ 21,548	$ 21,613	$ 17,753
Budgetary Resources for the Year Ended September 30					
Total Budgetary Resources	+1%	$ 53,292	$ 52,581	$ 50,138	$ 38,825
Full-time, permanent employees in the Foreign Service	+4%	13,518	13,008	12,258	11,582*
Full-time, permanent employees in the Civil Service	+6%	10,645	10,039	9,614	9,291*
Full-time Foreign Service Nationals	–6%	5,669	6,051	6,010	6,736
Number of Passports Issued *(books and cards)*	–10%	12.6 million	13.9 million	13.5 million	16.2 million

* Data as of August 31, 2008.

ABOUT THE COVER

The cover images symbolize worldwide change and the Department's leadership in this time. On the left, the Secretary delivers a statement in the Department's Treaty Room announcing U.S. sanctions on Syria. The sanctions are in response to that government's crackdown on its people demanding their universal human rights through peaceful demonstrations. The center image represents "freedom of the press," as Tunisians came out to protest and test the word thereof of their president, Ben Ali. While in another image, people are celebrating the peaceful birth of a new nation, the Republic of South Sudan. The final image is of gear that stands ready for use by the Department's evacuation team that accompanied evacuees of Tripoli, Libya on a chartered ferry to Valletta, Malta.

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Message from the Secretary

I am pleased to present the U.S. Department of State's Agency Financial Report for Fiscal Year 2011. This year has seen some dramatic changes around the world, but one thing has remained constant: The remarkable men and women of the Department of State continue to work tirelessly to advance America's interests and values across the globe. This report presents financial and performance information that reflects our dedication to leading American foreign policy in a rapidly changing international landscape.

In the Middle East and North Africa, where citizens have stood up and demanded their universal rights, America's diplomats and development experts are reaching beyond the embassy walls to engage directly with the people of the region, including through extensive use of social networking and new media tools. In Tunisia, Egypt, and now Libya—where the United States successfully rallied a broad international coalition to prevent a dictator from slaughtering his own people—we are supporting civil society, independent journalists, and students as they move from protest to politics. We are helping transitional authorities build democratic institutions and prepare for elections. For it to succeed, the Arab political awakening must also be an economic awakening. So we are working with leaders in the public and private sectors to create new economic opportunities, foster entrepreneurship, and increase regional integration and trade.

In Iraq, we are transitioning to a civilian partnership and shifting our focus to governance and economic development. We have opened new consulates in Erbil and Basrah that, along with our embassy, will support Iraqis as they work to strengthen their democracy, combat international terrorism, and rejoin the international community.

In Afghanistan, we are transitioning to a security situation that is Afghan led. We are pursuing our "fight, talk, build" strategy that aims to defeat al-Qaeda, increase military pressure on the Taliban and other insurgents, support Afghan-led reconciliation that meets clearly defined objectives, and promote economic and political stability through short-term development assistance and a long-term vision of regional economic integration and trade we call the New Silk Road.

As our remaining forces depart Iraq and America begins to withdraw its forces from Afghanistan, the United States stands at a pivotal point. Over the last 10 years, we allocated immense resources to those two theaters. In the next 10 years, we need to be smart and systematic about where we invest time and energy, so that we put ourselves in the best position to sustain our leadership, secure our interests, and advance our values. One of the most important tasks of American statecraft in the next decade, therefore, will be to lock in a substantially increased investment—diplomatic, economic, strategic, and otherwise—in the Asia-Pacific region, which has become a key driver of global politics and economics. In 2011, the United States continued to increase its engagement with its traditional allies in Asia, as well as with the region's emerging powers and multilateral organizations, including the Association of Southeast Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation (APEC) forum, and the East Asia Summit (EAS). We are already seeing the results of this increased engagement—in FY 2011, U.S. exports to APEC members grew much faster than exports to the rest of the world.

This effort is connected to our broader commitment to elevate economic statecraft as a pillar of U.S. foreign policy and a key driver of recovery and renewal here at home. Our diplomats around the world are stepping up their advocacy for America's exporters and pushing back against the obstacles that U.S. businesses face overseas—from corruption to discriminatory regulations to the theft of intellectual property. We are working with partners throughout the Federal Government to attract new foreign investment into American communities that creates jobs and opportunities. We were proud to help secure significant new trade agreements with South Korea, Colombia, and Panama. Our goal is to promote and protect an open, free, transparent, and fair economic system where all can participate; where ideas, products, and capital flow unimpeded; where regulations and rules are developed out in the open and are equitably applied; and where all businesses are treated fairly.

This year our diplomats and development experts also worked hard to uphold and advance universal human rights around the world, including the rights of individuals to express their views freely, whether in a traditional public square or in today's online marketplace of ideas. Even as we defend free expression on the Internet, we are also using its tools to support democratic values and activists. We launched HumanRights.gov, the official U.S. Government website for international human rights information. We established Twitter feeds in Arabic and Farsi, adding to the ones we already have in French and Spanish. We have similar ones in Chinese, Russian, and Hindi. The Department also led the U.S. Government, together with 12 other democratic nations, to launch Lifeline: The Embattled NGO Assistance Fund, which supports civil society and embattled NGOs.

Across all these areas of action around the world, a central theme is promoting rights and opportunities for women and girls. This is the right thing to do, but as I explained at the APEC summit in San Francisco this September, it is also the smart and strategic thing to do. Increasing the participation of women in the global economy is one of the best ways to drive growth. Integrating women and girls into the President's Global Health and Feed the Future initiatives improves health outcomes and increases agricultural output. Including women in peace processes, such as reconciliation in Afghanistan, helps resolve conflicts and secure lasting stability. Empowering women to participate in politics—including in the transitions now under way in the Middle East and North Africa—leads to more sustainable and successful democracies.

A final hallmark of our work this year has been a commitment to modernizing the way we do business at the State Department. We have been implementing the first-ever Quadrennial Diplomacy and Development Review (QDDR) to improve the efficiency, effectiveness, and overall accountability of our efforts around the world. The Department is embarking on a new multi-year strategic planning process that will heighten U.S. engagement throughout the world. We have made changes to upgrade our information technology, enhance our performance and budget practices, and reform our contracting and procurement policies. Other changes will enable us to advance better the interests of the American people abroad.

The State Department remains committed to corporate governance. To that end, we continue to work to improve our financial management and internal controls. This Agency Financial Report (AFR) is our principal publication and report to the President, Congress, and the American people on our leadership in financial management and on our management and stewardship of the public funds to which we have been entrusted. We worked with our

Independent Auditor to ensure that the financial and summary performance data included in this AFR are complete and reliable in accordance with guidance from the Office of Management and Budget. Through this publication and the February release of the Congressional Budget Justification, which includes the Agency Performance Report, we are providing an alternative to the Performance and Accountability Report.

Looking ahead, we face a complex and changing world, full of daunting challenges but also significant opportunities. American leadership will be essential in the years ahead, even if we must sometimes lead in new ways. Securing and sustaining that leadership is the organizing principle behind everything we do at the Department of State. I am proud to serve alongside the thousands of dedicated men and women who work toward that goal every day, at home and in our more than 270 posts worldwide.

Hillary Rodham Clinton
Secretary of State
November 15, 2011

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 Organization and People

The Department of State 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 oldest and most senior executive agency of the U.S. Government. The head of the Department, the Secretary of State, is the President's principal foreign policy advisor. The Secretary carries out the President's foreign policies through the State Department and the Foreign Service of the United States. Headquartered in Washington, D.C., the Department of State implements U.S. foreign policy worldwide.

The Department of State promotes and protects the interests of American citizens by:

- Promoting peace and stability in regions of vital interest;
- Creating jobs at home by opening markets abroad;
- Helping developing nations establish investment and export opportunities; and
- Bringing nations together and forging partnerships to address global problems such as terrorism, the spread of communicable diseases, cross-border pollution, humanitarian crises, nuclear smuggling, and narcotics trafficking.

Our Values

LOYALTY
Commitment to the United States and the American people.

CHARACTER
Maintenance of high ethical standards and integrity.

SERVICE
Excellence in the formulation of policy and management practices with room for creative dissent. Implementation of policy and management practices, regardless of personal views.

ACCOUNTABILITY
Responsibility for achieving United States foreign policy goals while meeting the highest performance standards.

COMMUNITY
Dedication to teamwork, professionalism, and the customer perspective.

DIVERSITY
Commitment to having a workforce that represents the diversity of America.

The Department operates more than 270 embassies, consulates, and other posts worldwide staffed by Locally Employed (LE) Staff and more than 13,500 Foreign Service officers. In each Embassy, the Chief of Mission (usually an Ambassador) is responsible for executing U.S. foreign policy goals and for coordinating and managing all U.S. Government functions in the host country. Increasingly, our ambassadors are taking the role akin to a Chief Executive Officer (CEO) to manage the multi-agency mission that falls under their leadership. The President appoints each Ambassador, who is then confirmed by the Senate. Chiefs of Mission report directly to the President through the Secretary. 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.

A Civil Service corps of over 10,500 employees provides continuity and expertise in performing all aspects of the Department's mission. The Department's mission is accomplished through six regional bureaus, each of which is responsible for a specific geographic region of the world, and through the Bureau of International Organization Affairs and numerous functional and management Bureaus and Offices of the Secretary. These Bureaus and Offices provide policy guidance, program management, administrative support, and in-depth expertise in matters such as:

- law enforcement
- economics
- the environment
- intelligence
- arms control
- human rights
- counternarcotics
- counterterrorism
- public diplomacy
- humanitarian assistance
- security
- conflict stabilization
- nonproliferation
- consular services

U.S. Consul General in southern Sudan, Ambassador Barrie Walkley, delivers remarks during a Fourth of July celebration at the U.S. consulate in the southern capital of Juba, July 4, 2011. The American independence celebration comes just five days before southern Sudan declares its own independence from the north on July 9, 2011.

In carrying out these responsibilities, the Department of State consults with Congress about foreign policy initiatives and programs, and works in close coordination with other Federal agencies, including the Department of Defense, the U.S. Agency for International Development, the Department of the Treasury, and the Department of Commerce, among others. The National Security Strategy, the Quadrennial Diplomacy and Development Review (QDDR), and the Presidential Policy Directive on Global Development (PPD) define the strategic priorities that guide U.S. global engagement and identify the diplomatic and development capabilities that the Department of State and the U.S. Agency for International Development (USAID) need to advance U.S. interests. The Department of State and USAID carry out their joint mission in a worldwide workplace, focusing their energies and resources wherever they are most needed to best serve the American people and the world.

The Department's organizational chart appears on page 9 and a map of the Department's locations appears on pages 10-11.

To address unique challenges of FY 2011, the following eight Special Representatives, Advisors, and Coordinators Offices were appointed:

- Special Representative for Global Partnership Initiative
- Special Advisor for Secretary Initiatives
- U.S. Special Representative for Biological and Toxin Weapons Convention
- Special Representative and Policy Coordinator, Burma
- Coordinator for Cyber Issues
- Senior Advisor to the Secretary for Civil Society and Emerging Democracies
- Special Advisor to the Secretary of State, Global Youth Issues
- Special Coordinator for Middle East Transitions

Domestically, in FY 2011 the Department opened new passport agencies in the following cities: St. Albans, Vermont; Buffalo, New York; El Paso, Texas; San Diego, California; and Atlanta, Georgia.

Internationally, the Department opened two new consulates in Iraq – one in Erbil and one in Basrah. In South Sudan, a new boundary was added between Sudan and South Sudan changing Consulate General Juba to Embassy Juba. In the Republic of the Congo, Embassy Brazzaville reopened; and in Indonesia, a new mission to the Association of Southeast Asian Nations (ASEAN) opened in Jakarta.

EMPLOYEE COMPOSITION AND NUMBERS

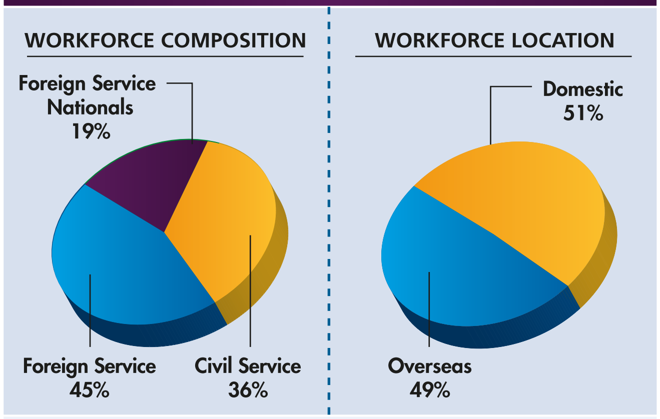
The Foreign Service Officers and Civil Service staff in the Department of State and U.S. missions abroad represent the American people. They work together to achieve the goals and implement the initiatives of American foreign policy. The Foreign Service is dedicated to representing America and to responding 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. A Foreign Service career is a way of life that requires uncommon commitment, yet also offers unique rewards, opportunities, and sometimes presents hardships. Members of the Foreign Service can be sent to any embassy, consulate, or other diplomatic mission anywhere in the world, at any time, to serve the diplomatic needs of the United States.

The Department's Civil Service corps, most of whom are headquartered in Washington, D.C., are involved in virtually every policy and management area – from democracy and human rights to narcotics control, trade, and environmental issues. Civil Service employees also serve as the domestic counterpart to Foreign Service consular officers who issue passports and assist U.S. citizens overseas.

Host country Foreign Service National (FSN) and other Locally Employed (LE) Staff contribute to advancing the work of the Department overseas. Both FSNs and other LE Staff contribute local expertise and provide continuity as they work with their American colleagues to perform vital services for U.S. citizens. In recent years, for cost savings benefit, new FSN and LE employees have been hired using Personal Services Agreements (PSAs), reducing the number of direct hire appointments.

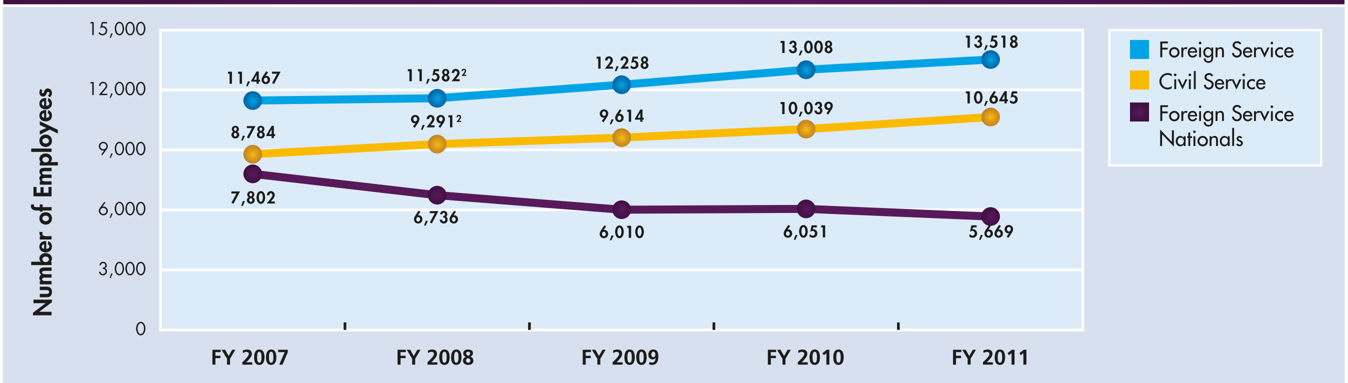
The pie charts below show the distribution of the Department's workforce by employment category as well as the proportion of the workforce located overseas. At the close of FY 2011, without Personal Services Contractors (PSCs) and/or PSAs, the Department was comprised of 29,832 full-time permanent employees.

FULL-TIME PERMANENT EMPLOYEES*
(AS OF SEPTEMBER 30, 2011)



* *PSCs and PSAs are not included.*

SUMMARY OF FULL-TIME PERMANENT EMPLOYEES[1]



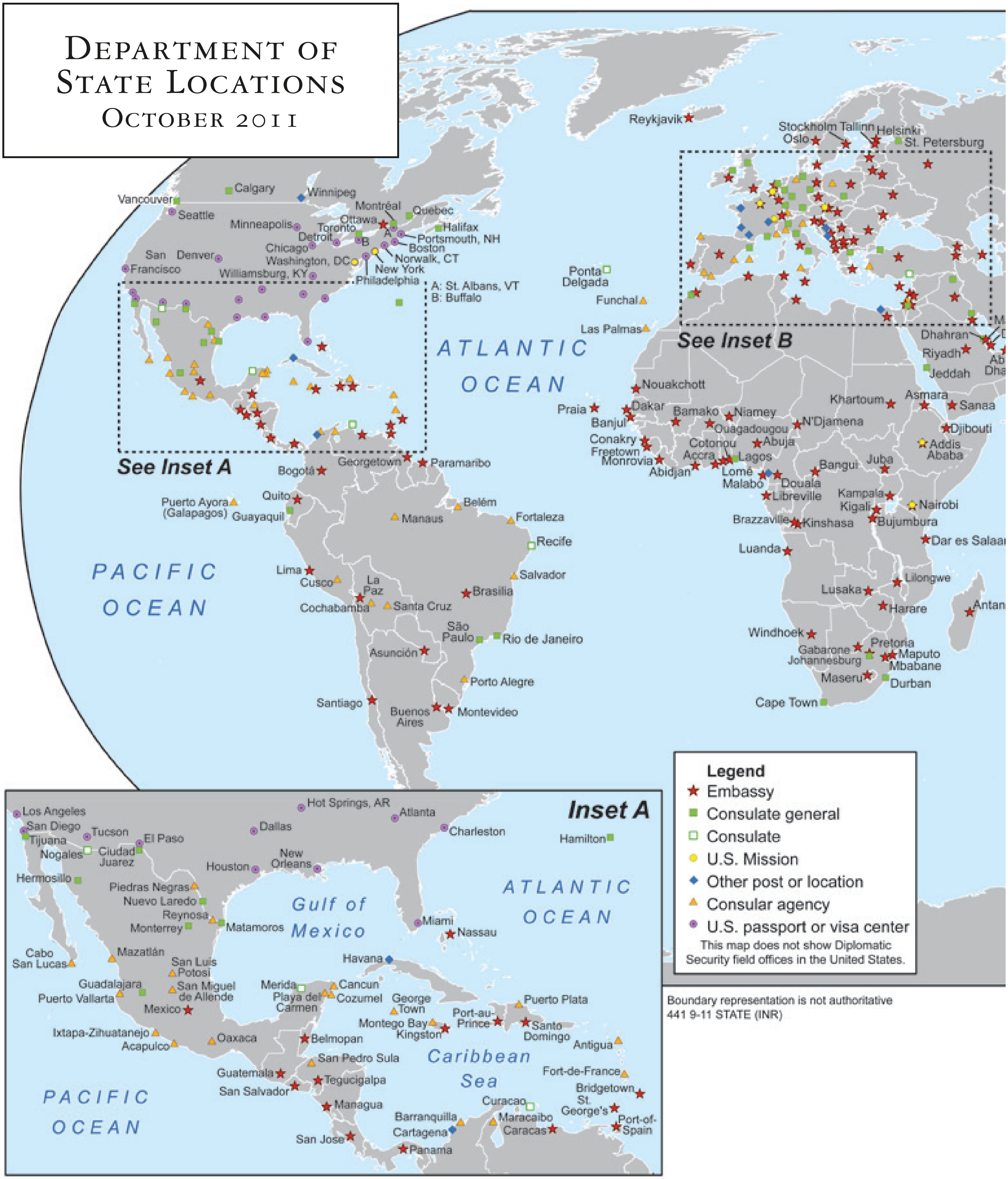
[1] *These numbers do not include FSNs employed under Personal Services Agreements or as Personal Services Contractors. As full-time Foreign Service National employees leave, new employees for these positions are being hired through Personal Services Agreements, reducing the number of direct-hire appointments.*

[2] *Data as of August 31, 2008.*

UNITED STATES DEPARTMENT OF STATE

Approved by S/ES May 2009

Department of State Locations
October 2011



Boundary representation is not authoritative
441 9-11 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
Yekaterinburg
Astana
Ulaanbaatar
Bishkek
Almaty
Tashkent
Ashgabat
Dushanbe
Mazar-e Sharif
Peshawar
Islamabad
Herat
Kabul
Lahore
Manama
Doha
Dubai
Abu Dhabi
Muscat
New Delhi
Karachi
Kathmandu
Kolkata
Dhaka
Mumbai (Bombay)
Hyderabad
Chennai (Madras)
Colombo
Sanaa
Djibouti
Yuzhno-Sakhalinsk
Vladivostok
Sapporo
Shenyang
Beijing
Seoul
Busan
Fukuoka
Tokyo
Nagoya
Osaka-Kobe
Chengdu
Wuhan
Shanghai
Naha (Okinawa)
Guangzhou
Hong Kong
Chiang Mai
Hanoi
Vientiane
Rangoon
Bangkok
Phnom Penh
Ho Chi Minh City
Manila
Cebu
Koror
Kolonia
Majuro
Honolulu
Kuala Lumpur
Bandar Seri Begawan
Medan
Singapore
PACIFIC OCEAN
Victoria
Dar es Salaam
Jakarta
Surabaya
Bali (Denpasar)
Dili
Port Moresby
Honiara
Apia
Suva
Papeete (French Polynesia)
INDIAN OCEAN
Antananarivo
Port Louis
Perth
Canberra
Sydney
Melbourne
Auckland
Wellington
Inset B
Edinburgh
North Sea
Belfast
Dublin
Copenhagen
Riga
Vilnius
Moscow
Minsk
Bremen
Hamburg
The Hague
Amsterdam
Berlin
Poznan
Warsaw
London
Dusseldorf
Leipzig
Brussels
Luxembourg
Frankfurt
Prague
Krakow
Kyiv
ATLANTIC OCEAN
Paris
Rennes
Strasbourg
Munich
Vienna
Budapest
Bratislava
Chisinau
Zurich
Bern
Geneva
Lyon
Ljubljana
Zagreb
Belgrade
Milan
Venice
Banja Luka
Bordeaux
Genoa
Sarajevo
Bucharest
Toulouse
Nice
Marseille
Florence
Mostar
Pristina
Sofia
Black Sea
Caspian Sea
A Coruña
Rome
Holy See
Podgorica
Skopje
Tirana
Tbilisi
Barcelona
Naples
Thessaloniki
Istanbul
Madrid
Yerevan
Baku
Ankara
Valencia
Palma de Mallorca
Lisbon
Palermo
Izmir
Sevilla
Athens
Adana
Fuengirola (Málaga)
Algiers
Tunis
Valletta
Erbil
Nicosia
Rabat
Casablanca
Mediterranean Sea
Beirut
Damascus
Haifa
Baghdad
Tripoli
Tel Aviv
Amman
Jerusalem
Alexandria
Al Basrah
Cairo
Kuwait

STATE-USAID HIGH PRIORITY PERFORMANCE GOALS

Under the leadership of Secretary Clinton, the Department of State and USAID have developed a strategic approach to accomplishing their shared mission, focusing on robust diplomacy and development as central components to solving global problems. In accordance with the Government Performance and Results Act Modernization Act (GPRAMA) of 2010, State and USAID identified eight outcome-focused High Priority Performance Goals (HPPGs) that reflect the Secretary's and USAID Administrator's highest priorities. These goals reflect our strategic and budget priorities in FY 2010-2011and will continue to be of particular focus for the two agencies in the next iteration of performance goals—the Agency Priority Goals due to be published in February of 2012.

The current HPPGs are listed below. Due to time lags in data collection, results from the HPPGs will be published in our upcoming performance reports in February 2012.

High Priority Performance Goals (HPPGs), FY 2010-FY 2011

- **Afghanistan and Pakistan:** For detailed information, see Stabilization Strategy, Feb 2010 *http://www.state.gov/documents/organization/135728.pdf.*
- **Iraq:** A Sovereign, Stable, and Self-Reliant Iraq.
- **Global Health:** By 2011, countries receiving health assistance will better address the priority health needs of women and children, with progress measured by U.S. Government and UNICEF-collected data and indicators. Longer term, by 2015, the Global Health Initiative aims to reduce the mortality of mothers and children under five, saving millions of lives, avert millions of unintended pregnancies, prevent millions of new HIV infections, and eliminate some neglected tropical diseases.
- **Climate Change:** By June 30, 2012, U.S. assistance will have supported the establishment of at least 12 work programs to support the development of Low Emission Development Strategies (LEDS), with this support expanding to 20 countries in 2013. By the end of FY 2014, U.S. assistance will result in strengthened capacity and measurable progress on LEDS, laying the groundwork for climate resilient development and meaningful reductions in national emissions trajectories through 2020 and longer term.
- **Food Security:** By the end of FY 2011, up to five countries will demonstrate the necessary political commitment and implementation capacities to effectively launch implementation of comprehensive food security plans that will track progress towards the country's Millennium Development Goal (MDG1) to halve poverty and hunger by 2015.
- **Democracy, Good Governance, and Human Rights:** To promote greater adherence to universal standards of human rights, strengthen democratic institutions, and facilitate accountable governance through diplomacy and assistance, by supporting activists in 14 authoritarian and closed societies and by providing training assistance to 120,000 civil society and government officials in 23 priority emerging and consolidating democracies between October 1, 2009 and September 30, 2011.
- **Global Security – Nuclear Nonproliferation:** Improve global controls to prevent the spread of nuclear weapons and enable the secure, peaceful use of nuclear energy.
- **Management:** Strengthen the civilian capacity of the State Department and USAID to conduct diplomacy and development activities in support of the Nation's foreign policy goals by strategic management of personnel, effective skills training, and targeted hiring to fill priority vacancy needs.

Performance Summary and Highlights

Performance Management at the Department of State

In Washington and around the world, the Department of State continues to make significant strides toward a more secure, democratic and prosperous world for the benefit of the American people and the international community. The Department works closely with dedicated colleagues from many U.S. Government agencies to vigorously pursue U.S. foreign policy goals including: strengthening democratic institutions and promoting conflict prevention; providing food and emergency aid; securing and stabilizing conflict areas around the world; promoting social and economic progress; and strengthening strategic partnerships. In 2011, a profound and dramatic wave of change swept across parts of the Middle East, as people courageously stood up to their governments to express their legitimate aspirations for greater political participation and economic opportunity. Global communication, seen in the growing popularity of social media, is dramatically changing the world and has magnified challenges and threats, which must be addressed by U.S. foreign policy. Transnational and organized crime in parts of Central America continue to challenge efforts to build strong and resilient communities able to withstand the pressures of crime and violence. Looking at the Department's management capabilities, and expansion of U.S. diplomatic engagement in critical threat locations calls for thoughtful approaches to promote transparency and accountability while balancing the need for increased education in cyber security and personnel security. The Department is committed to using performance management best practices to meet these challenges in order to ensure the most effective U.S. foreign policy outcomes and greater accountability to our primary stakeholders, the American people.

Strategic planning and performance management are guided in the Department by the Quadrennial Diplomacy and Development Review (QDDR) and the recently-enacted Government Performance and Results Act Modernization Act of 2010 (GPRAMA). In addition, the Department and USAID share a Joint Strategic Goal Framework organized around seven strategic goals. The Joint Strategic Plan, anchored in the National Security Strategy defines the primary aims of U.S. foreign policy and development assistance.

U.S. Ambassador-at-Large for Global Women's Issues Melanne Verveer, left; U.S. Assistant Secretary of State of South and Central Asian Affairs Robert Blake, second from left; Kyrgyz Republic President Roza Otunbayeva, second from right: U.S. Ambassador to the Kyrgyz Republic Pamela Spratlen, right; pose for a photo at the President's residence before the opening of the Central Asia and Afghanistan Women's Economic Symposium in Bishkek, Kyrgyzstan, July 18, 2011.

Department of State

The Department's annual planning cycle engages diplomatic missions and Washington-based bureaus in outcome-oriented planning activities that articulate policy and establish programmatic direction by country, region, strategic goal and strategic priorities including, but not limited to: rule of law and human rights; energy security; counterterrorism; economic diplomacy; visa services; and global health. Through its Foreign and Civil Service managers, the Department continually evaluates its foreign policy choices through the application of best practices including performance measurement and analysis, monitoring and evaluation, and the use of performance information to influence program and project design and resource allocations.

The Quadrennial Diplomacy and Development Review, released in December 2010, is a significant component in the Department's strategic planning and performance management. The QDDR is a comprehensive assessment of the capabilities needed to strengthen and elevate diplomacy and development as key pillars of the national security strategy, alongside defense. The QDDR sets institutional

"Old to New" Department of State-USAID Joint Strategic Goal Framework

SG1: Achieving Peace and Security	**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.
SG2: Governing Justly and Democratically **SG3:** Investing in People **SG4:** Promoting Economic Growth and Prosperity	**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.
SG5: Providing Humanitarian Assistance	**SG4:** Provide humanitarian assistance and support disaster mitigation.
	SG5: Support American prosperity through economic diplomacy.
SG6: Promoting International Understanding	**SG6:** Advance U.S. interests and universal values through public diplomacy and programs that connect the United States and Americans to the world.
SG7: Strengthening Consular and Management Capabilities	**SG7:** 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.

priorities and provides strategic guidance as a framework for the most efficient allocation of resources. It provides the blueprint for elevating American "civilian power" to better advance U.S. national interests and to better partner with the U.S. military. The QDDR serves as the new State-USAID Joint Strategic Plan, and continues to address key U.S. foreign policy and national security priorities. This new Strategic Goal Framework is depicted above, with a cross-walk from the strategic goals of our previous strategic plan.

Program Evaluation

The Department of State issued an agency-wide program evaluation policy in October 2010, to put in place a framework for incorporating evaluation as an agency management practice. In January 2011, USAID released a new evaluation policy detailing how USAID will strengthen its evaluation practice as part of broader efforts to transform the agency into a learning organization and leading development enterprise. As a part of the QDDR implementation plan, the Department is strengthening operational implementation of the policy, and the Department and USAID are partnering to develop evaluation standards, guidelines and procedures that support performance management strategies in both agencies. Steps the Department is taking to strengthen evaluation standards and practices include:

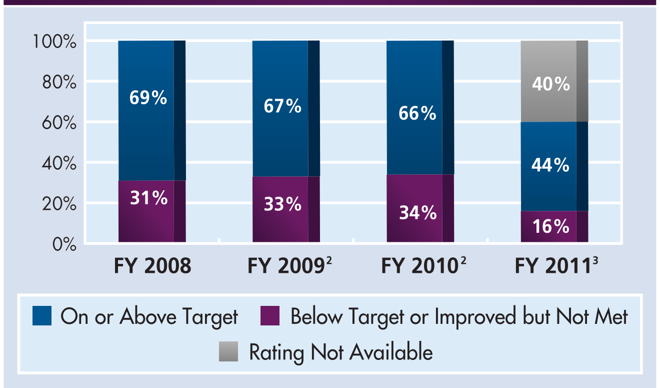
- processes to integrate evaluation into program, project design, and strategic and performance planning;
- guidelines to minimize bias in evaluations;
- an emphasis on methodological rigor in evaluations;
- agency-wide capacity building activities to support effective management of evaluations; and
- an emphasis on using evaluation information to generate knowledge and inform the Department's strategic planning and budgetary processes.

Using Performance to Achieve Results

To assess FY 2011 results, program managers examined quantitative and qualitative indicators to determine whether indicators met previously established annual targets. Managers also considered how the results impact the achievement of the Department and USAID strategic goals. A rating was then assigned to each indicator based on the analysis. In the following Strategic Goals and Results section of this MD&A, seven illustrative indicators are highlighted and accompanied by key achievements and a summary and analysis of performance trends. The bar graph on the following page entitled Performance Indicator Ratings FY 2008 – 2011 is not intended to show a trend line, but collective ratings for the Department's performance indicators.

Starting in FY 2009, the Department began the shift to more stable performance indicators that would result in year-to-year comparability. Ratings in the bar graph include a set of indicators used for the first time in FYs 2009, 2010 and 2011. Therefore, there is limited ratings comparability from FY 2008 to FY 2011. In addition, between FY 2010 – 2011 nearly fifty percent of the underachieving performance indicators reported in last year's AFR improved during FY 2011. Their steps to improve were included in the

Performance Indicator Ratings FY 2008-2011[1]



[1] Data Sources: *FY 2008 - Citizens' Report, Fiscal Year 2008 Summary of Performance and Financial Results*; FY 2009 and FY 2010 - *Joint Summary of Performance and Financial Information* reports; and FY 2010 and FY 2011 - Bureau of Resource Management Planning and Performance System. FY 2008 - 2010 performance ratings calculated from performance data provided in Department reports at the time of publication. FY 2010 indicator ratings not available at time of publication have been omitted.

[2] The Department of State and USAID jointly reported indicators in the FY 2009 and FY 2010 *Joint Summary of Performance and Financial Information* reports. As a result, FY 2009 and FY 2010 indicator ratings featured in this bar graph include USAID indicators.

[3] FY 2011 ratings are not available for indicators that are new or for which result data are not yet available as of September 30, 2011. The Department will report FY 2011 ratings for Foreign Assistance indicators for programs managed by State and/or shared with USAID in the FY 2013 *Congressional Budget Justification* and FY 2011 *Joint Summary of Performance and Financial Information* report to be released in early 2012.

FY 2012 Congressional Budget Justification. For FY 2011 ratings are not available for indicators that are new or for which results data are not yet available. The Department will report FY 2011 ratings for Foreign Assistance indicators for programs managed by State and/or shared with USAID in the FY 2013 Foreign Operations Congressional Budget Justification and in the FY 2011 *Joint Summary of Performance and Financial Information* report due to be released in early 2012.

Data Quality Assessments

The Department requires bureaus and missions to conduct data quality assessments for performance data reported to Congress and stakeholders, including the American public. Data sources include primary data that are collected by the Department directly; partner data compiled by implementing partners but collected from other sources; and third-party data from other government agencies or organizations. Data quality assessments examine the quality of performance results for potential limitations that might compromise the confidence of the data. The Department continues to make great strides to identify and use indicators that are useful for decision-making, are of high quality, and are most representative of the Agency's goals and strategic priorities.

Looking Ahead and Addressing Challenges

At the State Department, we work in an international landscape defined by exceptional American global leadership, rooted in our most precious values, those that put the common good first and rally the world around a vision of a more peaceful and prosperous future. Securing and sustaining that leadership is the organizing principle behind everything we strive to do at the Department. Our global leadership holds the key not only to our prosperity and security at home but to the kind of world that is increasingly interconnected and complex. The United States currently confronts threats more diffuse and complex than at any time in our history. Iraq and Afghanistan, terrorism, extreme poverty, weapons proliferation, and global criminal networks all represent transnational and sub-national challenges. The key to America's security and prosperity is a stable and secure world. Our power does not come from our military might alone, but also from our values, our capacity to form strong partnerships, our capacity to lead through unprecedented historical changes, and our ability to improve the lives of others so we do not have to pay the price of global poverty, instability, and ultimately, conflict in the long run. In no way is this more evident than in the Department's work to set a new course in the Middle East in light of the dramatic events unfolding through the Arab Awakening.

The U.S. presence in Iraq and Afghanistan will transition from military-led to civilian-led operations in December 2011 and 2014, respectively. As a result, the Department is assuming new roles and responsibilities that present both programmatic and personnel challenges. U.S. assistance to Iraq has changed substantially, shifting from directly implementing reconstruction projects to strengthening the capacity of the Government of Iraq (GOI) to lead Iraq's development and to govern effectively. A moment of great opportunity exists following the 2010 Iraqi national elections and subsequent government formation to continue this progress, and forge an enduring partnership sustained by a strong U.S. diplomatic presence. This transition is essential to the ongoing U.S. goal of a sovereign, stable, and self-reliant Iraq. Similarly, the Department faces a number of security and logistical challenges to support and sustain a civilian presence in Afghanistan in the coming years as the U.S. military withdraws from Afghanistan. We will face these challenges together, relying on these new partners as friends, not foes. And, in our stewardship of the resources granted to the Department, we will prioritize our resources and align them with U.S. strategic goals in both transition countries.

We lead with partnership, based on a principle of mutual responsibility, mutual respect, and mutual interest. Because leadership does not have to mean shouldering the burden alone; it means inspiring others to join you in doing the job. And we lead with pragmatism, keenly focused on results that benefit, first and foremost, the American people. Most recently the United States has exemplified this approach in Libya.

In Libya, the crisis threatened to undermine the democratic transitions underway in neighboring Egypt and Tunisia, and send shockwaves across the Middle East. We began a diplomatic offensive. Along with our allies, we succeeded in putting in place an arms embargo and economic sanctions that froze billions of dollars worth of assets. We led an effort in the United Nations Security Council to pass a resolution authorizing a no-fly zone in Libya and all the necessary measures to protect the Libyan people. The Libyan opposition, the Arab League, and the African members of the Security Council all supported this resolution. Other countries, including Arab countries, flew the vast majority of the air missions and put the forces and services on the ground to work with the Libyan opposition. And so American leadership must be as dynamic as the challenges we face. We have to be ready to adapt and innovate which may mean partnering with new groups of nations to solve global problems.

This begins by understanding the current international landscape and the demands it places on American leadership. Today the major powers are at peace, but new regional and global centers of influence are quickly emerging. These countries have benefited from the stability and security long provided by American leadership. Working with these new players in the years ahead, encouraging them to accept the responsibility that comes with influence, and integrating them more fully into the international order is a key test for American diplomacy.

We use our leadership to inspire and to accomplish attaining the resources we need to support the areas where we lead. Even as the Department and USAID take on increased responsibilities abroad and promote U.S. national security in new ways, leveraging technological efficiencies as well as bi-lateral and non-governmental partners, we face significant budget challenges but continue to align our resources with our strategic priorities. We have seen how countering extremism or curbing nuclear proliferation promotes a more secure future and saves lives. We know too well that hunger and economic deprivation lead to political instability and ultimately harm our security and economic interests. Our programs to promote trade and investment and champion American companies around the world create jobs and opportunities for the American people here at home. Today's State Operations and Foreign Assistance programs go beyond improving food security and increasing access to education and medical care. Building transparent and accountable governance and creating climate-resilient economies are equally important to help break cycles of instability and poverty within developing countries and regions. The President has called for an elevation of development as a core pillar of American Power, along with diplomacy and defense.

While we can look back on 2011 and be proud of the Department's accomplishments, there are significant challenges—and opportunities—that lie ahead. In the next 10 years, we need to be smart and systematic about where we invest our time, energy and human and financial resources so that we preserve our leadership place in the global economy, secure our interests, and advance our values. One of the most important tasks of American statecraft over the next decade will be to align our resources with our strategic priorities. The Department has made significant progress on the ongoing implementation of the Quadrennial Diplomacy and Development Review (QDDR) FY 2011 recommendations. The QDDR will provide the short, medium and long term blueprint for U.S. diplomatic and development efforts. It sets institutional priorities and provides strategic guidance as a framework for the most efficient allocation of resources; it aims to improve the efficiency and effectiveness of the Department and USAID in delivering results for the American taxpayer, by modernizing their capabilities and aligning their efforts as core pillars of America's civilian power. One significant component of the QDDR was the Streamlining Project, launched in August 2010, to improve the efficiency and effectiveness of foreign assistance planning and reporting. By reducing redundancy, eliminating low priority programs, and improving process efficiencies, the streamlining recommendations have the potential to save significant amounts of time that staff currently spend on foreign assistance plans and reports. The QDDR also initiated an evaluation of the Department and USAID's strategic planning and budgeting processes. The results revealed the need for a new approach to planning and budgeting. The Department will launch a new strategic planning process in early 2012.

The Department is also addressing challenges raised by the Office of Inspector General (OIG) and recommendations made by the U.S. Government Accountability Office (GAO). OIG considers the most serious management and performance challenges for the Department to be in the following areas: Contracting and Procurement; Coordinating and Overseeing Foreign Assistance; Diplomacy with Fewer Resources; Effective Leadership; Financial Management; Information Security and Information Management; Military to Civilian-Led Presence Transitions; Protection of People and Facilities; Protecting American Citizens and American Borders; and Public Diplomacy.

So as we look to the future, let's leverage existing resources and invest in new opportunities to sustain and secure our global leadership. Leadership is in our DNA; we would do great harm to who we are as Americans if we withdraw. In the last decade, the country has lived through terrorist attacks, protracted conflicts in the Middle East, and a global financial crisis. Through the next decade, the challenges will likely be different, requiring dynamic solutions to global problems. Through it all, America remains, and will remain, an exceptional country, exceptional for our creativity and openness that draws people from everywhere here to our homeland, for our unwavering commitment to securing a more just and peaceful world, and for our willingness to serve and sacrifice for the common good.

Following the 9.0 magnitude earthquake/tsunami, Embassy Consular Officers Andy Utschig, second from right, and Ed Burleson, far right, confirm the welfare of two American citizens in Tome-shi, Miyagi Prefecture, on March 16, 2011. State Magazine September 2011

Blueprint Forward

Quadrennial Diplomacy and Development Review

In 2010, the Department of State and the United States Agency for International Development (USAID) launched the first-ever Quadrennial Diplomacy and Development Review (QDDR). Titled "Leading through Civilian Power," the QDDR is a four-year blueprint (or plan) for leveraging diplomacy and development as key pillars of America's national security alongside defense. Leading through civilian power means directing and coordinating the resources of all America's civilian agencies to prevent and resolve conflicts; assisting countries to lift themselves out of poverty and into prosperous, stable, and democratic states; and building global coalitions to respond to global issues. The goal of the QDDR process is to guide the United States to agile, responsive, and effective institutions of diplomacy and development. To this end, the QDDR calls for State and USAID to change the way we do business in four broad areas:

> "To lead in this new century, we must often lead in new ways."
>
> *— Secretary of State, Hillary Rodham Clinton*

- Adapt to the diplomatic landscape of the 21st Century;
- Elevate and modernize development to deliver results;
- Strengthen civilian capability to prevent and respond to crisis and conflict; and
- Work smarter to deliver results for the American people.

Even before it was formally issued, the QDDR reforms started changing the way we do business. To adapt to the diplomatic landscape of the 21st Century, the Department's embassies started looking and operating very differently than in the past. Many embassies have a large presence with representatives from many Federal agencies (e.g., the Departments of Homeland Security, Justice, and Health and Human Services) who run, manage, and implement programs that advance many of the United States' interest overseas. Increasingly our ambassadors are taking the role akin to a Chief Executive Officer (CEO) to manage the multi-agency mission that falls under their leadership. These ambassadors lead hundreds of civilians from many other Federal agencies, including disaster relief and reconstruction experts helping to rebuild a country; specialists in such sectors as health, energy, communications, finance, agriculture, and justice; and military personnel working with foreign governments and militaries. Through efforts to improve mission-level strategic planning and budgeting processes, we are working to strengthen the ambassadors' role as the leaders of their missions.

Through the leadership of both the Department of State and USAID, the Administration is using the Global Health, Feed the Future (FTF), and the Global Climate Change Initiatives to elevate and modernize development and to deliver results. For example, through Global Health, we have worked with USAID, among others, to build clinics and provide advisors that assist expectant mothers and their babies with improving their diets during the most critical stages of development. USAID also plays a unique role as the lead agency for the President's Global Hunger and Food Security Initiative, FTF, in coordinating the United States' whole-of-government effort to develop and implement permanent solutions to global hunger and under nutrition with a diverse group of private and civil society partners. USAID also supports U.S. climate change policy by assisting developing countries in building lasting resilience to unavoidable climate impacts; in reducing emissions from deforestation and land degradation; and in supporting low-carbon development strategies and the transition to a sustainable, clean energy economy.

The Department is also changing the way we do business by strengthening civilian capability to prevent and respond to crisis and conflict. For instance, the Department is undergoing a process of consolidating its expertise into a Bureau for Conflict and Stabilization Operations (CSO), strengthening the Office of Transition Initiatives at USAID, recognizing the role of women in conflict prevention and recovery, and strengthening State's security and justice sector assistance capability as a key prevention and response tool. The QDDR also calls for changing the way we do business by working smarter to deliver results for the American people. This includes improving our approaches to procurement and personnel while being ever more vigilant that taxpayer dollars are spent as effectively and efficiently as possible. We are improving our strategic planning by strengthening joint State-USAID strategic planning at the agency, bureau, and mission level, including the creation of a multi-year Integrated Country Strategy led by the Chiefs of Mission.

QDDR implementation is an on-going process with many reforms underway; other recommendations highlighted by the QDDR will be implemented through the launch of the next Review.

STRATEGIC GOALS AND RESULTS

STRATEGIC GOAL 1: ACHIEVING PEACE AND SECURITY

Preserve international peace by preventing regional conflicts and transnational crime, combating terrorism, and weapons of mass destruction, and supporting homeland security, and security cooperation.

Public Benefit. The United States faces a broad and complex array of challenges to our national security. Wars over ideology have given way to wars over religious and ethnic identity; inequality and economic instability have intensified; damage to our environment, food security, and dangers to public health are increasingly shared; and nuclear dangers have proliferated. In 2011, a profound and dramatic wave of change swept across the Middle East as people courageously stood up to their governments to express their legitimate aspirations for greater political participation and economic opportunity. The Arab Spring has fundamentally transformed the political landscape of the Middle East. The goal for an Iraq that is sovereign, stable and self-reliant remains the focus of our efforts to assist Iraq's transition to a stable and secure democracy. In all these challenges, our close relationship with our interagency partners has enabled the United States to capitalize on the region's multiple democratic transitions to begin building a more stable, peaceful and democratic region.

The U.S. Government responds to these challenges with forward-deployed civilian power—the combined force of women and men across the U.S. Government who are practicing diplomacy, implementing development projects, and working with military services as a unified force to advance America's core interests and build a safer and more secure world. Our priorities include seeking peace and security and a world without nuclear weapons; combating weapons of mass destruction through bilateral and multilateral arms control efforts; supporting stabilization activities; and promoting democratic and political reforms across the Middle East and North Africa to support transitions to democracy.

In FY 2011, we strengthened our national security in a number of ways. We continued to work with other U.S. Government agencies to promote political and economic reform measures throughout the Near East region, pursuing

Secretary of State Clinton signs the documents to finalize the New START Treaty between the United States and Russia during the Conference on Security Policy in Munich, Germany, February 5, 2011. ©AP Image

partnerships between Americans and the citizens of the Middle East and North Africa via the Middle East Partnership Initiative. We sustained our work toward enhancing regional counterterrorism cooperation through and in coordination with the Trans-Sahara Counter Terrorism Partnership. This initiative seeks to counter the threat of al-Qaeda in the Islamic Maghreb and violent extremism through North Africa. The Department's Quadrennial Diplomacy and Development Review (QDDR) placed a greater emphasis on the role of conflict prevention as a core mission of the Department. As a result, we are extending the reach and effectiveness of the U.S. civilian and military power to prevent and/or respond to conflict and to provide on-the-ground technical support to stabilize conditions pertaining to security, rule of law and economic recovery. Owing to the success of the 2010 Review Conference of the Nuclear Non-Proliferation Treaty and the Nuclear Security Summit, we are registering progress with countries in all corners of the world at minimizing the use of and securing highly enriched uranium and plutonium used in nuclear weapons against insider and outsider threats.

Key Achievements

- The bilateral relationship between the United States and Iraq continues to evolve, with the Department assuming the lead for the U.S. Government under the auspices of the Strategic Framework Agreement. The United States closed all of its Provincial Reconstruction Teams in Iraq in 2011 and opened Consulates General in both Erbil and Basrah. Plans are underway to open a temporary consulate in Kirkuk, Iraq.

- Pursuant to an agreement in 2010, the P-5 (United States, Russia, China, France, and the United Kingdom) held a follow-up to the transparency and mutual confidence discussions in 2011. The P-5 approved continuing work on an agreed glossary of definitions for key nuclear terms and agreed to renew efforts before the 2011 United Nations General Assembly to start Fissile Material Cutoff Treaty negotiations.

- The U.S. has improved the work of the 82-country Global Initiative to Combat Nuclear Terrorism so that it has become a durable international institution. Institutional changes include the establishment of an Implementation and Assessment Group, with three working groups on nuclear forensics, nuclear detection, and nuclear response and mitigation.

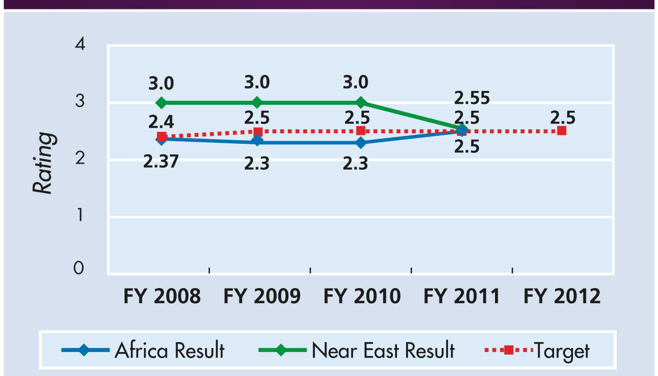
- In Afghanistan, U.S. support to Interagency Specialty Teams from the Departments of Homeland Security and Justice and the U.S. Marshal Service provided rule of law expertise and mentorship to military and Afghan counterparts in the areas of judicial security, correction facilities, anti-corruption, border operations, and reintegration programs for detainees.

- The United States is working to advance a two-state solution to the Israeli-Palestinian conflict through the promotion of negotiations between Israel and the PLO based on the foundation President Obama laid out in his May 2011 remarks. The Administration's strategy in pursuit of Israeli-Palestinian peace consists of two lines of effort: a vigorous political negotiating track and equally vigorous institution-building track.

Summary and Analysis of Performance Trends

This section details a key performance indicator to illustrate the Department's performance in an area that links to key budget and policy priorities under Strategic Goal 1. The indicator – Average rating denoting degree to which United Nations peacekeeping missions in Africa and Near East Asia funded through the Contributions for International Peacekeeping Activities (CIPA) account achieve U.S. Government objectives – represents the Department's ongoing priority to work with multilateral bodies to advance peace and security through active engagement with global institutions, and to share the burden of peacekeeping, peacebuilding, and conflict resolution with a growing community of nations. UN Peacekeeping Missions in Near East Asia received an average rating of 2.55 out of 4 for FY 2011, surpassing its FY 2011 target of 2.5. The difference in the FY 2010 data was due to unexpectedly strong progress reports for the United Nations Interim Force in Lebanon and the United Nations Disengagement Observer Force on short-term goals. In addition, the FY 2011 target was not adjusted upward. The average rating of 2.5 in FY 2011 for UN Peacekeeping Missions in Africa met the FY 2011 target of 2.5. Results for this indicator reflect the difficult security, political, and economic environment in which peacekeeping operations are carried out.

Peacekeeping Operations Ratings in Africa and Near East Asia[1]



Source: Internal State Department Mission Reports, UN Secretary General Reports, UN Security Council Report. Indicator title: Average rating denoting degree to which United Nations peacekeeping missions in Africa and Near East Asia funded through the Contributions for International Peacekeeping Activities (CIPA) account achieve pre-established U.S. Government objectives.

[1]Scale: 1 = Below Target; 2 = Improved over prior year, but not met; 3 = On Target; 4 = Above Target. The average of these ratings is then compared to the annual target.

STRATEGIC GOAL 2: GOVERNING JUSTLY AND DEMOCRATICALLY

Advance the growth of representative democracies and good governance, including civil society, the rule of law, respect for human rights, political competition, and religious freedom.

Public Benefit. U.S. leadership in promoting human rights is a national tradition, a moral imperative, and a national security priority. The National Security Strategy makes clear that supporting the expansion of democracy and human rights abroad is in our national interest. In 2011, demands for democracy and human rights swept the Arab world and elsewhere. U.S. leadership in addressing these calls for reform helps implement the President's vision and the Secretary's strategic priorities to achieve successful and sustained transitions to democracies and universal freedoms. While this commitment to promoting human rights and democracy is part of our history, the dialogue on these continues to evolve. The Department's goals are simple: to ensure that people are free from bodily harm, free to select their leaders, free to express themselves and are protected by the law. We carry out these goals by investing in helping build the essential institutions of democratic accountability, including independent media, independent labor unions, and religious freedoms; addressing human rights and democratization challenges in the frontline states of Iraq, Afghanistan and Pakistan; and promoting effective stewardship and cost effectiveness of American taxpayer dollars to ensure aid effectiveness.

To achieve these goals, the Department continues to engage in bilateral and multilateral efforts with governments and civil society. We are focusing on transitioning and post-conflict societies, as well as on those parts of the world not yet seeing democratic progress. We are institutionalizing successful programs to protect and integrate vulnerable communities—such as people with disabilities, women, and ethnic and religious minorities—in the political process, and are leading efforts to promote labor rights and business adherence to human rights standards. And with the explosive growth of the Internet, the Department is expanding programming in support of free expression and the free flow of information online and via other technologies. U.S. investment in these transitions helps to amplify the voices of civil society and human rights activities and build democratic partners.

Secretary of State Clinton and Serbian President Tadic hold talks at the presidential palace in Belgrade, October 12, 2010. ©AP Image

Key Achievements

- In July 2011, Secretary Clinton announced at the Community of Democracies meeting in Krakow, the creation of an international fund to support embattled non-governmental organizations (NGOs) with emergency assistance to people on the frontlines of advancing human rights, including groups advocating for the rights of women and children; religious minorities; Lesbian, Gay, Bisexual, and Transgender people; and individuals with disabilities. The Department is seeding the fund with over $4 million for the multi-year effort.
- The United States is a party to the Voluntary Principles on Security and Human Rights, which bring together governments, companies, and NGOs to ensure companies take tangible steps to minimize human rights abuses in the surrounding communities as they extract resources in some of the most challenging places in the world. This year, the Department helped negotiate a consensus among 19 oil, gas and mining companies, seven governments, and 10 NGOs on a new core document that outlines the expectations of participants, and lays out a plan to pursue the creation of a legal entity to help companies maintain high standards.

TECHNOLOGY AND FREEDOM

INTERNATIONAL CYBER DIPLOMACY

Secretary Clinton has described the International Strategy for Cyberspace priorities as "a new foreign policy imperative for which the State Department has been exercising and will continue to have a leading role."

Pro-Egyptian demonstrators hold their mobile phones aloft and flash the V-sign for victory during a rally staged by human rights groups as part of a global event to mark the resignation of Egyptian President Mubarak in Trafalgar Square, London, February 12, 2011. ©AP Image

Cyber Diplomacy

The Department of State's "cyber diplomacy" encompasses a wide range of U.S. interests in cyberspace. These include not only cyber security and Internet freedom, but also Internet governance, military uses of the Internet, innovation, and economic growth.

What the State Department is Doing

In partnership with other countries, the State Department is leading the U.S. Government's efforts to build consensus around international norms of state behavior in cyberspace. To more effectively advance the full range of U.S. interests in cyberspace, in February 2011, the Secretary established the Office of the Coordinator for Cyber Issues. The Office's responsibilities include bringing together the many elements in the State Department working on cyber issues; coordinating the Department's global diplomatic activities on cyber issues; advising the Secretary on cyber issues and engagements; and serving as a liaison to public and private entities on cyber issues.

Secretary Clinton and Cyber Policy

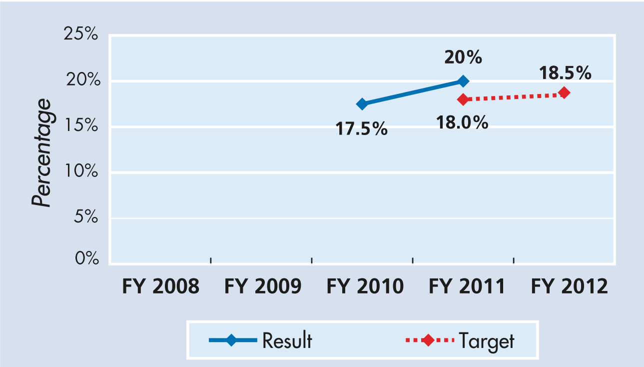
The Secretary is a leading voice in international cyber policy. Under her leadership, the State Department is integrating cyber issues into programming across the board, from our cooperation with other nations to stop criminal cartels to our economic diplomacy to our support for women and girls worldwide. The Department is sponsoring capacity-building efforts to help more countries play a role in the development of the Internet. It is supporting the efforts of human rights and democracy activists to ensure they have access to an open Internet. And it has created a 21st Century statecraft agenda to harness new technologies and to achieve our diplomatic and development goals. For more information, go to *www.state.gov/cyber*.

- In April 2011, the Department launched HumanRights.gov, the official U.S. Government website for international human rights related information. The site links users directly with news, reports, and explanatory information from the Department and other U.S. Government agencies, allowing for fully accessible documents and compliance with the Americans with Disabilities Act. HumanRights.gov sustains a broad viewership, with 57 percent of its visits from outside of the United States.

Summary and Analysis of Performance Trends

The Department exceeded the target for the illustrative indicator relative to Strategic Goal 2 – Increased civic activism in priority countries with repressive regimes, as measured by the percent of civil society activists and organizations able to sustain activities after six months of receiving U.S. support. This performance indicator is a key measure of the joint State-USAID High Priority Performance Goal (HPPG) for Democracy, Good Governance, and

Increased Civic Activism in Priority Countries[1]



Source: Global Human Rights Defender Fund.

[1] Indicator new in FY 2010, targets established in early FY 2011. Indicator title: Increased civic activism in priority countries with repressive regimes, as measured by the percent of civil society activists and organizations able to sustain activities after six months of receiving U.S. support.

Human Rights and illustrates the Department's performance in an area that links key policy priorities to the Department's budget under Strategic Goal 2.

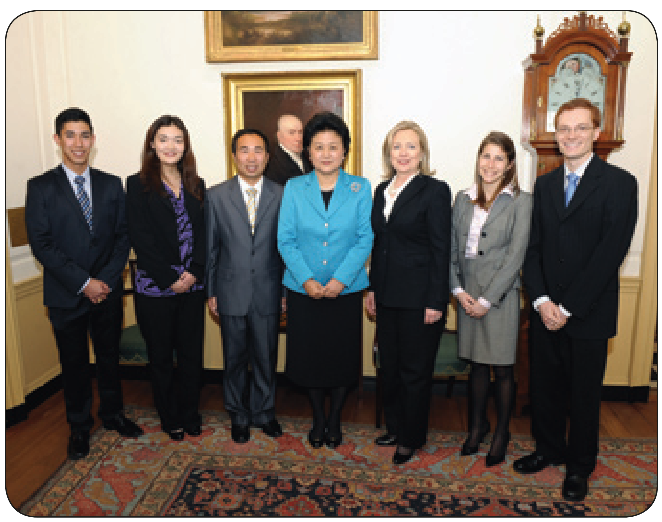
Protecting fundamental freedoms of association, assembly, expression, and religion represents a key aspect of U.S. foreign policy. The Department is leveraging key foreign assistance and diplomatic tools to support local activists in creating conditions necessary to reverse a trend in recent years of a shrinking enabling environment for civil society around the world. The recent events in the Middle East and North Africa remind us of the challenges human rights activists and civil society face in their work to protect citizens' rights. In February 2011, Secretary Clinton launched the State Department's first Strategic Dialogue with Civil Society to underscore our commitment to supporting and defending civil society around the world. The Dialogue enhances efforts to amplify the voices of activists and to provide protection for civil society where we can. In support of this important commitment, the *Lifeline: The Embattled NGOs Assistance Fund* was created this year with support from twelve other democratic nations. In FY 2011, in a selection of 14 targeted countries, 20 percent of activists and organizations were able to continue activities six months after receiving U.S. support. This percentage of actual number of human rights activists and defenders, supported by U.S. Government funds, who are advocating for a more open civil society within repressive regimes, exceeded the established target – evidence that these activists are becoming more aware of mechanisms to sustain their ongoing civil society advocacy efforts despite rising restrictions.

STRATEGIC GOAL 3: INVESTING IN PEOPLE

Ensure good health, improve access to education, and protect vulnerable populations to help recipient nations achieve sustainable improvements in the well-being and productivity of their citizens.

Public Benefit. Bringing better health systems to people around the globe contributes to a more secure, stable, and prosperous world. As President Obama stated, "We will not be successful in our efforts to end deaths from AIDS, malaria, and tuberculosis unless we do more to improve health systems around the world, focus our efforts on child and maternal health, and ensure that best practices drive the funding for these programs." While progress has been made, urgent health challenges remain in the following priority areas of HIV/AIDS, child mortality, maternal mortality, tuberculosis, malaria, tropical diseases, unintended pregnancy, and undernourishment.

As a result of the health delivery platform put in place by the President's Emergency Plan for AIDS Relief (PEPFAR), the U.S. Government now has increased capacity in



Secretary of State Clinton and Chinese State Councilor Liu Yandong pose for a photo with students during the U.S.-China Consultation on People-to-People Exchange, at the Department of State in Washington D.C., April 12, 2011. Department of State

PEPFAR countries to provide disease outbreak detection and response, delivery of health services and essential drugs and commodities, as well as support advances in health technology. This approach to improving world health is an essential aspect of 21st Century Statecraft that persuades foreign publics to take action on development issues. PEPFAR takes a comprehensive approach to HIV/AIDS prevention, treatment, and care in developing countries. This program works in close partnership with host country governments and national and international partners. Antiretroviral (ARV) treatment provides direct therapeutic benefits for the individuals who receive treatment by increasing the length and quality of their lives — enabling many individuals to resume normal daily activities and provide care for their families. ARVs reduce viral load in patients on therapy which contributes to decreased rates of HIV/AIDS transmission. PEPFAR-supported treatment has helped to save and extend millions of lives as well as avoid the orphaning of hundreds of thousands of children whose parents are infected with HIV/AIDS.

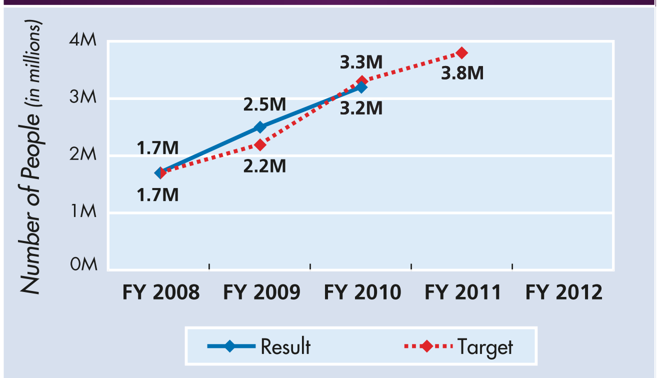
In particular, U.S. Government investments focus on improving the health of women, newborns, and children through programs including topics such as infectious disease, nutrition, maternal and child health, and safe water. The Global Health Initiative (GHI) aims to maximize the impact the United States achieves for every dollar invested in global health. Utilizing an innovative model that finances country-owned programs according to principles of performance-based funding, the Global Fund is a unique global public/private partnership dedicated to attracting and disbursing additional resources to prevent and treat HIV/AIDS, tuberculosis, and malaria in more than 140 countries. It represents a key opportunity for supporting country ownership, promoting sustainability, and leveraging additional financing from other donors to U.S. Government bilateral programs, and is critical to the achievement of our global health goals. The United States is the largest donor to the Global Fund, contributing $5.1 billion since 2001.

Key Achievements

- PEPFAR Country teams, under the leadership of the Ambassador and Deputy Chief of Mission, advanced the Country Ownership agenda for sustainability of the HIV/AIDS response. This agenda seeks to foster greater cooperation between aid donors and recipient governments by providing those governments with the tools and training necessary for assuming more responsibility in financing and implementing development efforts. In the context of U.S. global health programs, this agenda actively promotes greater local political and institutional ownership of HIV/AIDS prevention, treatment, care and health system strengthening efforts supported by PEPFAR, while ensuring the presence of necessary capabilities and accountability mechanisms to sustain the programs. The approach has been tested and refined in Botswana and South Africa. In these countries, Country Ownership assessments of programs were carried out with in-country stakeholders, issues were prioritized, and a roadmap for providing both the capabilities for sustainable quality programs were planned along with their respective financing modalities. PEPFAR will roll out this efficient approach in ten additional countries during FY 2012.
- PEPFAR has strengthened priorities to address gender issues throughout the full spectrum of HIV programming. In FY 2011, PEPFAR supported significant work in the field to integrate a gender-based violence response into existing HIV programs, and committed an additional $86 million to such programs in over 30 countries. In addition, PEPFAR launched the PEPFAR Gender Challenge Fund to strengthen ongoing gender integration into HIV programs, with 15 countries receiving additional funds totaling over $20 million.

Summary and Analysis of Performance Trends

The number of people receiving HIV/AIDS treatment annually is an illustrative indicator for this Strategic Goal. The indicator measures the reach of PEPFAR and can be analyzed by country to identify which countries are facing challenges in scaling up their programs and which may have practices that should be replicated elsewhere. Preliminary results for FY 2011 will be released in February 2012.



Source: Semi-Annual and Annual Progress Reports as captured in United States Country Operational Plan Report System.

[1] FY 2011 results data expected to be available in December 2011. FY 2012 target to be set upon establishment of FY 2011 result.

STRATEGIC GOAL 4: PROMOTING ECONOMIC GROWTH AND PROSPERITY

Strengthen world economic growth and protect the environment, while expanding opportunities for U.S. businesses and ensuring economic and energy security for the nation.

Public Benefit. Through its economic and commercial diplomacy, the State Department seeks to build an international economic system that is open, free, transparent and fair. In doing so, the Department promotes U.S. business opportunities and negotiates to create favorable climates for U.S. business activities overseas.

The Department actively encourages open markets for U.S. exports and investment abroad through a wide range of bilateral and multilateral initiatives, as well as outreach to advanced and emerging economies. The Department plays a lead role in implementing President Obama's National Export Initiative (NEI) by advocating on behalf of American companies with other governments for fair treatment, transparency, and maximum opportunity in competitive global markets. Through its "Open Skies" policy, the Department leads negotiations to open international markets to U.S. airlines, thus expanding opportunities for U.S. firms, jobs for U.S. workers, and benefits for U.S. consumers. In joint efforts with the U.S. Trade Representative, the Department works to conclude bilateral investment treaties designed to create new investment opportunities while also protecting U.S. investors. The Department has also worked closely with the Export-Import Bank to identify key emerging markets and buyers for cutting edge American products. During the fiscal year, the Export-Import Bank financed over 500 million dollars in renewable energy exports, helping expand the market for this U.S. industry.

Through programs that encourage innovation and entrepreneurship by promoting greater transparency and anti-corruption, the United States seeks to empower developing countries with the means to fund their own development, be more accountable to the citizens they serve, and ensure the integrity of their markets for businesses and investment. The Department's commitment towards empowering developing countries requires that governments ensure the integrity of their markets for businesses and investment. For instance, the Department leads efforts to protect the intellectual property of U.S. firms and individuals. By embracing business transparency efforts such as patent protection and intellectual property rights in accordance with international standards, foreign countries can attract the products of U.S. workers and companies.

Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell, right center, meets with Federated States of Micronesia President Emanuel "Manny" Mori, left center, in Palikir, Pohnpei, on July 1, 2011. He was leading an inter-agency Pacific Island tour to enhance bilateral political, economic, and security relations in the region that included DoD and USAID representatives. Department of State

Economic Statecraft

Economic statecraft is at the heart of our foreign policy agenda. We have made it a core diplomatic mission to enhance our economic leadership in the world and to drive domestic economic renewal. Under President Obama's leadership, our National Security Strategy is focused on shoring up the sources of our global strength. Open Skies agreements are just one example where we are putting economic statecraft to work.

What Are Open Skies?

Open Skies agreements between the United States and other countries expand international passenger and cargo flights by eliminating government interference in commercial airline decisions about routes, capacity, and pricing. This allows carriers to provide more affordable, convenient and efficient air service to consumers, promoting increased travel and trade and spurring high-quality job opportunity and economic growth. Open Skies policy rejects the outmoded practice of highly restrictive air service agreements protecting flag carriers.

Advantages of Open Skies

Direct air connections bring substantial economic benefits. Open Skies agreements expand cooperative marketing arrangements, liberalize charter regulations, improve flexibility for airline operations, and include provisions committing both governments to observe high standards of safety and security. These agreements also produce countless new cultural links worldwide.

Boon to U.S. Cities

Before Open Skies began to liberalize the international aviation environment, cities like Dallas-Fort Worth, Detroit, Las Vegas, Memphis, Minneapolis, Portland, and Salt Lake City had few or no direct international air connections. Now they enjoy direct connections to cities around the world.

> "Work to 'democratize' aviation continues to allow millions more Americans the opportunity to fly to international destinations each year and for countless foreign tourists to visit our country."
>
> *— Secretary of State, Hillary Rodham Clinton*

> "...what I call economic statecraft at the heart of our foreign policy agenda. Economic statecraft has two parts: first, how we harness the forces and use the tools of global economics to strengthen our diplomacy and presence abroad; and second, how we put that diplomacy and presence to work to strengthen our economy at home."
>
> *— Secretary of State, Hillary Rodham Clinton*

The Memphis-Shelby County Airport Authority in 2005 concluded that the direct service between Memphis and Amsterdam on KLM has a $120 million annual impact in Tennessee and supports 2,200 local jobs.

Portland, Oregon estimates that its direct international flights to Tokyo, Amsterdam, and Frankfurt generate over $240 million in airport and visitor revenue.

A private study found that new direct service between a U.S. city and a point in the European Union generates up to $720 million annually in new economic activity for the U.S. city and its local region, depending on the size of the markets.

An employee works on the engine of a Boeing Co. 737 airplane at the company's assembly facility in Renton, Washington, June 3, 2011.

The Department also encourages the diversification of energy supplies, takes measures against supply disruptions, and promotes clean energy technology. These efforts help increase the supply of non-oil energy sources world-wide, leading to greater energy security and price stability.

The Department supports U.S. policy to restore financial stability and growth in the wake of the global financial crisis, working closely with the National Security Council and the U.S. Department of Treasury in the G-20 process[1]. In leading the U.S. delegation on debt restructuring negotiations at the Paris Club of creditor nations, the Department has helped numerous poor countries restore sustainable levels of external debt. The Department also has a voice in shaping the World Bank and other multilateral development banks' lending and policies. Secretary Clinton chairs the Board of the Millennium Challenge Corporation, which seeks to reduce poverty through sustainable economic growth.

Key Achievements

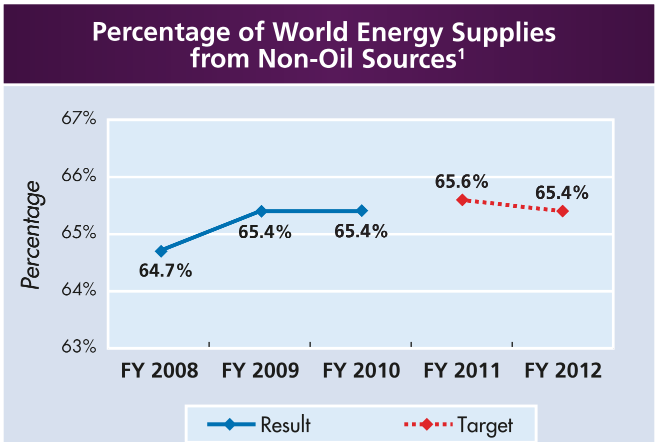
- The Department reached an important milestone by concluding several new "Open Skies" agreements during the fiscal year, expanding these partnerships to over 100 countries around the world. These agreements strengthen our trade and tourism ties with other countries and benefit U.S. businesses and travelers by opening opportunities for air services, encouraging vigorous price competition by airlines, and preserving our commitments to aviation safety and security. Open Skies agreements create jobs at home, and we continue to look for ways to expand these partnerships in new markets.
- In partnership with the Department of Commerce and U.S. missions abroad, the Department implemented key portions of the President's National Export Initiative (NEI) by supporting and advocating for U.S. companies doing business abroad and exporting to foreign markets. The work of our diplomatic missions in large and small markets has yielded impressive economic policy and commercial successes. Through July 2011, U.S. exports were up 15 percent; a pace sufficient to sustain the NEI's goal of doubling exports by 2014 and an increase that will support two million additional jobs in the United States.
- In the wake of demonstrations that swept through the Middle East and North Africa, the Department mobilized U.S. and multilateral cooperation and assistance programs to support the dramatic democratic transitions underway. Working with the U.S. Trade and Development Agency, the Department is helping develop connections between U.S. businesses and Egyptians. The Department's Global Entrepreneurship Program sent delegations to Egypt to support and assist entrepreneurs to help create new enterprises and value-added jobs. At two successful "Start-up Weekends" in Cairo in April and Alexandria in September, participants pitched business concepts to panels of experienced entrepreneurs, and captured media attention when a woman entrepreneur won the business plan competition. The Department was also instrumental in the international effort to channel economic assistance to the Libyan Transitional National Council.
- The Department sought and implemented key UN Security Council and U.S. economic sanctions aimed at curtailing activities harmful to global peace and economic security, especially in the Middle East and North Africa, and worked to cut off financial support to terrorist and piracy networks.

Summary and Analysis of Performance Trends

A primary focus of the Department's diplomatic efforts in the area of energy security is promoting the development and implementation of policies in foreign governments designed to diversify energy sources and foster growth in the clean energy sector. One indicator for this Strategic Goal is the percent of world energy supplies from non-oil sources. While data are not yet available for the current reporting period, this trend has increased incrementally in recent years in part due to supply diversification provided by lower carbon sources such as unconventional gas, biofuels and other renewable energy, and in part due to demand reduction as a result of

1 The **G-20** (more formally, the **Group of Twenty Finance Ministers and Central Bank Governors**) is a group of finance ministers and central bank governors from 20 economies: 19 of the world's largest national economies, plus the European Union (EU). Collectively, the G-20 economies comprise 90% of global gross national product, 80% of world trade (including EU intra-trade) and two-thirds of the world population.

the global economic downturn and, importantly, measures to increase efficiency and conservation. FY 2011 results for this indicator are expected to be available in December of 2011 and released in February 2012.



Source: U.S. Department of Energy.

[1] Indicator new in FY 2009, targets established beginning in FY 2010. FY 2011 results data expected to be available in December 2011.

STRATEGIC GOAL 5: PROVIDING HUMANITARIAN ASSISTANCE

Save lives, alleviate suffering, and minimize the economic costs of conflict, disasters, and displacement.

Public Benefit. 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' commitment to humanitarian response demonstrates America's compassion for victims of armed conflict, natural disasters, persecution, human rights violations, widespread health and food insecurity, and other threats. It requires urgent responses to emergencies, concerted efforts to address hunger and protracted crises, and planning to build the necessary capacity to prevent and mitigate the effects of conflict and disasters.

The U.S. Government's emergency response to population displacement and distress caused by natural and human-made disasters is tightly linked to all other foreign assistance goals, including the protection of civilian populations, programs to strengthen support for human rights, provision of health and basic education, and support for livelihoods of beneficiaries. The United States provides substantial resources and guidance through international and nongovernmental organizations for worldwide humanitarian programs, with the objective of saving lives and minimizing suffering in the midst of crises, increasing access to protection, promoting shared responsibility, and coordinating funding and implementation strategies.

Populations of concern to the State Department's Bureau of Population, Refugees, and Migration (PRM) exceeded 43 million worldwide in 2010, including over 15 million refugees, as well as millions of conflict victims, stateless persons, and vulnerable migrants. A range of factors suggest that future humanitarian needs will be dire: increases in the incidence of natural disasters and other environmental conditions (e.g., cyclones, drought, earthquakes) that lead to displacement; greater urbanization, including among refugees and internally displaced people; and the impact of the global economic downturn on conflict and disaster-affected communities all are expected to contribute to the trend of growing humanitarian needs.

Refugee resettlement is an important solution and tool of protection for some of the most vulnerable refugees, and a form of responsibility-sharing that can help unlock protracted refugee situations. The United States provides protection and durable solutions through its long-standing tradition of welcoming refugees to communities across the country.

A camp worker distributes food provided by the United States in Dadaab, Kenya, July 13, 2011. Department of State

American Recovery and Reinvestment Act

State Department Role in the American Recovery and Reinvestment Act

Of the total $787 billion appropriated for the American Recovery and Reinvestment Act (ARRA) of 2009, the Department received $562 million for projects and $2 million for the Office of the Inspector General. The Department is using 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 about specific projects and a complete description of the Department's ARRA implementation plan are posted on the web at *http://www.state.gov/recovery/*.

Construction continues on the Department's Enterprise Server Operations Center. State Magazine April 2011

Construction Projects – Through funding ($15 million), the Department expanded its network of passport agencies to address public demand for travel documents in previously underserved areas of the country. All new passport facilities are open and operational. These include Atlanta, Georgia; Buffalo, New York; El Paso, Texas; San Diego, California; and St. Albans, Vermont. New counters are now in use at the Passport Centers in Hot Springs, Arkansas and the National Passport Center in Portsmouth, New Hampshire. At the National Foreign Affairs Training Center ($5 million), new classrooms are fully operational and new signage should be completed shortly. Construction ($120 million) on a western U.S. Enterprise Server Operations Center (ESOC) is nearing completion and is scheduled to begin operational transition in December 2011 with final turnover and acceptance for full operations in June of 2012. Environmental studies and master planning began on the site identified for the potential location of the Foreign Affairs Security Training Center (FASTC). FASTC ($70 million) for Diplomatic Security will provide a centralized location that supports security-related training for Department of State and other U.S. Government staff posted at American embassies overseas; a small number of foreign security personnel will also be trained.

International Boundary and Water Commission (IBWC)
Funding ($220 million) accelerated the IBWC's modernization program by 20 years, remediating risks identified by geophysical analysis suggesting that 60% of the levee system in high priority areas was deficient. The IBWC projects are raising or making structural improvements to 237 miles of the levees to ensure they provide adequate protection and meet the standards established by the Federal Emergency Management Agency (FEMA). Construction work is on target and reported at 80% complete. All planned construction is expected to be completed by April 2012.

Information Technology and Cyber Security
Through funding ($132 million), cyber security, information technology, and advanced telecommunications equipment deployed during FY 2011 increased the integrity and resiliency of the Department's network and its ability to counter emerging threats. The Global Information Technology Program replaced 13,245 antiquated classified and unclassified desktop computers at U.S. missions worldwide. The Department replaced obsolete telephone systems at three of its largest diplomatic missions at embassies Bangkok (Thailand), Brussels (Belgium), and Vienna (Austria). The new units replaced systems that were 13-15 years old and had been expanded to maximum capacity. The Mobile Computing program significantly expanded the Department's unclassified Remote Access and Telework capabilities allowing access to 35,000 mobile users at a time worldwide.

Office of Inspector General – Funding ($2 million) to provide oversight of use of ARRA funds and ARRA projects by the Department expired on September 30, 2010. However, expenditure of funding obligated to OIG contracts with independent public auditing firms conducting audits of Department initiatives funded by the Recovery Act continued during FY 2011. To date, OIG has initiated 27 projects to assess Department and IBWC activities funded by ARRA funds. During FY 2011, OIG issued 13 reports assessing Department compliance with new reporting requirements to promote transparency in the award and use of Recovery Act funds.

In the area of international migration, the United States advances policies and programs that protect and assist asylum-seekers, victims of human trafficking, women, children, and other vulnerable migrants; supports international efforts to protect the human rights of migrants; promotes humane and responsible migration policies; and supports capacity-building activities to help governments manage migration, especially in areas where migrants travel in mixed movements of people, such as those in the Gulf of Aden and the Caribbean. Through a combination of strong humanitarian diplomacy and assistance programming, the United States supported key achievements in voluntary return and reintegration for refugees and internally displaced persons, and in promoting international laws to prevent and reduce statelessness and protect stateless persons.

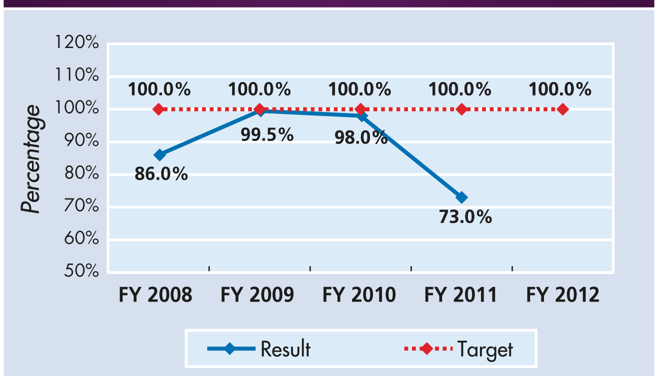
Key Achievements

- In Afghanistan, efforts to reintegrate returning refugees and internally displaced people passed a milestone in December 2010 with the completion of the 200,000th home for returnee families. The U.S. Government support to shelter programs in Afghanistan began in 2002 and has been an important element in the return of some 4.5 million refugees over the past eight years. It has benefited some 1.4 million people – or around a quarter of all returnees. The prospect of a secure home is regularly cited by Afghan refugees in Iran and Pakistan as one of their primary requirements before deciding to return.
- The U.S. Government assistance and advocacy contributed to efforts to promote the identification and registration of stateless persons, amend the citizenship laws, and improve the implementation of existing laws. Achieving an increased number of states parties to the United Nations (UN) Statelessness Conventions is key to addressing statelessness, a problem which affects as many as 12 million people around the world. To date in 2011, Croatia, Nigeria, Panama, and the Philippines have acceded to one or both of the two major international conventions on statelessness, namely the 1954 Convention relating to the Status of Stateless Persons and the 1961 Convention on the Reduction of Statelessness. Also, in August, the Turkmen Parliament incorporated the 1954 Convention relating to the Status of Stateless Persons into domestic law.
- In FY 2011, the last two remaining camps for Congolese refugees in Zambia closed following the October 2010 departure of the final repatriation convoy to the Democratic Republic of the Congo (DRC). The U.S. Government has helped 47,000 refugees return to the DRC from Zambia in the past four years. Overall, 223,000 Congolese nationals have returned home from surrounding countries since 2004; however, some 420,000 remain as refugees from the DRC, mostly in the Republic of the Congo, Uganda, Tanzania, Rwanda and Burundi.
- In Ethiopia, humanitarian partners were able to provide rapid protection and assistance to inflows of Somali, Sudanese, and Eritrean refugees. Most of the more than 90,000 new Somali refugees arrived in Ethiopia starving and near death. With U.S. Government assistance, nutrition and health care providers are now able to reach all of the most vulnerable among the new arrivals with vaccinations and therapeutic feeding programs.
- In FY 2011, U.S. Government assistance supported over 400,000 migrants and over 50,000 Libyans who fled conflict in Libya to seek safety in neighboring countries. U.S. humanitarian assistance to the International Organization for Migration and the UN High Commissioner for Refugees ensured that the vast majority of migrants were able to voluntarily return home to their countries of origin, while also providing protection to vulnerable migrants (such as unaccompanied children) and refugees while they remained in Tunisia and Egypt. U.S. humanitarian assistance also supported emergency evacuations of urgent medical cases and vulnerable migrants from Libya during the siege of Misurata.

Summary and Analysis of Performance Trends

The number of refugees admitted to the United States is an illustrative indicator for this Strategic Goal. In FY 2011, the United States admitted 56,424 refugees, which represents 73% of the regional ceilings established by Presidential Determination. The primary reason for the reduced number of refugee arrivals in FY 2011 was the implementation in late 2010 of a new enhanced security check for all refugees at the final stages of processing for U.S. resettlement, which added to the processing time and delayed travel. As a result of the enhanced security screening, there was a decrease in refugee arrivals from March to June, nine months into the 2011 fiscal year. The rate of refugee arrivals largely recovered by July once delays in receiving security clearances had been reduced to manageable levels. There have also been issues outside the control of the U.S. Government which have added to the delays, including barriers imposed by refugee-hosting governments. However, with the security-related delays now largely resolved, the Department is on track to reach targets for FY 2012 and FY 2013.

Percentage of Refugees Admitted to the United States as a Percentage of the Allocated Regional Ceilings Established by Presidential Determination



Source: Department of State, Bureau of Population, Refugees and Migration (PRM).

STRATEGIC GOAL 6: PROMOTING INTERNATIONAL UNDERSTANDING

Advance and achieve foreign policy goals and objectives, and enhance national security by fostering broad, mutually-respectful engagement and mutual understanding between American citizens and institutions, and their counterparts abroad.

Public Benefit. The Department recognizes the central role of public diplomacy (PD) as a tool of smart power and an essential element for 21st Century Statecraft, and has committed to renewing America's engagement with the people of the world by enhancing mutual respect and understanding, creating partnerships aimed at solving common problems, and building support for U.S. policy priorities among foreign audiences.

Secretary of State Clinton and Uzbekistan First Deputy Prime Minister Rustam Azimov sign the Science and Technology Cooperation Agreement in Tashkent, Uzbekistan, December 2, 2010. Department of State

To address the challenges of today, the Department has developed the first detailed global strategy for public diplomacy in over a decade – a strategic framework for 21st Century public diplomacy – ensuring its alignment with foreign policy objectives, and bringing a strategic focus to how public diplomacy programs, efforts, and structures support those objectives. The principles of the framework were also included in the QDDR, thus establishing this as PD "doctrine" for the foreseeable future.

Public Diplomacy programs explain American society, culture, values, government, and policy making to a broader international public, including youth and women, opinion leaders, as well as current and future policy makers. By improving their understanding of the United States – and demonstrating American appreciation and respect for their societies and values – we can establish a positive tone and framework for policy discussions, based on mutual respect and common interests.

The Department's wide range of educational, professional, cultural and youth programs are strategic elements of America's foreign policy and play central roles in President Obama's efforts to promote dialogue, reframe the narrative, improve the image of the United States around the world, and develop collaborative approaches to shared challenges. Over the past year, Partners for a New Beginning has brought eminent partners on board to actively promote people-to-people exchanges between business leaders, foundations and social entrepreneurs in the United States and around the world. Expanding and strengthening people-to-people relationships around common interests demonstrates our commitment to democracy, civil society, innovation, entrepreneurship, economic growth and opportunity. "American Spaces" (places where foreign audiences can meet Americans and get information about the United States) help us to reengage face to face with local audiences.

Our public diplomacy efforts also help combat violent extremism, counter violent extremist voices, discredit and delegitimize al-Qaeda, and empower local, credible voices. Violent extremists use a variety of platforms to spread their message. The Department is expanding its ability to counter these messages through the establishment of the interagency Center for Strategic Counter-Terrorism Communication.

By expanding the use of social media, we are reaching the ever-increasing number of people who are actively communicating via these new media and engaging effectively within the 24/7 reality of connective technologies. For example, posts reach over 4.2 million people through Facebook pages, and our Embassy Internet sites have been redesigned to provide consistency and branding, as well as to provide seamless integration with social media. In support of the President's Open Government initiative, the Department's website hosts a page, *www.state.gov/open*, as a tool to promote citizen engagement. Expanded use of CO.NX, a multimedia web chat platform, brings together Americans and overseas audiences for multi-point conversations on priorities ranging from food security to immigration to the State of the Union. Virtual press briefings via "State Department Live," an interactive web platform, allow us to reach journalists worldwide, particularly the next generation of younger and on-line journalists. The mobile version of *state.gov*, available on any hand-held device at *http://m.state.gov*, provides top stories, the daily briefing, country information, and Secretary Clinton's press releases in a format that's easy to read on the go.

In 2011, the Department undertook several initiatives to ensure that Public Diplomacy resources matched Department policy priorities. This ongoing process has already led to the reallocation of resources to high priority countries, and the realignment of programs to respond to the most important policy objectives of the Department.

Key Achievements

- The Department's *Fund for Innovation in Public Diplomacy* enables embassies to quickly capitalize on public diplomacy opportunities that advance Department policy priorities. "Free African Media," Embassy Pretoria's innovative, public interest project supports responsible and independent journalism and counters repression of the press across sub-Saharan Africa. The Embassy and its partners – the Department's Africa Regional Media Hub and the independent media organization *The Daily Maverick* – created an independent, online platform where journalists can share experiences and file stories they cannot safely publish in their home countries. Each dollar in U.S. Government funding was matched by $1.51 by the non-U.S. Government partner.
- The Department expanded its social media outreach in foreign languages, including Twitter feeds in Arabic, Farsi, Hindi, Urdu. The Department's regional Media Hubs continued to proactively engage local and regional media, amplifying the President's and Secretary's policy messages in Arabic, Farsi, Spanish, and other languages, ensuring that foreign publics received accurate statements of U.S. policy.
- *Nearly Four Million New Facebook Fans*: The Department's four English-language Facebook pages provide bureaus, principals, and posts significant platforms for sustained conversations with global audiences on key policy issues. Focused around themes such as democracy and climate, three of the pages exceeded the one million participant mark as of October 2011 and the fourth is not far behind.
- *Reaching Youth Audiences Through Video*: International Information Programs (IIP) produced more than 100 original content videos in FY 2011. A short video introducing U.S. Ambassador David Shear to the Vietnamese people went viral, reaching an estimated 26 million viewers – more than a quarter of the country's population – on broadcast television and the Internet.
- "*@america Jakarta*," the high-tech, multimedia American Center in a Jakarta shopping mall that opened in December 2010, is on track to reach well over a hundred thousand visitors in its first year. The space is part of a larger strategy to take our outreach efforts to where the

The U.S. Global Health Initiative

Launched by the President in 2009, the U.S. Global Health Initiative (GHI) supports countries as they work to improve the health of their own people. It builds health systems—training health workers, establishing disease monitoring and laboratory systems, repairing health clinics, and improving procurement systems—so improvements in health can continue for generations.

An Indian health worker administers a drop of polio vaccine to a homeless child at a railway station during a polio eradication campaign in Allahabad, India, January 23, 2011. ©AP Image

Global Health Initiative Principles

GHI is driven by a set of core principles: (1) focus on women, girls, and gender equality; (2) encourage country ownership and invest in country-led plans; (3) build sustainability through health systems strengthening; (4) strengthen and leverage key multilateral organizations, global health partnerships, and private sector engagement; (5) increase impact through strategic coordination and integration; (6) improve metrics, monitoring, and evaluation; and (7) promote research and innovation.

Where We Work

GHI includes U.S. global health programs in approximately 80 countries worldwide. Eight have been selected as the first set of "GHI Plus" countries. They are Bangladesh, Ethiopia, Guatemala, Kenya, Malawi, Mali, Nepal, and Rwanda. These countries will receive additional technical and management resources to quickly implement GHI's approach.

What GHI Does

GHI is the next step forward in the way U.S. Government agencies conduct global health activities, building on successful bipartisan leadership in global health, and expanding their impact for sustainable results around the world.

- **Saving Lives:** Fighting global disease reflects core American values and interests—saving millions of lives and allowing more mothers to make a better world for their children from preventable and treatable diseases.
- **Promoting Security:** Fighting global disease anywhere directly protects the health of citizens around the world because infectious disease knows no borders. Global health is also vital to national security, and reduces the instability that fuels war and conflict.
- **Maximizing Results:** GHI ensures that agencies conducting global health initiatives combine their efforts to maximize results.

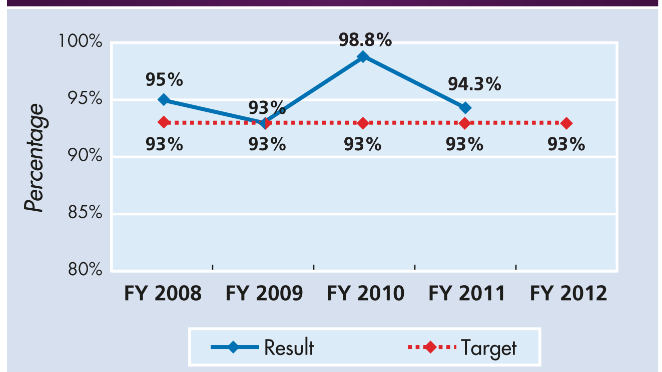
audiences are. Extensive measurement and evaluation of public reaction to the space show an overwhelmingly positive response.

- Expanding the Department's engagement and exchanges in education, culture, sports, science and women's issues in China, Russia, Indonesia, and around the world reaches the next generation of leaders, creates foundations for future collaboration and complements efforts to open dialogue on key policy objectives. Our Global Partnership Dialogue with Brazil will support Brazil's four-year national initiative to send 35,000 students to study in the United States. More than 300 United States and Indian higher education, NGO, and private sector leaders will participate in a Higher Education Summit to explore academic models that will promote higher standards, innovation, technology, and development.
- In 2011, women from Algeria, Egypt, Jordan, Lebanon, Morocco and the Palestinian Territories participated in a five-week peer mentoring program at leading technology companies in the San Francisco Bay Area and Silicon Valley under the Department's "*TechWomen Program*." Working alongside American counterparts, they participated in tech-based projects, workshops, and networking events. Several American mentors will travel to Morocco in October 2011 to join TechWomen alumnae in technology seminars, training, and networking activities for local women and girls. The TechWomen are engines of social change and economic opportunity in their countries.

Summary and Analysis of Performance Trends

The Department assesses educational and cultural exchange program performance by collecting data directly from program participants.The indicator below measures the percentage of exchange participants who reported an increase or positive change in their understanding of the United States (political and economic institutions, norms, and values) immediately at the conclusion of their programs. In FY 2011, the Department again exceeded its target, with more than 94% of foreign publics reporting an increased or positive change in understanding. Statistics are compiled from surveys of actual participants ("alumni") of exchange programs. While there are many factors that could account for variations from year to year – what is most important is the trend: each year, overwhelmingly, the participants' perceptions of the United States are positively impacted by their experiences. Other indicators measured changes in exchange participant favorability towards the U.S. Government (75% reported a more favorable view in FY 2011), and towards the American people (86% reported a more favorable view in FY 2011), as a result of their participation in an exchange program. These results show the effectiveness of educational and cultural exchange programs in positively and substantively reshaping understanding of, and attitudes towards, the United States.

Percentage of Exchange Program Participants with Increased Understanding of the United States[1]



Source: U.S. Department of State, Bureau of Educational and Cultural Affairs.

[1] FY 2011 data will be available in FY 2012.

STRATEGIC GOAL 7: STRENGTHENING CONSULAR AND MANAGEMENT CAPABILITIES

Assist American citizens to travel, conduct business and live abroad securely, and ensure a high quality workforce supported by modern, secure infrastructure and operational capabilities.

Public Benefit. Approximately five million Americans reside abroad, and Americans make about 65 million trips overseas every year. The Department helps them prepare for crises and avoid problems abroad through our *Consular Information Program*, *http://www.travel.state.gov/* and *online registration service*, which more than one million Americans used in FY 2011. The Department provides services throughout the cycle of life, from certifying the birth of American citizens born abroad, to assisting families when an American dies overseas. The Department also assists Americans whose children have been wrongfully taken to or kept in foreign countries – a growing problem. The Department launched three new regional pilot programs to expand the development of its World Virtual School. The initiative permits continuity of instruction for dependent children of U.S. Government employees assigned to diplomatic and consular missions during emergency closings of the overseas schools they attend. The program supported over 500 students enrolled in Cairo American College (Kindergarten-12th grade) who were "ordered to depart" Egypt during 2011. Thirty-nine of 197 overseas schools now participate in this program.

During times of crisis, the Department adapts quickly to fluctuations in demand for our services. For example, the multiple crises in 2011 – from the toppling of regimes in the Middle East to the earthquake, tsunami and nuclear disaster in Japan – showcase the Department's ability to respond promptly and effectively to major crises. Applying lessons learned as a result of the Haiti earthquake and other prior crises, the Department used a range of communication tools to reach out to U.S. citizens affected by the events, disseminate information, and identify immediate needs. The Department coordinated closely with other governments to evacuate U.S. citizens from Egypt, Libya, and areas of Japan, and with other U.S. Government agencies in shaping our response to Japan's nuclear disaster. The Department evacuated more than 2,700 U.S. citizens from crisis areas in FY 2011. The Department implemented a Geographical Information System which gives emergency managers access to a wide variety of geo-coded data on the Department's personnel and facilities and on foreign missions across the United States. It also received automatic weather updates including hurricanes, earthquakes, and provides for spatial queries and demographics information critical for bomb threats and chemical plumes. The Department continues, in collaboration with the Department of Homeland Security and other agencies, to protect America's homeland with improved technology and efficiency at ports of entry and in visa processing, smarter screening technology for government officials, 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 we need to handle our foreign policy priorities and strengthen diplomacy. The Department is providing rigorous training programs to further professional development, including foreign language training in priority languages such as Arabic and Mandarin. The Department's Office of Language Services produced translations in 20 languages of country profiles in the Department's annual Human Rights Report, the Trafficking in Persons Report, and the International Religious Freedom Report. The Department is increasingly leveraging technology to provide the translations at greater speed so U.S. diplomatic missions can post them on their websites to increase transparency, efficiency, and effectiveness.

The line forms for evacuation processing of private U.S. citizens at Cairo International Airport. State Magazine May 2011

Our missions overseas provide the diplomatic platform for all civilian agencies of the U.S. Government. We manage the global chain, providing goods and services domestically and to all agencies at diplomatic and consular missions overseas. During this fiscal year, the Department partnered with the Department of Defense (DoD) to plan and begin the transition of DoD support services in Iraq and Afghanistan to the Department of State. To provide a viable platform for the diplomatic component of smart power, we provide and maintain energy efficient, sustainable, secure, safe, and functional facilities in the United States and overseas for both State employees and those of other agencies. In FY 2011, we made great strides in realizing domestic greening achievements in support of the Department's sustainability goals. Our diplomatic security programs protect both people and national security information. During the past 12 months, the Department's cyber security team detected and responded to 9,602 network security incidents. This marks a 30 percent increase in security incidents from the same 12-month period last year. Additionally, the Department experienced a 35 percent increase in spear-phishing and/or malicious email traffic compared to the previous 12-month period. This steady increase in malicious software (malware) is significant because spear-phishing emails containing malware can place "code" on Department machines which may compromise the integrity of U.S. Government networks and possibly enable the exfiltration of sensitive data.

The Department continues its commitment "to create jobs; repair and modernize domestic infrastructure crucial to the safety of American citizens; enhance energy independence and reduce global warming by 'greening' our facilities; and expand consular services offered to American taxpayers." (American Recovery and Reinvestment Act of 2009 External Program Plan). During FY 2011, the last two Consular Passport Agency Offices were completed in Atlanta and San Diego; the Department has reached the final stages of site selection for the Diplomatic Security Hard Skills Training Center; and the Information Resources Management data center consolidation in Lakewood, Colorado is nearing completion. More information on ARRA can be found on page 29 of this report, and at *www.state.gov/recovery*.

Key Achievements

- Three Department buildings in Virginia, Washington, D.C., and Washington State received Leadership in Energy and Environmental Design (LEED) Gold certification. The Department's Regional Center Building in Charleston, South Carolina received LEED Platinum certification and is scheduled to achieve net zero energy with onsite solar and wind renewable energy generation.

- In FY 2011, Overseas Buildings Operations (OBO) completed eight major capital construction projects relocating more than 2,370 personnel into more secure, safer, and functional facilities. In addition, OBO completed nine major compound security upgrade projects.

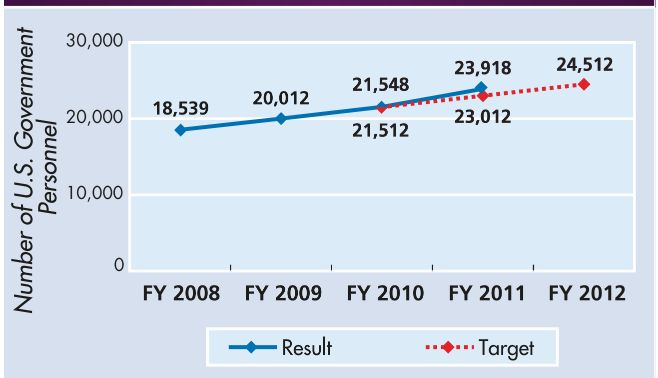
- The Department's Office of Children's Issues in the Bureau of Consular Affairs assisted with the successful return of or access to more than 605 children wrongfully taken to or kept in another country.

- Worldwide visa applications increased by more than 14 percent in FY 2011. The Department provided more resources, domestic support and personnel to ensure that posts experiencing exceptional growth could maintain appropriate levels of service, in particular in Brazil and China. The Department utilized post-9/11 technical and interagency collaboration to reduce Security Advisory Opinion (SAO) backlogs to form the foundation for the development of a more secure, automated, and efficient SAO process. Since the beginning of the beginning of the Department's Diplomacy, Development, and Defense (D3.0) initiative, the Department has increased the number of Foreign Service positions by 17 percent and the number of Civil Service positions by five percent and has been aggressively hiring Foreign and Civil Service personnel to increase staffing capacity. The Department's efforts to staff Afghanistan, Iraq, and Pakistan have been successful with over 95 percent of positions filled. Human Resources Shared Services is working with its partners to deliver services more efficiently and effectively by automating processes and providing self-service applications and, at the time of preparing this document, the Department had 78 human resource service applications available electronically.

Summary and Analysis of Performance Trends

During FY 2011, the Department exceeded expectations for the illustrative indicator relative to Strategic Goal 7: The number of U.S. Government personnel moved into more safe, secure and functional facilities. Our embassies overseas provide the diplomatic platform for all civilian agencies of the U.S. Government and the Department is responsible for providing and maintaining secure, safe and functional facilities for U.S. Government personnel staffed at overseas posts. At the end of FY 2011, data for the total cumulative number of U.S. Government personnel moved into more secure, safe and functional facilities shows that the 23,918 personnel moved into the improved facilities. This is considerably above the target of 23,012.

Total Cumulative Number of U.S. Government Personnel Moved into More Safe, Secure, and Functional Facilities Since 2001[1]



Source: U.S. Department of State, Bureau of Overseas Buildings Operations.

[1] Indicator new in FY 2009, targets established beginning in FY 2010.

Department of State Leadership: The Greening Diplomacy Initiative

Secretary of State Hillary Rodham Clinton launched the Greening Diplomacy Initiative (GDI) in 2009 to improve the environmental sustainability of the State Department's global operations. Advanced by the Department's Greening Council, the GDI challenges the Department to develop and implement policies and actions that lessen its overall environmental footprint, reduce costs, and ensure support remains at the forefront of U.S. foreign policy. The State Department was one of six Federal agencies to receive the highest marks in all three areas (energy, water, and waste reduction targets) of the Office of Management and Budget's Sustainability/Energy Scorecard.

The new embassy in Lusaka, Zambia was designed to incorporate unique architectural features that showcase elements of Zambia. The embassy design also integrates green building techniques and has been registered with the U.S. Green Building Council for Leadership in Energy and Environmental Design (LEED) certification.
Department of State/OBO

Greenhouse Gas Reduction Goals

The State Department has established a greenhouse gas reduction goal of 20 percent by FY 2020 for its domestically controlled facilities for Scope 1 and 2 emissions created by generation of power for buildings. The Department also established a greenhouse gas reduction goal of 2 percent by FY 2020 for Scope 3 emissions from waste, energy transmission loss, and travel.

The Department's Recent Milestones

- Reduced energy use by 12.6 percent and invested $659,000 in energy/water-saving measures in FY 2009
- Increased facilities renewable energy use to 5 percent in FY 2010
- Broke ground for a new Certified Leadership in Energy and Environmental Design (LEED) Gold data center in FY 2010
- Increased the number of vehicles using alternative fuels to comprise 41 percent of the domestic fleet
- Established air and commuter-travel teams to research methods that could make Department employee travel more energy efficient

D.C. Greening Embassies Forum

The State Department and the Earth Day Network launched the D.C. Greening Embassies Forum. It is a way to encourage green activities across Washington's diplomatic community. The Forum, consisting of Washington, D.C.-based foreign missions, meets quarterly to share challenges, experiences, and best practices on green facility renovations and sustainable business operations.

Sharing and Communicating Ideas

The State Department established an internal GDI website where domestic offices and U.S. missions overseas may exchange proven sustainability practices and submit innovative solutions, review environmental reports and submissions, and search for Department resources on greening.

Summary Analysis of Financial Condition

Overview of Financial Position

Assets. The Department's total assets were $73.8 billion at September 30, 2011, an increase of $5.4 billion, 8 percent, over the 2010 total. Fund balances with Treasury were up $2.6 billion due to an increase in unpaid obligations and recoveries over the prior year. Property and equipment increased $1.7 billion due to continued emphasis on the construction of new embassies and necessary security upgrades at existing embassies. Investments were up $532 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 increased $404 million due to additional advances and prepayments made in FY 2011 to other Federal agencies. Receivables increased by $200 million primarily as a result of an increase in billed reimbursable agreements with other Federal agencies and a new civil penalty.

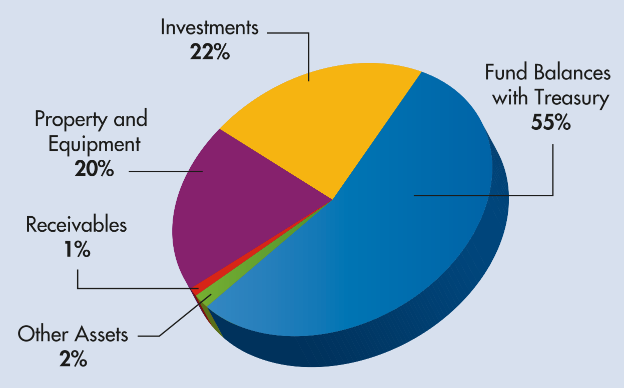
Fund Balances with Treasury, Investments and Property and Equipment comprise 97 percent of total assets for 2011 and 2010. Investments consist almost entirely of U.S. Government securities held in the FSRDF; government agencies are, for the most part, precluded from making any other type of investment.

Top 12 Real Property Projects – 2011	
Project Name	**Total**
Rio Grande Flood Control System - IBWC	$ 128
Kyiv	94
Guangzhou	92
Bucharest	79
Dakar	73
Islamabad	70
Basrah	55
Bujumbura	54
Monrovia	54
Libreville	49
Dubai	42
Djibouti	41
TOTAL	$ 831

Property and Equipment increased by $1.7 billion due to continued emphasis on the construction of new embassies and necessary security upgrades at existing embassies. The table to the left shows the top 12 New Embassy Compound projects that account for $831 million of this increase (*dollars in millions*). In addition, personal property increased by about $311 million due to acquisitions of aircraft and vehicles.

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. Standards require only the maintenance

Assets by Type



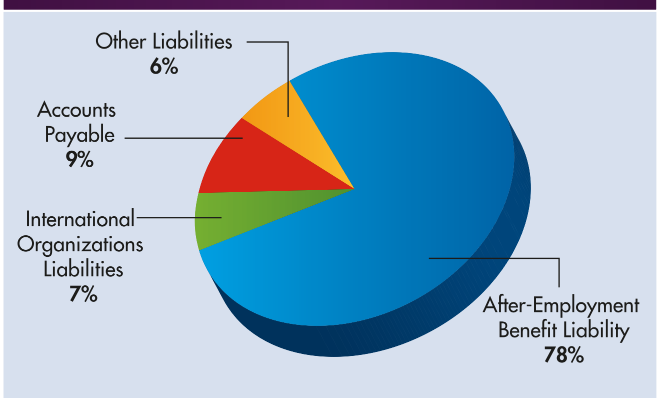
Assets as of September 30, 2011 and 2010

(dollars in millions)	2011	2010 (Restated)
Fund Balances with Treasury	$ 40,415	$ 37,819
Investments, Net	16,433	15,901
Property and Equipment, Net	14,606	12,880
Receivables, Net	652	452
Advances, Prepayments, Other Assets	1,705	1,282
Total Assets	$ 73,811	$ 68,334

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 up $1.3 billion, 5 percent, between 2010 and 2011. 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 $811 million, 4 percent, due to increasing participation in the Foreign Service Disability and Retirement Fund due to increasing participation in the benefit plan and changes in assumptions. Also included in this total are other after-employment benefits due to Foreign Service Nationals. Accounts Payable increased by $388 million, 22 percent. This change is due to the increase in delivered, but not paid for goods and services received to support International Narcotics and Law Enforcement, Migration and Refugee Assistance, Global Health and Child Survival, Diplomatic and Consular Programs, and International Peacekeeping Operations. The International Organizations Liability decreased due to deferring payments to FY 2012 thus increasing our liability by $163 million or 11 percent.

Liabilities by Type



Liabilities as of September 30, 2011 and 2010

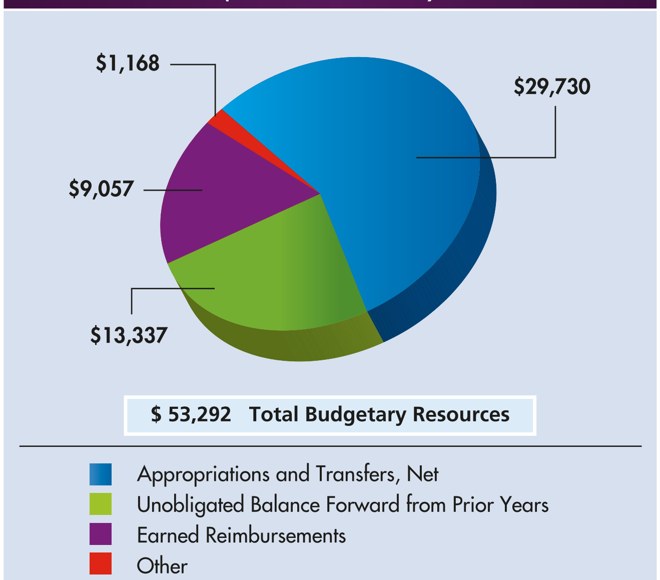
(dollars in millions)	2011	2010 (Restated)
After-Employment Benefit Liability	$ 19,425	$ 18,614
International Organizations Liabilities	1,658	1,495
Accounts Payable	2,150	1,762
Other Liabilities	1,642	1,712
Total Liabilities	$ 24,875	$ 23,583

Ending Net Position. The Department's net position, comprised of unexpended appropriations and the cumulative results of operations, increased 9 percent between 2010 and 2011. Unexpended appropriations were up by 9 percent or $2.6 billion, primarily due to increases in appropriations still available in the Global Health and Child Survival fund, up $1.6 billion, the Diplomatic and Consular Programs fund, up $661 million and the Overseas Buildings Operations Fund, up $307 million. Cumulative Results of Operations were up $1.6 billion, primarily due to resources used to purchase property and equipment, $1.5 billion, which are capitalized on the Balance Sheet rather than presented in Net Cost as expenses.

RESULTS OF OPERATIONS

The following two charts illustrate the sources of funds received by the Department in 2011 and the results of operations by net program costs reported on the Statement of Net Cost.

Sources of Funds
(dollars in millions)

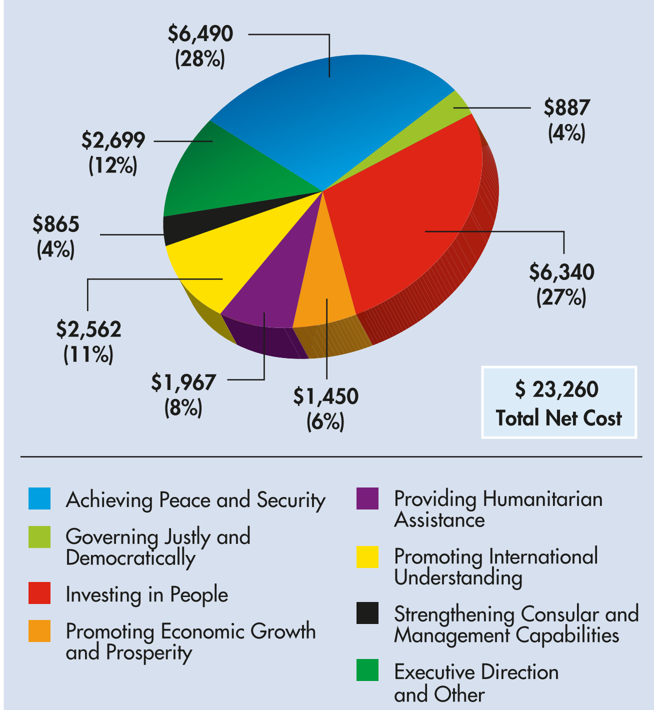


The Combined Statement of Budgetary Resources details what budgetary resources were available to the Department for the year and the status of those resources at year-end. Total Budgetary Resources were up $711 million, 1 percent, in 2011 over 2010. Increases in authority from offsetting collections of $1.6 billion, unobligated balances brought forward of $1.4 billion, and recoveries of $513 million offset by a decrease in budget authority from appropriations granted by Congress of $2.5 billion account for the increase. Appropriations and offsetting collections comprised 73 percent of year-end resources. The remainder was transfers, recoveries of prior-year unpaid obligations, and unobligated balances brought forward. The Department obligated $39.8 billion of the $53.3 billion total resources in 2011, an increase of $588 million, 1 percent, over 2010. Percent of total resources obligated remained stable at 75 percent in both 2011 and 2010.

The Consolidated Statement of Net Cost presents the Department's costs by strategic goal. These strategic goals were determined by the Department's current State-USAID Joint Strategic Plan for 2007 – 2012 established pursuant to the Government Performance and Results Act of 1993. Cost by goal is net of earned revenue by goal. Revenue to the Department from other Federal agencies must be established and billed based upon actual costs only, without profit, per statute. Revenue from the public, in the form of fees for service, such as visa issuance, is also to be cost-recovery only, without profit, at the Department. Therefore, the net cost per goal measures actual cost to the American taxpayer after fees and agreements with other Federal agencies that should net to zero. Note 15 to the financial statements presents further breakdown of costs by responsibility segments, per under-secretary.

Total net cost of $23.3 billion is an increase of 8 percent or $1.7 billion over 2010. The goals of Achieving Peace and Security, Investing in People, and Strengthening Consular and Management Capabilities account for most of this change. As seen in the Net Cost by Strategic Goal chart, the goal of Achieving Peace and Security is the largest representing 28 percent of 2011 net cost. Our International Narcotics and Law Enforcement (INL) cost increased by $525 million and is included in the strategic goal Achieving Peace and Security. The increase includes contractual expenses, educational grants and personnel costs. Our second largest goal, Investing in People, accounted for $1.8 billion of the net cost increase. This was primarily the result of initiatives with the fund established in 2008 for Global Health and Child Survival. Additionally, passport and visa issuance included in the goal of Strengthening Consular and Management Capabilities contributed to $457 million of the increase in earned revenue.

Net Cost by Strategic Goal
(dollars in millions)



The Department's Budgetary Position

The Department of State supports diplomats and development experts who protect our national security, promote our economic growth, and protect our values in virtually every country in the world. The State Department and USAID budgets amount to only one percent of total Federal budget outlays, an investment on the part of the American people that pays excellent returns and constitutes an integrated strategy for renewing America's global leadership. Both State and USAID disclose their financial status and provide transparency and accountability to the American people, Congress, and the President – including both successes and challenges. State's FY 2011 budget was $15.0 billion for State Operations and $15.6 billion for Foreign Assistance. For USAID's AFRs, see: *http://www.usaid.gov/performance/afr/*.

Budgetary Position for State Operations

The FY 2011 budget for the Department of State operations totals $15.0 billion, including appropriations for Administration of Foreign Affairs ($11.3 billion), contributions to international organizations and international peacekeeping activities ($3.5 billion), international commissions ($133 million), and related programs ($158 million). These amounts do not include foreign assistance funding. The Department's FY 2011 budget was funded by the Department of Defense and Full-Year Continuing Appropriations Act, 2011, Division B, Title XI.

In addition to appropriated funds, the Department continues to utilize revenue from user fees – Machine Readable Visa fees, Enhanced Border Security Program fees, the Western Hemisphere Travel Surcharge, and other fees – 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 2011, the Department's principal operating appropriation – Diplomatic and Consular Programs (D&CP) – was funded at $8.7 billion. Total D&CP funding included $1.5 billion to support operations of the U.S. Mission in Iraq, $490 million for Department activities in Afghanistan, $1.5 billion for the Worldwide Security Protection (WSP) program to strengthen security for diplomatic personnel and facilities under threat from terrorism, and $529 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 2011 investments in IT was $254 million. The IT Central Fund included $59 million from the Capital Investment Fund (CIF) appropriation and $195 million in revenue from Expedited Passport fees, including $57 million in prior year fee collections. 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 $1.6 billion. This funding helped provide U.S. missions overseas with secure, safe and functional facilities. The funding also supported maintenance and repairs of the Department's real estate portfolio, which exceeds $47 billion in replacement value and includes over 18,000 properties. ESCM funding included $793 million to support capital security construction and compound security projects. Other agencies with overseas staff under Chief of Mission authority also contributed $602 million to capital security cost-sharing reimbursements for the construction of new diplomatic facilities.

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at $599 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 $333 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.

The Department's FY 2012 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 women and men of the Department of State with the tools they need to advance America's interests and values worldwide.

For FY 2012, the President's Budget Request for the Department is $18.5 billion. For the first time, the Department's request is separated into two components: base, or "enduring," and "Overseas Contingency Operations"

(OCO), which addresses the extraordinary and temporary costs associated with Department operations in Iraq, Afghanistan, and Pakistan. The enduring portion of the request, $14.2 billion, includes resources to support worldwide core national security and foreign policy priorities. The request for D&CP is $7.6 billion, including $1.5 billion for WSP to meet new demands in all regions. The request provides $125 million for CIF investments in IT infrastructure and collaborative tools. The request for ESCM is $1.8 billion, including resources for design and/or construction of secure facilities, additional site acquisitions, and compound security projects. Further, the request provides $637 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 OCO request is $4.4 billion. Of this amount, $4.3 billion supports diplomatic and security operations while $63 million is required to sustain activities of the Special Inspector Generals in Iraq, Afghanistan, and Pakistan. These are expenses the Department is incurring as civilian employees 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 shorter-term outlays from core ongoing expenses makes the Department's budget more transparent and reduces overlap and duplication by aligning spending in the frontline states with the Department of Defense, which also receives OCO funding.

To get the most out of every dollar, the Department will continue to improve the way it does business. It will focus particularly on reforms recommended in the Quadrennial Diplomacy and Development Review (QDDR) released in December 2010. Following this blueprint for change, the Department will seek innovative solutions and build cross-agency partnerships to achieve measurable results.

In sum, the FY 2012 request provides 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 2011 Department of State foreign assistance budget totaled $15.6 billion. Foreign assistance programs enable the U.S. Government to promote stability in key countries and regions, advance economic transformation, confront security challenges, respond to humanitarian crises, and encourage better governance, policies, and institutions. The Department's FY 2011 foreign assistance budget was funded by the Department of Defense and Full-Year Continuing Appropriations Act, 2011, Division B, Title XI.

Foreign Assistance programs under the purview of the Department of State are the Democracy Fund; Foreign Military Financing; Global Health and Child Survival; International Military Education and Training; International Narcotics Control and Law Enforcement; International Organizations and Programs; Migration and Refugee Assistance; 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) and Assistance for Europe, Eurasia, and Central Asia (AEECA) accounts.

The Democracy Fund appropriation was $115 million, although it was split between the Department of State and the U.S. Agency for International Development (USAID). The $67 million allocated to the Department was used 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, and where there is growing demand for human rights and democracy.

The FY 2011 Foreign Military Financing (FMF) appropriation totaled $5.4 billion. 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. FMF promotes U.S. national security by contributing to regional and global stability, strengthening military support for democratically-elected governments, containing transnational threats including terrorism and trafficking in narcotics, weapons, and persons. While the greatest proportion of FMF in FY 2011 was allocated to Israel, Egypt, and Jordan, 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 2011, the portion of the Global Health and Child Survival (GHCS) managed by the Department of State totaled $5.3 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 in order to build a long-term sustainable response to the epidemic. Similar to prior years, the majority of the funds ($3.5 billion) continued to be allocated to the Africa region where the HIV/AIDS epidemic is the most widespread. There was also a $749 million contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria.

The FY 2011 International Military Education and Training (IMET) appropriation totaled $106 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. This training includes professional military leadership, technical and specialized military instruction, exposure to democratic values, and respect for internationally recognized standards of human rights. 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 2011 totaled $1.6 billion. 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 2011, many INCLE resources were focused where security situations are most dire, and where U.S. resources are used in tandem with host-country government strategies in order to maximize impact. INCLE resources were also targeted to countries having specific challenges to overcome in establishing a secure and stable environment, including Afghanistan, Pakistan, Mexico, Lebanon, Haiti, and Iraq. Finally, INCLE-funded programs helped to reduce the flow of drugs to the United States and address instability in the Andean region by strengthening the ability of both source and transit countries to investigate and prosecute major drug-trafficking organizations and their leaders by blocking and seizing their assets.

The FY 2011 International Organizations and Programs (IO&P) appropriation was $354 million. IO&P 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, such as in development programs, the United States can multiply the influence and effectiveness of its contributions through support for international programs. The largest contributions in FY 2011 were made to the United Nations Children's Fund (UNICEF), the United Nations Development Program (UNDP), and the United Nations Population Fund (UNFPA).

In FY 2011, the Migration and Refugee Assistance (MRA) appropriation was $1.7 billion. Through the MRA account, the U.S. Government provides 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 2011, MRA contributed to key international humanitarian organizations and non-governmental organizations to address international humanitarian needs and refugee resettlement in the United States. MRA funds supported programs that met basic life sustaining needs; protected refugees and conflict victims; assisted refugees with voluntary repatriation, local integration, or permanent third-country resettlement; and fostered the effective management of humane international migration.

The FY 2011 Emergency Refugee and Migration Assistance (ERMA) appropriation totaled $50 million. ERMA serves as a contingency fund from which the President can draw in order to respond effectively to humanitarian crises in an ever-changing international environment. Funds provided in FY 2011 ensured that 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 was funded at $739 million to support critical 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 $304 million and 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. PKO funding is used to provide security assistance to help diminish and resolve conflicts, enhance participation in peacekeeping and stability operations, address counterterrorism threats, and reform military establishments into professional military forces with respect for the rule of law. In FY 2011, the PKO program supported ongoing funding requirements for the Global Peace Operations Initiative, security sector reform in the newly independent Republic of South Sudan, as well as multilateral peacekeeping and regional stability operations, particularly in Africa.

The Department of State's FY 2012 budget request for foreign assistance is $18.9 billion, and is currently under Congressional consideration. The request includes $10.2 billion for international security assistance programs such as FMF ($6.6 billion), IMET ($110 million), INCLE ($2.5 billion), NADR ($709 million), PKO ($292 million), and a new Global Security Contingency Account ($50 million). The requests for MRA ($1.6 billion) and ERMA ($32 million) will continue to support overseas humanitarian assistance, and programs to admit refugees into the United States. The request includes $349 million for voluntary contributions to international organizations and $5.6 billion for the GHCS account for State Department managed PEPFAR programs.

As noted above in the operations budget, an important aspect of the Department's FY 2012 request is a new Overseas Contingency Operations component of the budget. This portion of the request supports the extraordinary, temporary costs in Iraq, Afghanistan, and Pakistan from our core programs that advance America's security and economic interests. This two-pronged approach separates the shorter-term outlays in the frontline states from core, ongoing expenses and, thus, makes our budget more transparent. We expect OCO-related programs to be shifted over time, as these countries rebuild and take responsibility for their own security. The Department's foreign assistance portion of the FY 2012 request for OCO totals $3.1 billion in the FMF, INCLE, and Pakistan Counterinsurgency Capability Fund (PCCF).

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.

The Department also issues financial statements for its Foreign Service Retirement and Disability Fund, the International Cooperative Administrative Support Services Fund that supports management services at missions overseas, and the International Boundary and Water Commission. These complete, separately-issued financial reports are available annually from the Department's Bureau of Resource Management, Office of Financial Policy, Reporting and Analysis, at 2401 E Street NW, Room 1500, Washington DC 20037. Telephone (202) 261-8620.

Diplomacy And Development

The U.S. Government recognizes the importance of preventing and deterring conflict by working with and through partners and allies. We have come to realize that the global challenges and opportunities of the future will demand a greater scale, more resources, and more strategic focus on our diplomacy and development efforts. One such effort is the Merida Initiative. The Merida Initiative is an unprecedented partnership between the United States and Mexico to fight organized crime and associated violence while furthering respect for human rights and the rule of law. Based on principles of shared responsibility, mutual trust, and respect for sovereign independence, the two countries' efforts have built confidence that is transforming the bilateral relationship.

The Four Pillars of Merida

1. Disrupt Organized Criminal Groups
2. Strengthen Institutions
3. Build a 21st Century Border
4. Build Strong and Resilient Communities

"And the United States remains committed to helping the Mexican Government go after the cartels and organized crime and the corruption they generate .... Our goal is ... to provide support and help to enable our Mexican friends and partners to be as successful as they are seeking to be. And we will continue, through the Merida Initiative, to provide significant support."

— *Secretary of State, Hillary Rodham Clinton*

Enhancing Citizen Safety

Under the Merida Initiative, the United States has forged strong partnerships to improve citizen safety in affected areas to fight drug trafficking, organized crime, corruption, illicit arms trafficking, money-laundering, and demand for drugs on both sides of the border.

Bilateral efforts are being accelerated to support stronger democratic institutions, especially police, justice systems, and civil society organizations; to expand our border focus beyond interdiction of contraband to include facilitation of legitimate trade and travel; and to build strong and resilient communities able to withstand the pressures of crime and violence.

Secretary of State Clinton, center, left, meets with Mexican Foreign Minister Espinosa, center, right, during meetings at the Alhondiga de Granadits in Guanajuato, Mexico. Clinton traveled to Mexico on a one-day trip for meetings on border security and drug trafficking, January 24, 2011. ©AP Image

Merida Programs and Activities

- The United States is supporting Mexico's implementation of comprehensive justice sector reforms through the training of justice sector personnel including police, prosecutors, and defenders, correction systems development, judicial exchanges, and partnerships between Mexican and U.S. law schools.
- The U.S. Government has provided scanners, X-ray machines, and other non-intrusive inspection equipment to enhance Mexican authorities' ability to detect illicit goods at key checkpoints of land and air ports of entry.
- The Mexican Government has established a corrections academy to train Mexican Federal correctional staff at Xalapa in Mexico's Veracruz state.
- The U.S. Agency for International Development (USAID) is partnering with the Government of Mexico and civil society to promote the rule of law and build strong and resilient communities by supporting the implementation of Mexico's new justice system; increasing knowledge of, and respect for, human rights; strengthening social networks and community cohesion; addressing the needs of vulnerable populations (youth and victims of crime); and increasing community and government cooperation.

Internal Controls, Financial Management Systems and Compliance with Laws and Regulations

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 identified a material weakness in internal control related to the Educational and Cultural Affairs (ECA) Summer Work Travel Program as of September 30. Other than the ECA exception described in the Departmental Governance section of this report, 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 identified a material weakness in internal control related to financial reporting of Foreign Service Nationals' After-Employment Benefits (FSNAEB) as of June 30. Other than the FSNAEB exception described in the Departmental Governance section of this report, 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 other material weaknesses in the design or operation of the internal control over financial reporting.

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

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.

Hillary Rodham Clinton

Hillary Rodham Clinton
Secretary of State
November 15, 2011

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:

- Effectiveness and efficiency of operations,
- Compliance with applicable laws and regulations, and
- Reliability of financial reporting.

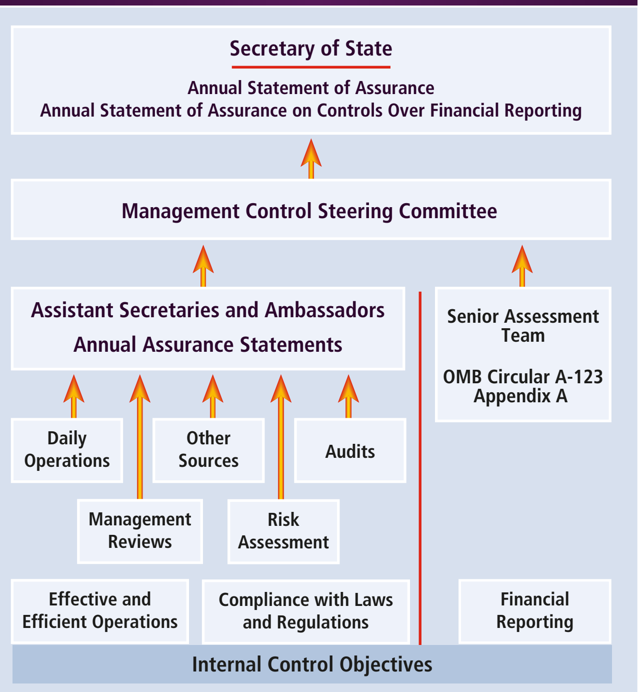
It also requires that the head of the agency, based on an evaluation, provide an annual Statement of Assurance on whether the agency has met this requirement. OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the FMFIA and defines management's responsibility for internal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

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 Circular A-123 requires that the agency head provide a separate assurance statement on the effectiveness of internal control over financial reporting (ICOFR), which is an addition to and also a component of the overall FMFIA assurance statement.

The Secretary of State's 2011 Annual Assurance Statement for FMFIA and ICOFR is provided on the preceding 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 section called Other Accompanying Information.

The Department's Management Control Steering Committee (MCSC) oversees the Department's management control program. The MCSC is chaired by the Chief Financial Officer, and is composed of eleven other Assistant Secretaries [including the Chief Information Officer and the Inspector General (non-voting)], the Deputy Chief Financial Officer, the Deputy Legal Adviser, the Deputy Assistant Secretary

FMFIA Annual Assurance Process



for Global Financial Services, 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. At the close of FY 2011, the Department reported a material weakness in internal controls related to the Educational and Cultural Affairs (ECA) Summer Work Travel Program. The Department had insufficient oversight to ensure the students participating in the ECA Summer Work Travel Program who are traveling to the United States through temporary, seasonal employment during their academic break were adequately supervised.

The Department has already developed a full corrective action plan and is taking swift action to remediate issues with the program.

The Senior Assessment Team (SAT) provided oversight during 2011 for the internal control 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. Due to the broad knowledge of management involved with the Appendix A assessment, the Department evaluated issues on a detailed level. The findings that resulted from the FY 2011 Appendix A assessment included several significant deficiencies in internal control over financial reporting as well as a material weakness related to Foreign Service Nationals' After-Employment Benefits (FSNAEB). By statute, the Department establishes compensation plans for FSNs we employ in foreign countries based upon prevailing laws and practices in the host country. Accounting for the financial aspects of these complex compensation plans throughout the world presents unique challenges, especially in regards to reporting the future liability for defined benefit, lump-sum retirement, and severance benefits. The Department has taken actions since September 30, 2011 to moderate the most serious aspects of the financial reporting issues for FSNAEB and recorded adjustments to the financial statements as of September 30, 2011. The Department will complete actions in FY 2012 to strengthen and refine the financial reporting and internal controls over FSNAEB.

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.

The Office of Management Controls employs an integrated process to perform the work necessary to meet the requirements of Appendix A, and 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. The Department is working to expand the use of risk-based assessments in an integrated approach to the entire FMFIA program.

The Department's management controls program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and various Federal regulations. To that end, the Department has dedicated considerable resources to administer a successful management control program. Management will continue to channel focused efforts to resolve issues for all significant deficiencies in internal control over financial reporting that were identified by management and auditors.

Federal Financial Management Improvement Act

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

To assess conformance with FFMIA, the Department uses FFMIA implementation guidance issued by OMB (January 2001 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 (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 system requirements, Federal accounting standards, 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 as 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 2012 and beyond to resolve these issues.

Federal Information Security Management Act

The Department of State's 2011 Federal Information Security Management Act (FISMA) and Privacy Management Report highlighted the Department's layered approach to security risk management by employing multiple levels of protection. This protection is accomplished by implementing a matrix of technical, operational, and management security controls designed to thwart network threats, detect and mitigate vulnerabilities, and strengthen business operations.

The Department's comprehensive risk-based and cost effective information security program includes a myriad of programs and procedures including a robust threat assessment program, a proven continuous monitoring effort and a well-recognized awareness program.

During FY 2011, based upon the coordinated efforts of the individuals and offices throughout the Department, the maturity level of a number of programs was substantively enhanced. Systems have been put in place that increases the frequency and accuracy of reporting. Specific examples include:

- The Department's continuous monitoring program scans both 3-4 times more complete and 20 times timelier than traditional certification and accreditation activities (checking vulnerability and configurations settings on 100,000 personal computers and servers every 72 hours);
- In 11 months, the Department reduced measured risk to known attacks on computer settings and vulnerability for personal computers and servers by 89%;
- Patched three critical weaknesses from 0% to 84% in one week across the entire Department;
- Routers and switches are scanned weekly, 150 times more frequently than required by FISMA;
- Firewalls are tightly managed by a centralized interagency Department body that holds meetings three times a week where evaluations and determinations are the normal course of business;
- DHS annually inspects the Departments DMZ and provided the Department a 92% grade for FY 2011;
- The Department has extensive forensics capabilities to detect acive network penetrations; and
- Penetration testing is routinely performed.

In FY 2012, the Department will support Department of Homeland Security efforts on establishing continuous monitoring performance measurements by continuing to serve as the lead for of the interagency Continuous Monitoring Working Group. Within the Department, the continuous monitoring program will be expanded with the goal of enhancing the Department's security posture and serving as a test bed for the rest of the community by focusing upon removing unauthorized devices and software; better manage firewalls and other non-windows devices, and better manage training, credentials, and accounts.

In the FISMA report, the Office of Inspector General will cite weaknesses to enterprise-wide security they consider to be a significant deficiency in accordance with OMB M-11-33. The Department acknowledges the weaknesses identified by the OIG, but does not agree that any of the findings, either individually or collectively, rise to the level of a significant deficiency that would require treating the matter as an additional material weakness in accordance with OMB M-11-33 which states "a significant deficiency is defined 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." 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.

Feed the Future

Feed the Future is President Obama's signature initiative on global food security. The United States is helping countries transform their own agricultural sectors to grow enough food sustainably to feed their people. Prime Minister Pinda invited Secretary Clinton to Tanzania to launch a Feed the Future program. In honor of this event, sweet pepper seedlings were planted in the fields of the Upendo Women's Group. Part of the Feed the Future mission is to support similar groups in improving their quality of life through enhancing their incomes, and improving their nutrition. The program provides training and technologies, such as high-quality seeds and simple irrigation systems. Both Secretary Clinton and Prime Minister Pinda discussed the importance of elevating nutrition as a critical component of food security with other foreign government officers.

Secretary of State Clinton and Prime Minister Pinda plant sweet pepper seedlings in the fields of the Upendo Women's Group in Tanzania, June 12, 2011. ©AP Image

Over the next five years, Feed the Future intends to assist 18 million vulnerable women, children, and family members to escape hunger and poverty; generate $2.8 billion in agricultural GDP in target regions through research and development activities; and leverage $70 billion in private investment in agriculture that improves sustainable market opportunities and linkages with smallholder farmers.

> "We hope that you will become not only a model for the country, but you will become a model for all of Africa."
>
> *— Secretary of State, Hillary Rodham Clinton*

Feed the Future represents the strengths of USAID, with State Department providing a vital role, and includes the Peace Corps, the Millennium Challenge Corporation (MCC), the Treasury Department, U.S. Trade Representative, the Overseas Private Investment Corporation (OPIC), the U.S. African Development Foundation, and the U.S. Department of Agriculture (USDA).

Financial Section

Message from the Chief Financial Officer


James L. Millette

The Department of State 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) is a key element and discipline in disclosing the Department's financial status and providing transparency and accountability to the American people. The AFR provides a comprehensive view of the Department's financial activities set against the backdrop of global issues and engagements we face as an institution working to advance U.S. interests abroad. Behind this high-level snapshot, however, is the immense financial work and dedication that occurs every day by our financial professionals in more than 270 locations, 180 countries, and in over 135 currencies and foreign languages, often in the most challenging environments.

The scale and complexity of the Department's activities and corresponding financial management requirements continue to grow in the face of a wide range of global and regional issues. As highlighted in the Message from the Secretary, our foreign policy challenges and opportunities are immense, whether it's transitioning to a civilian partnership in Iraq, supporting the President's Global Heath and Feed the Future initiatives, or implementing new trade agreements and attracting foreign investment. Through the Quadrennial Diplomacy and Development Review (QDDR), Secretary Clinton has also challenged us to improve our efficiency and effectiveness in supporting these efforts. And, I'm extremely proud of our support and improvements in the management and control of the Department's financial resources.

In the AFR's following pages, we present the annual financial statements and Independent Auditor's Report. The external audit has become a year-around process and focus for the Department as we strive to deliver meaningful financial statements by November 15 and demonstrate the Department's strong financial management practices. We also do our utmost to meet the challenges of addressing growing audit and compliance requirements, managing and prioritizing improvements in our financial processes and systems, supporting the President's Accountable Governance Initiative, and meeting our day-to-day financial management support obligations. In today's fiscal climate, how we manage this balance and blend our efforts will have added significance as we work to squeeze the most value from our limited resources and execute investment decisions that support our most critical needs. The ultimate goal, of course, is to support an accountable and efficient financial platform that furthers the Department's global operations and mission as well as provide accurate and high-value financial information for decision-makers and transparency and confidence for the American public.

Last year, the Department received an unqualified or "clean" opinion from the Independent Auditor for FY 2010. Without a doubt, we have continued to build on that result and make the improvements to our financial management processes and activities worldwide throughout FY 2011. This year, we received an unqualified opinion for the Statement of Budgetary Resources and the Consolidated Statement of Net Cost. However, late in the year, several issues were identified relating to the financial reporting of after-employment benefits for Foreign Service Nationals (FSN) we employ around the world. By statute, the Department establishes compensation plans for FSNs we employ in foreign countries based on prevailing laws and practices in the host country. Accounting for the financial aspects of these complex compensation plans throughout the world presents unique challenges, especially in regards to reporting the future liability for defined benefit, lump-sum retirement, and severance benefits. While we took a number of actions to moderate the most serious aspects of the financial reporting issues, and estimated and recorded amounts in the financial statements, there was insufficient time for the Independent Auditor to perform auditing procedures and satisfy themselves as to the accuracy of these amounts in time to meet the November 15, 2011 deadline imposed by OMB for issuing this Report. Consequently, the Independent Auditor issued a qualified opinion for the Consolidated Balance Sheet and Statement of Changes in Net Position. We will complete actions in FY 2012 to strengthen and refine our financial reporting and internal controls to resolve the weaknesses for reporting FSNs after-employment benefits.

The Department maintains a robust system of internal controls overseen and validated by senior leadership and administered by the Bureau of Resource Management.

For FY 2011, a material weakness was identified by the Department regarding the effective oversight of the Summer Work Travel Program for students traveling to the United States for temporary and seasonal employment during their academic breaks. A corrective action plan is in place to remediate the weaknesses in the program. Except for this material weakness, and the aforementioned material weakness in financial reporting of FSN after-employment benefits, the Secretary was able to provide assurance for the Department's internal controls in accordance with the Federal Managers' Financial Integrity Act.

We fully recognize that there are a number of items identified by the external audit that will require our continued attention, diligence, and improvement. We are committed to addressing these items and meeting these challenges. Given the global and complex nature of our operations, there will always be areas of concern and opportunities for improvement. We understand that fact, and I am confident in our resolve as we continue to manage the Department's finite resources on behalf of America's taxpayers in support of our nation's diplomatic affairs.

James L. Millette

James L. Millette
Assistant Secretary for Resource Management
and Chief Financial Officer, Acting
November 15, 2011

United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

November 15, 2011

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Harold W. Geisel

SUBJECT: Independent Auditor's Report on the U.S. Department of State 2011 and 2010 Financial Statements (AUD/FM-12-05)

An independent certified public accounting firm, Kearney & Company, P.C., was engaged to audit the financial statements of the U.S. Department of State (Department) as of September 30, 2011 and 2010, and for the years then ended, to provide a report on internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, 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 and regulations it tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards; Office of Management and Budget audit guidance; and the *Financial Audit Manual*, issued by the Government Accountability Office and the President's Council on Integrity and Efficiency.

In its audit of the Department, Kearney & Company identified potentially material amounts relating to after-employment benefits provided to locally employed overseas staff that had not been previously reported in the Department's financial statements. The Department was unable to provide timely and complete evidential matter to enable Kearney & Company to perform audit procedures to satisfy itself that actuarial liabilities and benefit plan assets relating to after-employment benefit programs, and their related effect on net position, were free of material misstatements. As a result of these limitations, Kearney & Company's present opinion on the Department's FY 2010 consolidated balance sheet and related statement of changes in net position is different from that expressed in its previous report, and the previous opinion should not be relied upon.

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Except for the effects of such adjustments, if any, as might have been determined to be necessary had Kearney & Company been able to examine evidence related to after-employment benefits provided to locally employed overseas staff, Kearney & Company found

- the consolidated balance sheets as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended, including the accompanying notes, present fairly, in all material respects, the financial position of the Department as of September 30, 2011 and 2010, and its net cost of operations, changes in net position, and changes in budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America;
- material weaknesses[1] in internal control; and
- instances of reportable noncompliance with laws and regulations 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 Report of Independent Auditors, the Report on Internal Control, and the Report on Compliance, dated November 14, 2011, 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 and compliance with laws and regulations, including whether the Department's financial management systems substantially complied with FFMIA.

Comments on the auditor's report from the Bureau of Resource Management 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.

Attachments: As stated.

[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.

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REPORT OF INDEPENDENT AUDITORS
AUD/FM-12-05

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of State (Department) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as described in the following paragraphs, 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated November 14, 2010, we expressed an opinion that the consolidated balance sheet, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources, including the accompanying notes, present fairly, in all material respects, the financial position of the Department as of September 30, 2010, and its net cost of operations, changes in net position, and changes in budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During FY 2011, our audit procedures identified potentially material amounts relating to after-employment benefits provided to locally employed overseas staff that had not been previously reported in the Department's financial statements. These issues affect FY 2011 and FY 2010 balances and activity. The Department was unable to provide timely and complete evidential matter to enable us to perform audit procedures to satisfy ourselves that actuarial liabilities and benefit plan assets relating to after-employment benefit programs, and their related effect on net position, were free of material misstatements. As a result of these limitations, our present opinion on the Department's FY 2010 consolidated balance sheet and related statement of changes in net position, as presented herein, is different from that expressed in our previous report. Our previous opinion should not be relied upon.

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As discussed in Note 20 to the FY 2011 financial statements, the Department restated its FY 2010 financial statements to correct errors identified during the FY 2011 financial statement audit related to amounts reported as after-employment actuarial liabilities, benefit plan assets, and net position.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence related to after-employment benefits provided to locally employed overseas staff, the financial statements referred to above, including the accompanying notes, present fairly, in all material respects, the financial position of the Department as of September 30, 2011 and 2010, and its net cost of operations, changes in net position, and changes in budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Department's Management's Discussion and Analysis and other Required Supplementary Information contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the Department. On the basis of this limited work, we found no material inconsistencies with the financial statements; accounting principles generally accepted in the United States of America; or OMB Bulletin No. 07-04, as amended.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued reports, dated November 14, 2011, on our consideration of the Department's internal control over financial reporting and compliance and on our tests of its compliance with certain provisions of laws and regulations for the year ended September 30, 2011. Our report on internal control includes a discussion of significant internal control deficiencies related to after-employment benefits for locally employed overseas staff that led to the restatement of the FY 2010 financial statements. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the Department's compliance with certain provisions of laws and regulations and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance or on compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and should be considered in assessing the results of our audits.

Kearney & Company

November 14, 2011

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REPORT ON INTERNAL CONTROL

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

We have audited the financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2011, and have issued our report dated November 14, 2011. 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Management of the Department is responsible for establishing, maintaining, and assessing internal control related to financial reporting and compliance.

In planning and performing our work, we considered the Department's internal control over financial reporting and compliance by obtaining an understanding of the design effectiveness of the Department's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of the Department's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not to provide an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting and compliance or on management's assertion on internal control included in the Management's Discussion and Analysis section.

We limited our internal control testing to those controls necessary to achieve OMB Bulletin No. 07-04, as amended, control objectives that provide reasonable, but not absolute, assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in compliance with laws governing the use of budget authority, government-wide policies, and laws identified in Appendix E of OMB Bulletin No. 07-04, as amended, and other laws and regulations that could have a direct and material effect on financial statements. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act, 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.

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Our consideration of internal control over financial reporting and compliance was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. Therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies. We consider the following deficiencies in the Department's internal control to be material weaknesses.

Material Weaknesses

I. Financial Reporting

The Department compiles 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), and statement of changes in net position. The necessary data is extracted from multiple systems and source files and is sometimes manually keyed into crosswalk files or statement preparation templates (Excel workbooks), which ultimately create the Department's financial statements. In addition, the Department lacks a budgetary financial reporting system that is integrated with the financial management system general ledger, which forces the Department to use a manual, labor-intensive process to develop its statement of budgetary resources (SBR). Manual adjustments require an increased measure of internal control and review, reduce the Department's ability to produce statements timely, and increase the likelihood of errors in the statements.

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 control deficiencies and financial reporting risks surrounding the financial statement preparation process to reduce the material weakness; however, during FY 2011, the audit process identified the additional control deficiencies noted, which, when combined, result in a material weakness.

- Preparation of the SBR – The SBR is predominantly derived from an entity's budgetary general ledger in accordance with budgetary accounting rules. Information on the SBR should reconcile to budget execution information reported to the Department of the Treasury (Treasury) on Standard Forms (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 noted that the Department does not perform effective fund reconciliation procedures for budgetary resources at the transaction level in a timely manner. We found that the Department makes numerous adjustments related to budgetary resources outside the financial system,

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most of which originate from automated calculations as well as manual journal entries. The audit process identified a number of significant errors in the manual preparation of the Department's SF 133 workbooks.

The Department does not use the full functionality of its financial systems to capture and control all accounting events (including budgetary transactions) and to automate SBR reporting procedures. The manual nature of the current process the Department uses to compile its SBR is high risk and resource intensive. The process requires significant intervention on the part of management, and it increases the risk of error and the risk that an auditable SBR will not be prepared timely to meet OMB financial reporting deadlines. In addition, the lack of a fully integrated budgetary accounting system jeopardizes compliance with the Federal Financial Management Improvement Act (FFMIA). Significant audit adjustments are required as a result of errors found.

- <u>Abnormal Balances</u> – The U.S. Standard General Ledger (USSGL) is a series of account numbers that Federal agencies use to maintain their transaction-level accounting information. Each general ledger account normally has a debit balance or a credit balance. The Department enters accounting information into GFMS at the transaction level. To report consolidated information in its annual financial statements, the Department combines and reports transaction-level information at the fund (appropriation) and Department level. We identified more than 300 general ledger accounts and sub-accounts that had abnormal balances as described in Treasury guidance. The Department does not have a process in place to prevent, detect, and remediate abnormal general ledger balances in a timely manner. The presence of abnormal balances compromises the integrity of financial data and increases the risk of errors on the financial statements.

- <u>Budgetary to Proprietary Accounts Reconciliation</u> – Federal financial accounting standards require an entity to be able to reconcile its proprietary information to budgetary information. The Department does not routinely complete a timely and comprehensive reconciliation of budgetary and proprietary account relationships as part of the financial reporting process. The lack of a fully integrated accounting system that simultaneously records both the proprietary and budgetary impact of an accounting event contributes to the Department's inability to timely perform a complete reconciliation. Completing a budgetary to proprietary account reconciliation is not part of the Department's financial reporting control structure, and the absence of this reconciliation increases the risk that material errors may go undetected and uncorrected.

- <u>Periodic Analysis of Financial Data</u> – Periodic reviews and comparative analyses of financial data are effective tools used by many organizations to identify abnormalities and potential misstatements in accounting records. Properly designed and executed analytical comparisons help management identify significant variances in account balances. The Department did not perform standardized, comparative analyses over accounts included in the SNC and the SBR. While some analyses were performed on balance sheet accounts, these analyses were insufficient to meet financial reporting

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control objectives. The Department did not have a standardized process for periodic comparative reviews of financial data, including standard thresholds to trigger investigations of variances and requirements for supporting documentation. Without effective routine financial reviews, material errors and anomalies in the financial statements may not be identified and corrected.

- Allocation Methodology for the SNC – An agency's SNC should present the net cost of operations for an agency by major program. The major programs should relate to the major goals and outputs described in the entity's strategic and performance plans, as required by Federal standards. The Department uses a methodology to allocate costs across strategic goals that was developed in FY 2004 and subsequently updated to reflect changing conditions or introductions of new programs. The Department was unable to provide adequate documentation to support the allocation methodology, including underlying assumptions. The Department does not have a process to periodically review and validate its cost allocation methodology in light of changing conditions and strategic goal adjustments. Documentation was not sufficiently maintained to support historical validation efforts. Without a valid cost allocation methodology, the SNC may not represent actual cost data for management comparisons. Further, the inability of an agency to produce managerial cost information consistent with Federal accounting standards is an indicator of noncompliance with the FFMIA.

II. Foreign Service National After-Employment Benefits

The Department provides some Foreign Service National (FSN) employees with after-employment benefits through a variety of arrangements, including defined benefit retirement plans, defined contribution retirement plans, lump-sum retirement payments, and separation benefits to FSNs who voluntarily resign or otherwise leave the workplace. The Department does not maintain a comprehensive list of FSN after-employment benefit plans by post. In addition, the Department lacks sufficient policies and procedures to effectively manage and account for these benefits. Based on the material misstatements identified during the audit, the Department restated its FY 2010 financial statements and made adjustments to benefit plan assets, actuarial liabilities, and net position during FY 2011. The individual deficiencies we identified are summarized as follows:

- FSN Defined Benefit Plans – In prior years, the Department performed analyses to identify posts offering defined benefit plans to FSN employees and to estimate unfunded defined benefit liabilities for countries identified during its analyses. During FY 2011 audit site visits, we reviewed the details of benefit arrangements for a sample of posts known to offer defined benefit plans to FSN employees. We found that the liability estimate that the Department had recorded in prior years was not supported by information from local actuaries, and in some cases, the actuarial reviews were not performed using consistent estimation techniques and assumptions. We also noted that the Department had recorded a net liability for the defined benefit plans rather than recording assets and liabilities separately, as is required by Federal accounting standards. In addition, we identified posts that had defined benefit plans that were not included in the Department's

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estimated liability. Certain data elements necessary to report FSN defined benefit plans in accordance with applicable accounting standards were not readily available for all plans. In addition, posts with defined benefit plans inconsistently managed key processes, such as periodic actuarial valuations, experience studies, and plan investments. Expanded oversight is needed, as the solvency of defined benefit plans can be sensitive to management decisions such as the establishment of contribution rates and investment strategies.

- FSN Lump Sum Retirement and Voluntary Separation Benefits – We identified numerous posts providing FSNs either lump sum retirement or voluntary separation benefits. The Department had not recorded an estimated liability for these benefits, in accordance with relevant accounting standards. A relevant and repeatable process is necessary to reasonably estimate liabilities for these benefits. The lack of oversight related to FSN after-employment benefits may result in funding shortfalls, noncompliance with local employment regulations, or the disbursement of improper benefit payments.

- FSN Defined Contribution Plans – The Department has established the FSN Defined Contributions Retirement Plan Fund (DCF) as a centralized retirement savings program that posts can participate in to provide benefits upon separation to locally employed FSNs. The Department reports the assets for the FSN DCF as Cash and Other Monetary Assets on its balance sheet and also in the footnotes to the financial statements as an Earmarked Fund. Since the Department has chosen to record this fund as an asset, it also needed to record a corresponding liability, which it had not done in prior years. In addition, we noted that the Department did not report information in its financial statements on defined contribution retirement plans offered at individual posts that are separate from the FSN DCF.

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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.

Significant Deficiencies

III. Property and Equipment

The Department reported over $13 billion in net property and equipment (P&E) on its FY 2011 balance sheet. Real and leased property assets consist primarily of facilities used for U.S. diplomatic missions abroad and capital improvements to these facilities. Personal property consists 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 2011, the Department's internal control structure continued to exhibit several deficiencies that negatively

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affect 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:

- International Boundary and Water Commission (IBWC) Real Property – IBWC is a Federal commission that has responsibility for applying the boundary and water treaties between the United States and Mexico and settling differences that may arise in their application – a mission that involves a significant amount of real property. For consolidated financial reporting purposes, IBWC financial information is included in the Department's financial statements. During our audit, we found that IBWC had not recognized and reported a significant, multiyear improvement project constructed by another entity on behalf of IBWC. As a result of the omission of certain improvements, the IBWC real property information provided to the Department for financial reporting purposes was understated. The Department did not have an effective, routine process in place to ensure that property information provided by IBWC was complete and accurate.

- Personal Property – The Department reported over $1 billion in net personal property as of September 30, 2011. Audit procedures identified several deficiencies in the Department's internal control structure surrounding personal property. The Department's control structure did not ensure that personal property acquisitions and disposals were recorded timely and accurately. In addition, the audit identified incomplete and inaccurate contractor-held property inventories.

- Internal Use Software and Software-in-Development – The Department's method for tracking and recording software costs is based on a manual data call process that is not integrated with the core accounting system. The Department's control structure did not ensure that all relevant projects were being capitalized, that project status was monitored, or that substantially completed projects were identified. Audit inquiries identified current and prior period misstatements that were not identified by the Department's control structure. In addition, we also noted errors in manual cost tracking schedules and depreciation calculations.

- Capital Leases – The Department manages approximately 8,900 real property leases throughout the world. Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee; therefore, the asset must be capitalized and shown in the lessee's balance sheet. The Department's internal control structure did not ensure the accuracy of capitalized amounts or ensure that all leases recorded as being capital fully met the capitalization criteria. In addition, amortization schedules and net present value calculations were manually created and were therefore susceptible to error.

- Heritage Assets – Heritage assets represent unique property with historical, cultural, or architectural significance. The Department has heritage assets that are held for public exhibition, education, and official function, including collections of artwork, furnishings, books, and real property. Federal accounting standards require agencies to compile and

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report information related to heritage assets in the notes to the financial statements. Our audit procedures identified significant collections of heritage assets that had not been included in the Department's note disclosure. In addition, we noted incomplete reviews and reconciliations of heritage item counts and inaccurate reporting of condition assessments. We also noted inconsistent treatment of grouped heritage assets, such as a set of fine cutlery or a furniture collection. Without an accurate inventory of the heritage assets, the Department is unable to demonstrate the long-term benefit of these assets to the public or show that it is sufficiently responsible and accountable for these assets.

IV. Budgetary Accounting

The Department lacks sufficient reliable funds control over its accounting and business processes to ensure budgetary transactions are properly recorded, monitored, and reported. In our report on the Department's FY 2010 financial statements, we identified budgetary accounting as a significant deficiency. During FY 2011, the Department did not implement sufficient corrective actions to remediate existing deficiencies, and we concluded that the combination of control deficiencies was a significant deficiency. The individual deficiencies we identified are summarized as follows:

- <u>Effectiveness of Allotment Controls</u> – Federal agencies use allotments to allocate funds in accordance with OMB apportionments or other statutory authority. Allotments provide authority to incur obligations to agency officials as long as those obligations are within the scope and terms of the allotment authority. The Department's accounting systems have automated controls to prevent the posting of obligations that exceed available allotment funding authority; however, these controls were overridden by Department personnel. The audit process identified 391 instances in which the allotment funds control was overridden in a 3-month period. Since the Department does not have an integrated budgetary financial reporting system, breakdowns in allotment funds control further strain the manual, labor-intensive process to develop the SBR. Overriding the allotment funds control could lead to a violation of the Antideficiency Act, and it increases the risk of fraud, misuse, and waste.

- <u>Unsupported Obligations</u> – Obligations are definite commitments that create a legal liability of the Government for payment. The Department should record obligations based upon a reasonable estimate of the Department's potential liability. The audit process identified 4,691 low-value obligations for which the Department could not provide evidence of a binding agreement to support these obligations. The Department's financial management system is designed to reject payments for invoices without established obligations. Because allotment holders are not always recording valid and accurate obligations prior to the receipt of goods or services, the Department establishes low-value obligations, allowing invoices to be paid in compliance with the Prompt Payment Act but effectively bypassing system internal controls. The continued use of this practice could lead to a violation of the Antideficiency Act, and it increases the risk of fraud, misuse, and waste.

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- 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 noted 46 obligations that were not recorded within 15 days of execution of the obligating document; in some cases, the obligation was posted subsequent to the receipt of goods and services by the Department. The Department did not have adequate procedures and controls to ensure the accurate and timely creation, approval, and recording of obligations. Without an effective process to create obligations timely, controls to monitor funds and make timely payments may be comprised, which may lead to violations of the Antideficiency Act and the Prompt Payment Act.

- Incomplete Budgetary Authority – The Department records budgetary authority, including congressionally appropriated funding, rescissions, and intra-governmental transfers, in its budgetary and financial management systems. The Department reconciles budgetary information in its systems to the Treasury Governmentwide Accounting and Reporting Program – a real-time budgetary information system. During our testing, we found that the Department's financial system did not accurately or completely reflect budgetary authority. The Department does not always record budgetary authority in a timely manner, and it relies on manual processes to prepare its budgetary financial reports. Many adjustments are made outside of the budgetary and financial systems for financial reporting purposes, which increases the risk of error.

- Capital Lease Obligations – The Department is required to obligate funds to cover the net present value of the Government's total estimated legal obligation over the life of a capital lease contract. The Department annually obligates funds equal to one year of the capital lease cost rather than the entire amount of the lease agreement, as required. The Department obligates leases on an annual basis rather than the entire lease agreement period because that is the manner in which funds are budgeted and appropriated by Congress.

V. 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. The audit process identified approximately $214.5 million related to invalid ULOs that had not been identified by the Department's review process. The current internal control structure is 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 are not sufficient to ensure that ULOs are consistently and systematically evaluated for validity and deobligation. Weaknesses in controls over ULOs were initially reported in the audit of the Department's FY 1997 financial statements and subsequent audits.

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VI. Accrual Process

The Department provides discretionary financial assistance to foreign countries, international organizations, international societies, commissions, individuals, and not-for-profit organizations through grants and voluntary contributions. Federal agencies should record a liability for all amounts owed as of the financial statement date, including for grants and voluntary contributions. Agencies may need to estimate the liability amount for certain items using an accrual methodology when supporting documentation has not been received from the vendor. Agencies must accumulate sufficient, relevant, and reliable data on which to base accrual estimates, and management should ensure that adequate documentation is available to support the estimates.

- Grants Accrual – The Department was unable to provide adequate documentation to support the data and assumptions that it used to develop and record the domestic grants accrual in a timely manner. Results of the Department's domestic grants accrual validation process indicated weaknesses in the estimation process and data sources used to calculate the liability, which increases the risk of erroneous financial statements. Validation results were received near the end of audit fieldwork and could not be fully substantiated.

- Voluntary Contributions Accrual – The Bureaus of International Organization Affairs (IO) and Population, Refugees and Migration (PRM) are responsible for the majority of voluntary contributions within the Department. Although the Department accrued a liability for IO voluntary contributions, it did not accrue a liability for PRM voluntary contributions as part of its overall accrual process.

VII. Information Technology

The Department's information technology (IT) internal control structure, both for the general support systems and critical financial reporting applications, did not include a comprehensive risk analysis, effective monitoring of logical access, and an ability to identify and respond to changing risk profiles. The National Institute of Standards and Technology and the Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM) provide control objectives and evaluation techniques used during the course of 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 2011. Overall, OIG found that the Department had implemented an information security program, but it identified weaknesses in the areas of risk management strategy, security configuration management, 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.

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While our audit noted similar deficiencies with general support systems as were reported by OIG, our scope was focused primarily on deficiencies that could lead to significant misstatements of the Department's financial statements. Based on IT deficiencies noted with the general support systems, we developed additional audit procedures to substantively test financial management system inputs and outputs that we believe would reasonably ensure that no material misstatements occurred because of general support system deficiencies that we would not have identified during audit testing. Our procedures did not identify any material misstatements that we believe were caused by general support system deficiencies. In addition, the Department reported that it had certain compensating controls that would mitigate some of the risks that were attributable to the general support system weaknesses. Also, in FY 2011, the Department remediated certain financial reporting application deficiencies that we had identified in FY 2010, including documenting controls in some financial applications, improving definitions of user roles and responsibilities, and performing periodic user access reviews. Although the Department had addressed certain deficiencies in financial reporting applications, we noted other deficiencies reported in prior years that had not been addressed and identified some additional deficiencies. 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 and are summarized as follows:

- Security Management and Assurance of Systems and Applications – Organizations conduct system certification and accreditation activities to support decisions and conclusions made by the Authorizing Officer to issue an Authorization to Operate for the system. The Department has not performed a current security risk assessment in support of the tri-annual certification and accreditation required activities for OpenNet, the Department's Sensitive but Unclassified network used for financial systems access and interconnectivity. The Department adopted a "pilot" continuous monitoring program in lieu of previous certification and accreditation activities. This change was not effectively communicated to stakeholders and interconnected systems in the System Security Plan. The adopted continuous monitoring program is based on a monitoring tool (iPost) that does not monitor all devices, controls, data, and metrics required and assured under the previous accreditation methodology. A further financial application, the Integrated Logistics Management System, asserted ongoing certification compliance based on the iPost tool monitoring results, which we determined were not reliable in our assessment.

- Segregation of Duties and Review of User Accounts – The Department has not completed a segregation of duties analysis of user rights and authorizations or appropriately assigned rights in GFMS and the Regional Financial Management System (RFMS). Documented procedures for annual account reviews were not maintained for the Consolidated American Payroll Processing System (CAPPS) and the Global Employment Management System (GEMS)/Employee Benefits Information System. In addition, the Department could not demonstrate that system owners annually validated user privileges in GFMS and the Foreign Affairs Retirement and Disability System. Several instances of segregation of duties violations associated with the assignment of user roles were noted in RFMS. Failure to maintain risk profiles and validate user roles

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may result in inadequate segregation of duties, a weakening of the control environment, errors, and irregularities.

- Untimely Removal of Inactive or Separated Employees' User Accounts – Only current active employees should have access to systems and applications. Entities should monitor and terminate accounts that have been inactive for extended periods. The Department does not cancel system access for separated or inactive users timely. We identified 29 separated employees who had active accounts in two critical applications, including 29 in GEMS and two in the Central Resource Management System. Two user accounts in CAPPS were inactive for over 60 days. Inactive or terminated user accounts may facilitate circumvention of internal controls, which could potentially result in erroneous and improper transactions, embezzlement, unauthorized use, and a weakening of the internal control structure.

- Multiple or Generic Application User Accounts – Users provided with default or generic accounts can access or alter data within systems without being personally identified. Users should be provided one single access account to a system, which clearly identifies who they are and the privileges they are provisioned to perform on the system. The Department has not prevented or detected the assignment of multiple or generic user accounts to system users. We identified seven users with multiple access credentials to gain access to systems: six users in GFMS and one user in the Global Foreign Affairs Compensation System (GFACS). An additional user account in RFMS had conflicting rights as both a system administrator and voucher processor.

- Foreign Service National Pay (FSNPay) Controls – FSNPay is an application used by the Department to process payroll for FSNs. The processing and handling of payroll data should be secured from viewing or tampering with the contents by external or internal sources. The Department's FSNPay application has weaknesses in the security of transmitted payroll files and in the segregation of duties controls. These weaknesses are attributable to the age of the system and the inability to leverage current technologies to meet required security control objectives. These weaknesses increase the risk of fraud, unauthorized transactions, or improper access to sensitive information. FSNPay is currently planned to be retired and to be fully replaced by GFACS.

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We identified two material weaknesses, Financial Reporting and FSN After-Employment Benefits, during our audit. The Department reported FSN After-Employment Benefits as a material weakness in its FY 2011 Federal Managers' Financial Integrity Act assurance statement. However, the Department did not identify Financial Reporting as a material weakness. We did not audit the Department's assurance statement, and accordingly, we express no opinion on it.

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

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STATUS OF PRIOR YEAR FINDINGS

In the Report on Internal Control included in the audit report on the Department's FY 2010 financial statements,[1] we noted several issues that were related to internal control over financial reporting. Our internal control findings are summarized in Table 1.

Table 1. Prior Year Significant Internal Control Deficiencies

Control Deficiency	FY 2010 Status	FY 2011 Status
Financial Reporting	Significant Deficiency	Material Weakness
Property and Equipment	Significant Deficiency	Significant Deficiency
Accounts Payable Accrual	Significant Deficiency	Management Letter
Budgetary Accounting	Significant Deficiency	Significant Deficiency
Liability to International Organizations	Significant Deficiency	Closed
Information Technology	Significant Deficiency	Significant Deficiency

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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.

This report is intended solely for the information and use of Department management; those charged with governance; and others within the Department and OIG, OMB, GAO, the Treasury, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

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November 14, 2011

[1] *Independent Auditor's Report on the U.S. Department of State 2010 and 2009 Financial Statements* (AUD/FM-11-03, Nov. 2010).

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REPORT ON COMPLIANCE

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

We have audited the financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2011, and have issued our report dated November 14, 2011. 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. 07-04*, Audit Requirements for Federal Financial Statements*, as amended. Management of the Department is responsible for compliance with laws and regulations.

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended, that we determined were applicable. As part of our audit, we also performed tests of compliance with Federal Financial Management Improvement Act (FFMIA), Section 803(a) requirements. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the Department. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our testing disclosed instances of noncompliance exclusive of FFMIA that are required to be reported under *Government Auditing Standards* and the requirements of OMB Bulletin No. 07-04, as amended, 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 (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 is required. Audit procedures identified multiple instances in which the Department had incorrectly calculated interest penalties on overdue payments. Additionally, we found that the Department did not consistently pay interest penalties for overseas payments and that payments to international organizations were not paid in accordance with the Prompt Payment Act.

- *Federal Acquisition Regulation.* Federal procurement regulations require that signatories to agreements that legally bind the Federal Government act within their delegated contracting authority. Failure to follow these regulations is a violation that creates an unauthorized commitment. Resolution of unauthorized commitments requires ratification of a contract in accordance with Federal regulations. When testing obligations, we noted instances of contracting officers exceeding their delegated authority. Additionally, we noted that these contracts had not been properly ratified in accordance with the Federal Acquisition Regulation.

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. We noted certain instances, as described, in which the Department's financial management systems and related controls did not substantially comply with certain Federal system requirements, Federal accounting standards, and the USSGL at the transaction level.

Federal Financial Management Systems Requirements

- The Department did not have a routine process to reconcile budgetary and proprietary accounts, and the Department could not provide a reconciliation in a timely manner.
- Appropriation and transfer balances reported in the Department's accounting system did not always reconcile to data reported by Treasury.
- 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.
- User access and authorization controls were not documented in all cases. Adequate segregation of duties was not fully maintained in certain financial systems.
- Automated controls to prevent postings of obligations that exceeded available allotment funding authorities were overridden. In addition, transactions could be posted to invalid allotment codes.
- Interest on overdue payments was not always calculated correctly on domestic payments and was not always paid on overdue overseas payments.
- During its annual evaluation of the Department's information security program, as required by the Federal Information Security Management Act, the Department's Office of Inspector General (OIG) identified weaknesses with computer security that it reported collectively as representing a significant deficiency.

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Applicable Federal Accounting Standards

- The Department was unable to obtain an unqualified opinion on its FY 2011 financial statements.
- The Department's core accounting system did not produce complete, auditable financial statements without significant manual adjustments. This resulted in a material weakness on financial reporting in our Report on Internal Control.
- The Department did not previously report Foreign Service National after-employment benefits in accordance with Federal accounting standards, which was reported as a material weakness during the Department's OMB Circular A-123 review, as well as in our Report on Internal Control.

Standard General Ledger at the Transaction Level

- The Department's statement of budgetary resources was subject to numerous adjustments that were made outside the core accounting system and that could not be traced directly to USSGL account balances.
- Financial data could not be appropriately and directly matched to financial statements and OMB and Treasury reports from USSGL codes.
- The Department did not have a process to periodically review and validate its cost allocation methodology in light of changing conditions and strategic goal adjustments.
- The Department did not have a process to review and validate abnormal balances in its accounting system.

The Department has not implemented and enforced systematic financial management controls to ensure substantial compliance with FFMIA. The Department has not developed and executed remediation plans to address instances of noncompliance. The Department's ability to meet Federal financial management system requirements and fully process transaction-level data in accordance with the USSGL is hindered by systemic limitations in systems and processes.

Except as noted above, our tests of compliance with the provisions of selected laws and regulations 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. 07-04, as amended.

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

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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.

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This report is intended solely for the information and use of Department management; those charged with governance; and others within the Department and OIG, OMB, the Government Accountability Office, the Treasury, and Congress, and it is not intended to be and should not be used by anyone other than these specified parties.

Kearney & Company

November 14, 2011

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United States Department of State

Chief Financial Officer

Washington, D.C. 20520

UNCLASSIFIED

November 15, 2011

MEMORANDUM

TO: OIG – Harry W. Geisel

FROM: RM – James L. Millette

SUBJECT: Draft Audit Report on the Department of State's Fiscal Year 2011 and 2010 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 on Compliance and Other Matters (Report) of the U.S. Department of State's Fiscal Year 2011 and 2010 Financial Statements.

The Department operates in over 270 locations and 180 countries, conducting its business in more than 135 currencies and in foreign languages, in often the most challenging of environments. It is an immense operational endeavor, impacted on a daily basis by the ever changing nature of international affairs issues and the steady resolve of our foreign policy and leadership in the world. Few agencies or global corporations face these challenges in supporting their operations. We fully understand this and embrace our financial responsibilities to the Department and the American people as we pursue an efficient, accountable, and transparent financial management platform that enhances the Department's foreign affairs mission.

The external audit has become a year-around process and focus for the Department as we strive to deliver meaningful financial statements by November 15 and demonstrate the Department's strong financial management practices. We also do our utmost to meet the challenges of addressing growing audit and compliance requirements, managing and prioritizing improvements in our financial processes and systems, supporting the President's Accountable Governance Initiative, and meeting our day-to-day financial management support obligations. In today's fiscal climate, how we manage this balance and blend our efforts as financial managers will have added significance as we work to squeeze the most value from our limited resources and execute investment decisions that support our most critical needs. This will be an ongoing challenge for all of us.

The year's audit process has been a concerted and dedicated effort by all stakeholders involved. While we may not agree on every aspect of the process and final outcome of the report, we certainly appreciate the commitment by all parties to work together throughout the audit process to produce our annual financial statements. This year, we received an unqualified opinion for the Statement of Budgetary Resources and the Consolidated Statement of Net Cost. During the year, several issues were identified relating to the financial reporting of after-employment benefits for Foreign Service Nationals (FSN) we employ for all agencies at U.S. diplomatic missions around the world. Accounting for the financial aspects of these complex compensation plans throughout the world presents unique challenges, especially in regards to reporting the future liability for defined benefit, lump-sum retirement, and severance benefits. While we took a number of actions to moderate the most serious aspects of the financial reporting issues, and estimated and recorded amounts in the financial statements, there was insufficient time for the Independent Auditor to perform auditing procedures and satisfy themselves as to the accuracy of these amounts in time to meet the November 15, 2011 deadline. Consequently, as noted in the Draft Report, the Independent Auditor issued a qualified opinion for the Consolidated Balance Sheet and Statement of Changes in Net Position.

As a Department, we remain committed to strong corporate governance and internal controls. We maintain a robust system of internal controls overseen by our Management Control Steering Committee and validated by the senior leadership. For FY 2011, a material weakness was identified by the Department regarding the effective oversight of the Summer Work Program for students traveling to the United States for temporary and seasonal employment during their academic breaks. Except for this material weakness, and the aforementioned material weakness in financial reporting of FSN after-employment benefits, the Secretary was able to provide assurance for the Department's internal controls in accordance with the Federal Managers' Financial Integrity Act.

We fully recognize that these and other items identified the Draft Audit Report will require our continued attention, action, and improvement. We look forward to working with you, Kearney & Company, and other stakeholders on addressing these issues in the coming year. We are committed to build on the progress made over the last few years to continue to execute a robust and meaningful external audit program in the most efficient and effective way possible. We appreciate everyone's effort toward this goal.

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 they conducted the audit. Few outside the financial community likely realize the time and effort that go into producing the audit and the AFR, as we work to demonstrate our commitment to strong financial management and transparency.

Introduction to 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 2010 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**, and information on Deferred Maintenance.

CONSOLIDATED BALANCE SHEET

(dollars in millions)

As of September 30,	Notes	2011	2010 Restated (Note 20)
ASSETS	2		
Intragovernmental Assets:			
Fund Balances With Treasury	3	$ 40,415	$ 37,819
Investments, Net	4	16,433	15,901
Interest Receivable		181	186
Accounts Receivable, Net	5	336	191
Advances and Prepayments	8	1,065	486
Total Intragovernmental Assets		58,430	54,583
Accounts and Loans Receivable, Net	5	135	75
Cash and Other Monetary Assets	6	291	272
Property and Equipment, Net	7	14,606	12,880
Other Assets	8	349	524
Total Assets		$ 73,811	$ 68,334
Stewardship Property and Equipment; Heritage Assets	7		
LIABILITIES	9		
Intragovernmental Liabilities:			
Accounts Payable		$ 294	$ 228
Other Liabilities		612	755
Total Intragovernmental Liabilities		906	983
Accounts Payable		1,856	1,534
After-Employment Benefit Liability	10	19,425	18,614
International Organizations Liabilities	11	1,658	1,495
Other Liabilities	9,12	1,030	957
Total Liabilities		24,875	23,583
Contingencies and Commitments	13		
NET POSITION			
Unexpended Appropriations—Earmarked Funds		—	—
Unexpended Appropriations—Other Funds		31,915	29,288
Cumulative Results of Operations—Earmarked Funds	14	(1,418)	(1,131)
Cumulative Results of Operations—Other Funds		18,439	16,594
Total Net Position		48,936	44,751
Total Liabilities and Net Position		$ 73,811	$ 68,334

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,	2011	2010 Restated (Note 20)
Achieving Peace and Security		
Total Cost	$ 7,621	$ 7,033
Earned Revenue	(1,131)	(941)
Net Program Costs	6,490	6,092
Governing Justly and Democratically		
Total Cost	1,010	949
Earned Revenue	(123)	(77)
Net Program Costs	887	872
Investing in People		
Total Cost	6,390	4,580
Earned Revenue	(50)	(33)
Net Program Costs	6,340	4,547
Promoting Economic Growth and Prosperity		
Total Cost	1,650	1,547
Earned Revenue	(200)	(125)
Net Program Costs	1,450	1,422
Providing Humanitarian Assistance		
Total Cost	1,967	1,786
Earned Revenue	—	—
Net Program Costs	1,967	1,786
Promoting International Understanding		
Total Cost	2,911	2,666
Earned Revenue	(349)	(271)
Net Program Costs	2,562	2,395
Strengthening Consular and Management Capabilities		
Total Cost	4,114	4,101
Earned Revenue	(3,249)	(2,792)
Net Program Costs	865	1,309
Executive Direction and Other Costs Not Assigned		
Total Cost	3,988	4,256
Earned Revenue	(1,733)	(1,743)
Net Program Costs Before Assumption Changes	2,255	2,513
Actuarial Loss on Pension Assumption Changes (Note 1, Note 10)	444	612
Net Program Costs	2,699	3,125
Total Cost and Loss on Assumption Changes	**30,095**	**27,530**
Total Revenue	**(6,835)**	**(5,982)**
Total Net Cost	**$ 23,260**	**$ 21,548**

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,	2011			2010 Restated (Note 20)
	Earmarked Funds	All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations				
Beginning Balances, as adjusted	$ (1,131)	$ 16,594	$ 15,463	$ 13,471
Adjustments:	—	—	—	(744)
Beginning Balances, as adjusted	(1,131)	16,594	15,463	12,727
Budgetary Financing Sources:				
Other Adjustments (Rescissions etc.)	—	—	—	(32)
Appropriations Used	—	25,259	25,259	24,765
Non-exchange Revenue	—	42	42	25
Donations	19	—	19	28
Transfers in(out) without Reimbursement	(81)	205	124	70
Accrued Earmarked Transfer In	—	—	—	—
Other Financing Sources:				
Donations	—	221	221	—
Imputed Financing from Costs Absorbed by Others	—	166	166	238
Non-entity Collections	—	(1,013)	(1,013)	(810)
Total Financing Sources	(62)	24,880	24,818	24,284
Net Cost of Operations	(225)	(23,035)	(23,260)	(21,548)
Net Change	(287)	1,845	1,558	2,736
Total Cumulative Results of Operations	**(1,418)**	**18,439**	**17,021**	**15,463**
Unexpended Appropriations				
Beginning Balances	—	29,288	29,288	23,546
Budgetary Financing Sources:				
Appropriations Received	—	28,014	28,014	31,043
Appropriations Transferred in(out)	—	193	193	(427)
Rescissions and Canceling Funds	—	(321)	(321)	(109)
Appropriations Used	—	(25,259)	(25,259)	(24,765)
Total Budgetary Financing Sources	—	2,627	2,627	5,742
Total Unexpended Appropriations	**—**	**31,915**	**31,915**	**29,288**
Net Position	**$ (1,418)**	**$ 50,354**	**$ 48,936**	**$ 44,751**

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,	2011	2010
Budgetary Resources:		
Unobligated Balance, brought forward, October 1:	$ 13,337	$ 11,970
Recoveries of Prior Year Unpaid Obligations	1,602	1,089
Budget Authority:		
Appropriations	29,548	32,014
Borrowing Authority	1	1
Spending authority from offsetting collections (gross):		
Earned		
Collected	8,878	8,626
Change in receivable from Federal sources	179	(250)
Change in unfilled customer orders:		
Advance received	552	(323)
Without Advance from Federal sources	—	—
Nonexpenditure transfers, net anticipated and actual	182	(427)
Temporarily not available pursuant to Public Law	(534)	—
Permanently not available	(453)	(119)
Total Budgetary Resources	**$ 53,292**	**$ 52,581**
Status of Budgetary Resources:		
Obligations Incurred:		
Direct	$ 31,050	$ 31,119
Reimbursable	8,782	8,125
Unobligated balance		
Apportioned	12,564	12,418
Exempt from apportionment	7	—
Unobligated balance not available	889	919
Total Status of Budgetary Resources	**$ 53,292**	**$ 52,581**
Change in Obligated Balance:		
Obligated Balance, net		
Unpaid Obligations, brought forward, October 1	$ 24,734	$ 20,362
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(237)	(487)
Obligations incurred, net	39,832	39,244
Less: Gross Outlays	(35,729)	(33,783)
Less: Recoveries of prior-year unpaid obligations, actual	(1,602)	(1,089)
Change in uncollected customer payments from Federal sources	(179)	250
Obligated balance, net, end of period:		
Unpaid obligations	27,235	24,734
Less: Uncollected customer payments from Federal sources	(416)	(237)
Net Outlays		
Gross outlays	35,729	33,783
Less: Offsetting collections	(9,430)	(8,303)
Less: Distributed Offsetting receipts	(299)	(365)
Net Outlays	**$ 26,000**	**$ 25,115**

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

Notes to Principal Financial Statements

Organization

Congress established the U.S. Department of State ("Department of State" or "Department"), the senior executive department of the United States Government in 1789, replacing the Department of Foreign Affairs, which was established in 1781. The Department advises the President in the formulation and execution of foreign policy. As 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 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 U.S. 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 U.S. and Mexico and settling differences that may arise in their application.

Basis of Presentation and Accounting

The statements are prepared as required by the CFO Act of 1990, as amended by the Government Management and Reform Act of 1994. They are presented in accordance with 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 below in this Note). The Department's Accounting Policies follow accounting principles generally accepted in the United States of America (GAAP). 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 the FASAB's authoritative literature.

Transactions are recorded on both an accrual and budgetary basis. Budgetary accounting facilitates compliance with legal constraints.

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 and 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 on 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.

Revenues and Other Financing Sources

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

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

Work performed for other Federal agencies under reimbursable agreements is financed through the account providing the service and reimbursements are recognized as revenue when earned. Administrative support services at overseas posts are provided to other Federal agencies through the International Cooperative Administrative Support Services (ICASS). ICASS bills for the services it provides to agencies at overseas posts. These billings are recorded as revenue to ICASS and must cover overhead costs, operating expenses, and replacement costs for capital assets needed to carry on the operation. Proceeds from the sale of real property, vehicles, and other personal property are recognized as revenue when the proceeds are credited to the account from which the asset was funded. 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 (a) create or enhance non-financial assets, or (b) 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 another 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. An exception to this rule is for transfers from the Executive Office of the President for whom the Department is the receiving agency. 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 Department of Defense, Department of Labor, Treasury, Health and Human Services, Peace Corps, and the USAID. In addition, the Department receives allocation transfers, as the child, from USAID.

Fund Balances with Treasury

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 receipts and disbursements.

The Department operates two Financial Service Centers, which are located in Bangkok, Thailand, and Charleston, South Carolina, and 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 Note 3 for additional information on Fund Balances with Treasury.

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, or 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 Uncollectable Accounts. See Note 5 for more information on Accounts and Loans Receivable.

Interest Receivable

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

Advances and Prepayments

Payments made in advance of the receipt of goods and services are recorded as advances or prepayments, and recognized as expenses when the related goods and services are received. Prepayments are made principally to other Federal entities for future services. Advances are made to Department employees for official travel, salary advances to Department employees transferring to overseas assignments, and miscellaneous prepayments and advances to other entities for future services. Advances and prepayments are reported as Other Assets on the Balance Sheet.

Valuation of 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 Balance Sheet, in Note 7 to the financial statements, and in the Heritage Assets Section of Other Accompanying Information.

The new consulate in Tijuana, Mexico, is located next to one of the busiest land border crossings and has the largest American Citizen Services workload in the world. This consulate has consistently been among the top ten largest non-immigrant visa units in the world in terms of applications received.

Department of State/OBO

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 capitalizes all other improvements greater than $1 million. 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, principally over a 30-year period for buildings and other structures, a 10-year period for improvements, and the lesser of the useful life or the term of the lease for leasehold improvements.

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

Art Bank work "Trees, Belderrig" (2000) Elizabeth O'Reilly, oil.

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 or host-country managed. INL air wing managed aircraft are maintained to FAA 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 FAA standards.

The Department maintains a large vehicle fleet that operates overseas. Many vehicles require armoring for security reasons, and 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, Afghanistan and Darfur. The 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 costing over $500,000. 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 put 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 are as follows:

Asset Category	Estimated Useful Life
Aircraft:	
INL airwing 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% 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% of the fair value of the leased property. The initial recording of the 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) and (2) are depreciated over the useful life of the asset (30 years). Capital leases that meet criteria (3) and (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. The capitalization threshold for capital leases was changed from $250,000 to $1,000,000 effective October 1, 2009. Additional information on Capital Leases is disclosed in Note 12.

Grants

The Department awards educational, cultural exchange and refugee assistance grants to various individuals, universities, and not-for-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 the Department of Health and Human Services (HHS) Payments Management System (PMS); 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 upon historical data.

Annual, Sick and Other Leave

Annual leave is accrued as it is earned, 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% of their salary; the Department contributes 7%. Employees covered under CSRS also contribute 1.45% of their salary to Medicare insurance; the Department makes a matching contribution. On January 1, 1987, FERS went into effect pursuant to Public Law 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 0.80% of their salary, with the Department making contributions of 11.20%. FERS employees also contribute 6.20% to Social Security and 1.45% 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% of pay and matches employee contributions up to an additional 4%.

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 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% of their salary; the Department contributes 7.25%. FSPS employees contribute 1.35% of their salary; the Department contributes 20.22%. FSRDS and FSPS employees contribute 1.45% of their salary to Medicare; the Department matches their contributions. FSPS employees also contribute 6.2% to Social Security; the Department makes a matching contribution. Similar to FERS, FSPS also offers the TSP described above.

Foreign Service Nationals (FSNs) at overseas posts who were hired prior to January 1, 1984, are covered under CSRS. FSNs 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 case 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).

Art Bank work "Flag #1 Chippewa Falls" (2007) John Huggins, archival inkjet print.

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 Department recognized $166 million and $238 million in 2011 and 2010 for these benefits. The additional costs are not owed or paid to OPM, and thus are not reported on the Balance Sheet as a liability; instead, they are reported as an imputed financing source from costs absorbed from others on the 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 U.S. Department of Labor (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.

The total actuarial liability for which the Department is responsible totaled $74 million and $72 million as of September 30, 2011 and 2010.

Foreign Service Retirement and Disability Fund

See Note 10 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 National's After-Employment Benefits

Defined Contribution Fund (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.

Defined Benefit Plans — In 18 countries, involving approximately 5,200 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.

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.

Net Position

The Department's net position contains the following components:

Unexpended Appropriations — 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 — 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 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 for disclosure of Fiduciary Activities.

Change in an Accounting Estimate

The capitalization threshold for capital leases was changed from $250,000 to $1,000,000 effective October 1, 2009. As such, if the leased property has a fair value of less than $1,000,000 or if the present value of the lease payments is less than $1,000,000 then the lease will always be treated as an operating lease.

Change in an Accounting Principle

The Statement of Federal Financial Accounting Standard (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*, was issued by the Federal Accounting Standards Advisory Board on October 14, 2008. SFFAS No. 33 became effective for fiscal years beginning after September 30, 2009. The standard establishes that the discount rate should be based on long-term assumptions such as Treasury borrowing rates for securities of similar maturity to the period over which the payments are to be made. Historical experience should be the basis for the expectations about future trends in marketable treasury securities.
The discount rate, the underlying inflation rate, and the

other economic assumptions should be consistent with one another. The discount rates as of the reporting date should reflect the average historical rates on marketable Treasury securities rather than giving undue weight to the current or recent past experience. The Department retains the services of a professional actuarial firm to determine these values. In applying this new standard that is prospective only, our actuaries have adjusted the economic assumptions accordingly. Further, the standard requires that the Statement of Net Cost and other disclosures display gains and losses resulting from changes in long term actuarial assumptions. Specifically, the actuarial gains and losses resulting from changes in actuarial assumptions are displayed in a separate line item in the Statement of Net Cost and are disclosed in detail in Note 10, *Foreign Service Retirement Actuarial Liability.*

2 Assets (Restated)

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, 2011 and 2010, were $184 million, for amounts in the FSN defined benefit plans and 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, 2011 and 2010, are summarized below *(dollars in millions)*.

Fund Balances	2011	2010
Appropriated Funds	$ 38,669	$ 36,323
Revolving Funds	1,157	1,023
Earmarked Funds	398	438
Special Funds	35	30
Deposit & Receipt Accounts*	156	5
Total	$ 40,415	$ 37,819

**Deposit and Receipts were adjusted to exclude fiduciary funds.*

Status of Fund Balances	2011	2010
Unobligated Balances Available	$ 12,571	$ 12,418
Unobligated Balances Unavailable	889	919
Obligated Balances not yet Disbursed	26,799	24,477
Total Unobligated and Obligated	40,259	37,814
Deposit and Receipt Funds	156	5
Total	$ 40,415	$ 37,819

4 Investments

SUMMARY OF INVESTMENTS

Investments at September 30, 2011 and 2010, are summarized below *(dollars in millions)*. All investments are classified as Intragovernmental Securities.

At September 30, 2011:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	$ 16,397	$ 16,397	2012-2026	2.5%-6.875%	$ 181
Subtotal	16,397	16,397			181
Non-Marketable, Market Based:					
Israeli-Arab Scholarship Fund	4	4	2011-2012	4.5%-4.625%	—
Eisenhower Exchange Fellowship Fund	8	9	2011-2019	1.125%-8.875%	—
Middle Eastern-Western Dialogue Fund	16	16	2011-2012	4.5%-4.625%	—
Gift Funds, Treasury Bills	8	8	2012-2019	2.625-3.625%	—
Subtotal	36	37			—
Total Investments	$ 16,433	$ 16,434			$ 181

At September 30, 2010:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	$ 15,862	$ 15,862	2011-2025	2.875%-7%	$ 186
Subtotal	15,862	15,862			186
Non-Marketable, Market Based:					
Israeli-Arab Scholarship Fund	5	5	2010-2011	4.5%-5%	—
Eisenhower Exchange Fellowship Fund	8	9	2011-2019	1.125%-8.875%	—
Middle Eastern-Western Dialogue Fund	19	19	2010-2011	4.25%-5.125%	—
Gift Funds, Treasury Bills	7	8	2010-2019	2.75%-3.625%	—
Subtotal	39	41			—
Total Investments	$ 15,901	$ 15,903			$ 186

The Department's activities that have the authority to invest cash resources are earmarked funds (see Note 14, *Earmarked Funds*). The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund 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.

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 Receivable and Loans Receivable at September 30, 2011 and 2010, are summarized here *(dollars in millions)*. All are entity receivables.

	2011			2010		
	Entity Receivables	Allowance for Uncollectible	Net Receivables	Entity Receivables	Allowance for Uncollectible	Net Receivables
Intragovernmental Accounts Receivable	$ 379	$ (43)	$ 336	$ 191	$ —	$ 191
Non-Intragovernmental Accounts and Loans Receivable	174	(39)	135	111	(36)	75
Total Receivables	$ 553	$ (82)	$ 471	$ 302	$ (36)	$ 266

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 2011, net of allowance for uncollectable accounts, is $471 million. This balance consists of $379 million in Federal intergovernmental reimbursable agreements for providing goods and services to other Federal agencies. The $174 million in accounts and loans receivable due from non-Federal entities consists of $1 million in repatriation loans and associated administration fees. Repatriation Loans enable destitute American citizens overseas to return to the United States. The remaining $173 million consists 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 paid taxes.

6 Cash and Other Monetary Assets

The Cash and Other Monetary Assets at September 30, 2011 and 2010, are summarized below *(dollars in millions)*. There are no restrictions on entity cash. Non-entity cash is restricted as discussed below.

	2011			2010 Restated		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
After-Employment Benefit Assets	$ 103	$ 169	$ 272	$ 85	$ 169	$ 254
Emergencies in the Diplomatic and Consular Service	4	—	4	3	—	3
Chancery Development Trust Accounts:						
Treasury Bills, at par	—	15	15	—	15	15
Unamortized Discount	—	—	—	—	—	—
Total	$ 107	$ 184	$ 291	$ 88	$ 184	$ 272

FOREIGN SERVICE NATIONAL AFTER-EMPLOYMENT BENEFIT ASSETS

The Defined Contribution 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 $102 million and $85 million as of September 30, 2011 and 2010, respectively.

Defined Benefit Plans – In 18 countries, involving approximately 5,200 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. Assets in these plans are held outside of Treasury. In addition, the Department does not have title to these assets and cannot be used for Department operations. The Assets reported for the defined benefit plans is $169 million as of both September 30, 2011 and 2010.

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 balances at September 30, 2011 and 2010, are shown in the following table *(dollars in millions)*.

	2011			2010		
Major Classes	**Cost**	**Accumulated Depreciation**	**Net Value**	**Cost**	**Accumulated Depreciation**	**Net Value**
Real Property:						
Overseas —						
Land and Land Improvements	$ 1,984	$ (41)	$ 1,943	$ 1,936	$ (31)	$ 1,905
Buildings and Structures	13,013	(4,765)	8,248	11,195	(4,360)	6,835
Construction-in-Progress	2,051	—	2,051	2,417	—	2,417
Assets Under Capital Lease	108	(52)	56	132	(51)	81
Leasehold Improvements	372	(242)	130	368	(217)	151
Domestic —						
Structures, Facilities and Leaseholds	970	(317)	653	645	(291)	354
Construction-in-Progress	327	—	327	259	—	259
Land and Land Improvements	81	(7)	74	81	(6)	75
Total — Real Property	18,906	(5,424)	13,482	17,033	(4,956)	12,077
Personal Property:						
Aircraft	862	(431)	431	676	(440)	236
Vehicles	811	(363)	448	637	(316)	321
Communication Equipment	27	(23)	4	27	(22)	5
ADP Equipment	93	(74)	19	82	(66)	16
Reproduction Equipment	13	(7)	6	8	(7)	1
Security	65	(44)	21	74	(48)	26
Software	367	(271)	96	339	(248)	91
Software-in-Development	46	—	46	40	—	40
Other Equipment	179	(126)	53	240	(173)	67
Total — Personal Property	2,463	(1,339)	1,124	2,123	(1,320)	803
Total Property and Equipment, Net	$ 21,369	$ (6,763)	$ 14,606	$ 19,156	$ (6,276)	$ 12,880

Ambassadors as Chief Executive Officers (CEO) of Multi-Agency Missions

Our embassies in the field today look and operate very differently than in the past. Many have a large presence with representatives from a number of agencies of the U.S. Government who run, manage, and implement programs that advance the array of U.S. interests overseas.

As the President's representative, the Chief of Mission, commonly an Ambassador, directs and supervises all activities in country and coordinates the resources and programs of the U.S. Government through the Country Team, with the exception of employees under the command of a United States area military commander and other exceptions consistent with existing statutes and authorities. For some time now, the Ambassador has been the Chief Executive Officer of a multi-agency mission. And the best Ambassadors play that role effectively. For example, our mission in Kabul, Afghanistan, which includes more than 550 State and 390 USAID personnel as well as 1,000 locally employed staff. A large portion of our work there consists of traditional diplomacy. But our Ambassador also leads 300 civilians from 11 other Federal agencies, including disaster relief and reconstruction experts helping to rebuild the country; specialists in health, energy, communications, finance, agriculture, and justice; and military personnel working with the Afghan Government and military to partner in the fight against violent extremists. Meanwhile, our post in Brussels has dozens of U.S. Government agencies represented, all of which are engaged daily with host government ministries, the institutions of the European Union, businesses, and civil society.

> "...we are empowering our Chiefs of Mission..."

Today, given the wide array of U.S. agencies and actors and the corresponding need for coordination and leadership, it is essential that *all* Ambassadors are both empowered and held accountable as CEOs. While the Country Team is the primary vehicle for that direction and coordination, not every agency has an attaché in every country and Chiefs of Mission must also reach back to the interagency in Washington on issues of strategic planning and implementation that relate to agencies not represented in the field. In this regard, we are empowering our Chiefs of Mission by:

- **Working with the National Security Council and other agencies to ensure that U.S. Government personnel understand and internalize their accountability to the Chief of Mission.** By sharing presidential guidance outlining the Chief of Mission's role and responsibility to all agency representatives before they depart for post, we coordinate with other agencies represented at our embassies to ensure that the Chief of Mission can contribute to the home agency's evaluation of all personnel at post.

- **Engaging our Chiefs of Mission in interagency decision-making in Washington.** By participating in this process, Chiefs of Mission more effectively understand, support, and balance the goals and objectives of all agencies represented at post.

- **Prioritizing interagency experience for service as a Chief of Mission.** By expanding our evaluation tool, we are better able to assess a Chief of Mission (or Deputy Chief of Mission) past experience working with the interagency or managed multiagency missions. Some of these tools include seeking feedback from other agencies and considering service at other agencies, such as USAID, promotions to the Senior Foreign Service, as well as recommendations for presidential appointment as Chief of Mission.

- **Enhancing training and evaluation for Chiefs of Mission.** By ensuring that new Ambassadors receive sufficient training so they can fulfill their mission and responsibilities, coordinate across the interagency, and deliver results on the ground, our Director General, in coordination with our Director of the Foreign Service Institute and regional bureaus are taking the lead in developing and managing ongoing training processes. Enhancing evaluation of Chiefs of Mission includes more regular reviews as part of the Chief of Mission and Deputy Chief of Mission evaluation process to determine how well they are performing in managing a multi-agency mission.

Through these efforts, our Chiefs of Mission are better equipped to serve as CEOs of multiagency missions and our foreign relations are being led more effectively. Our diplomats are seeing the whole and understand how programs of different agencies fit together—and fit within our overall objectives in a country.

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, the Art Bank, Art in Embassies, Cultural Heritage Collection, the Library Rare

HERITAGE ASSETS
For the Year Ended September 30, 2011

	Diplomatic Reception Rooms Collection	Art Bank	Art in Embassies Program	Cultural Heritage Collection[1]
Description	**Collectibles - Art and furnishings from the period 1750 to 1825**	**Collectibles - American works of art**	**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. Excess items are sold.	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 Items - 9/30/2009	3,443	2,327	966	10,829
Acquisitions	21	66	14	
Adjustments			(20)	2,003
Disposals	1	19		359
Number of Items - 9/30/2010	3,463	2,374	960	12,473
Deferred Maintenance - 9/30/2010	N/A	N/A	N/A	N/A
Acquisitions	24	28	16	392
Adjustments			(8)	2,989
Disposals	4	1		765
Number of Items - 9/30/2011	3,483	2,401	968	15,089
Deferred Maintenance - 9/30/2011	N/A	N/A	N/A	N/A

[1] Cultural Heritage Collection numbers reflect inventory corrections discovered during the post NEPA to ILMS conversion process. The adjustments reported here reflect prior year items that were not properly reporting on post inventories prior to conversion.

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 Other Accompanying Information section 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 *(continued)*
For the Year Ended September 30, 2011

	Library Rare & Special Book Collection[2]	Secretary of State's Register of Culturally Significant Property	U.S. Diplomacy Center[3]	Blair House[3]
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 + decorative arts, furnishings, artifacts, other cultural objects, rare books + archival materials in national historic landmark buildings**
Acquisition and Withdrawal	Acquired through purchase or donation. Excess items are sold.	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	Good to excellent	Poor to excellent	Good to excellent	Good to excellent
Number of Items - 9/30/2009	1,059	20		
Acquisitions	13			
Adjustments				
Disposals				
Number of Items - 9/30/2010	1,072	20		
Deferred Maintenance - 9/30/2010	N/A	$4,977,000		
Acquisitions			485	6
Adjustments	106		5,823	2,011
Disposals	178			
Number of Items - 9/30/2011	1,000	20	6,308	2,017
Deferred Maintenance - 9/30/2011	N/A	$1,883,000	N/A	N/A

2 Due to loss of space, many items were transferred to the Library of Congress, Smithsonian libraries, etc. In addition, many books were discovered during the process of cleaning out the vault.

3 U.S. Diplomacy Center and Blair House were not included in the prior year AFR. The adjustments represent items acquired prior to FY 2011.

8 Advances, Prepayments, and Other Assets

The Department's Other Assets include advances and prepayments in support of programs including HIV/AIDS, Child Health, Diplomatic and Consular, and Overseas Building Operations plus salary/travel advances to employees and inventory. The Department's Other Assets as of September 30, 2011 and 2010, are summarized to the right *(dollars in millions)*.

	2011	2010
Intragovernmental Assets:		
Advances and Prepayments	$ 1,065	$ 486
Non-Intragovernmental Advances:		
Salary Advances to Employees	10	10
Travel Advances to Employees	13	23
Other Advances and Prepayments	318	484
Inventory	8	7
Total Other Assets	$ 1,414	$ 1,010

9 Other Liabilities

The Department's Other Liabilities at September 30, 2011 and 2010, are summarized below *(dollars in millions)*.

	2011 Current	2011 Non-Current	2011 Total	2010 Restated Current	2010 Restated Non-Current	2010 Restated Total
Intragovernmental						
Deferred Revenue	$ 490	$ —	$ 490	$ 669	$ —	$ 669
Custodial Liability	83	—	83	50	—	50
Other Liabilities	39	—	39	36	—	36
Total Intragovernmental	612	—	612	755	—	755
Federal Employees Compensation Act Benefits	74	—	74	72	—	72
Capital Lease Liability	13	72	85	15	90	105
Accrued Salaries Payable	215	—	215	179	—	179
Contingent Liability	—	10	10	—	10	10
Pension Benefits Payable	55	—	55	55	—	55
Accrued Annual Leave	—	343	343	—	326	326
Funds Held in Trust and Deposit Accounts	—	15	15	—	15	15
Other Liabilities	230	—	230	192	—	192
Deferred Revenues	3	—	3	3	—	3
Subtotal	590	440	1,030	516	441	957
Total Other Liabilities	$ 1,202	$ 440	$ 1,642	$ 1,271	$ 441	$ 1,712

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, 2011 and 2010, are summarized to the right *(dollars in millions)*.

Liabilities Not Covered by Budgetary Resources	2011	2010 Restated
Intragovernmental Liabilities		
Unfunded FECA Liability	$ 18	$ 18
Custodial Liability	83	50
Total Intragovernmental Liabilities	101	68
International Organizations Liabilities	1,366	1,249
After-Employment Benefit Liability:		
Foreign Service Retirment Actuarial Liability	1,689	1,507
Foreign Service Nationals (FSN): Defined Contribution Fund	102	84
FSN: Defined Benefit Plans	248	258
FSN: Lump Sum Retirement and Voluntary Services	856	768
Total After-Employment Benefit Liability	2,895	2,617
Accrued Annual Leave	342	326
Contingent Liability	10	10
Other Liabilities	158	290
Total Liabilities Not Covered By Budgetary Resources	4,873	4,560
Total Liabilities Covered By Budgetary Resources	20,002	19,023
Total Liabilities	$ 24,875	$ 23,583

10 After-Employment Benefit Liability

The Department of State provides after employment benefits to both Foreign Service Officers (FSOs) and Foreign Service Nationals (FSNs). FSO's 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.

For the Year Ended Sept 30,	2011	2010
Foreign Service Officer		
Foreign Service Retirement and Disability Fund	$ 18,219	$ 17,504
Foreign Service Nationals		
Defined Contribution Fund	102	84
Defined Benefit Plans	248	258
Lump Sum Retirement and Voluntary Severance	856	768
Total FSN	1,206	1,110
Total After-Employment Benefit Liability	$ 19,425	$ 18,614

Details for these plans are presented below.

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 the SFFAS No. 33, *Pensions, Other Retirement Benefits, and other Post Employment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The Pension Actuarial Liability represents the future periodic payments provided for current employee and retired Plan participants, less the future employee and employing Federal agency contributions, stated in current dollars.

Future periodic payments include benefits expected to be paid to (1) retired or terminated employees or their beneficiaries; (2) beneficiaries of employees who have died; and (3) present employees or their beneficiaries, including refunds of employee contributions as specified by Plan provisions. Total projected service is used to determine eligibility for retirement benefits. The value of voluntary, involuntary, and deferred retirement benefits is based on projected service and assumed salary increases. The value of benefits for disabled employees or survivors of employees is determined by multiplying the benefit the employee or survivor would receive on the date of disability or death, by a ratio of service at the valuation date to projected service at the time of disability or death.

The Pension Actuarial Liability is calculated by applying actuarial assumptions to adjust the projected plan benefits to reflect the discounted time value of money and the probability of payment (by means of decrements such as death, disability, withdrawal or retirement) between the valuation date and the expected date of payment. The Plan uses the aggregate entry age normal actuarial cost method, whereby the present value of projected benefits for each employee is allocated on a level basis (such as a constant percentage of salary) over the employee's service between entry age and assumed exit age. The portion of the present value allocated to each year is referred to as the normal cost.

The table below presents the normal costs for FY 2011 and FY 2010.

Normal Cost:	FY 2011	FY 2010
FSRDS	35.86%	35.89%
FSPS	29.93%	28.52%

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, 2011 and 2010 *(dollars in millions)*.

For the Year Ended September 30,	2011	2010
Pension Actuarial Liability, Beginning of Year	$ 17,504	$ 16,983
Pension Expense:		
Normal Cost	452	384
Interest on Pension Liability	850	964
Actuarial (Gains) or Losses:		
From Experience	(196)	(601)
From Assumption Changes		
Interest Rate	357	1,643
Other Assumptions	87	(1,031)
Prior Year Service Costs	—	—
Other	(1)	(1)
Total Pension Expense	1,549	1,358
Less Payments to Beneficiaries	834	837
Pension Actuarial Liability, End of Year	18,219	17,504
Less: Net Assets Available for Benefits	16,530	15,997
Actuarial Pension Liability - Unfunded	$ 1,689	$ 1,507
Actuarial Assumptions:		
Rate of Return on Investments	4.76%	4.91%
Rate of Inflation	2.40%	2.37%
Salary Increase	3.15%	3.12%

Net Assets Available for Benefits at September 30, 2011 and 2010, consist of the following *(dollars in millions)*:

At September 30,	2011	2010
Fund Balance with Treasury	$ —	$ —
Accounts and Interest Receivable	202	204
Investments in U.S. Government Securities	16,397	15,862
Total Assets	16,599	16,066
Less: Liabilities Other Than Actuarial	69	69
Net Assets Available for Benefits	$ 16,530	$ 15,997

As discussed in Note 1 'Change in an Accounting Principle', changes to certain actuarial assumption measurements were required beginning in FY 2010. The table below reflects these required changes.

Assumption	FY 2010 Valuation (Under SFFAS No. 33)	Prior Valuation (Experience)
Discount Rate	4.91%	5.75%
Salary Scale	3.12%	3.75%
Inflation Rate	2.37%	3.00%

The decreases in these three economic indicators combined with other actuarial experience changes resulted in an increase of $521 million in the FSRDF reported Actuarial Liability on the Consolidated Balance Sheet between September 30, 2010 and 2009. Under the previous standard, however, the actuarial liability would have been $601 million lower than the amount calculated under SFFAS No. 33.

FOREIGN SERVICE NATIONALS' AFTER-EMPLOYMENT BENEFIT LIABILITIES

The Department of State operates overseas in approximately 180 countries. The Department employs a significant number of local nationals, currently over 52,000, known as Foreign Service Nationals (FSNs).

The FSNs do not qualify for any Federal civilian benefits and therefore are not considered an employee (and therefore cannot participate) in any of the Federal civilian pension systems (e.g., Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), 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 to be based upon prevailing wage rates and compensation practices for corresponding types of positions 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. In determining and establishing pay and benefits, posts strive to achieve comparability with employers in each country with whom we must compete for a similar quality of employee. To do this, posts conduct surveys and use Local Compensation Plan (LCP) comparators. For comparators, the Department relies on entities such as the World Bank, United Nations, other embassies, and major businesses such as Shell, Xerox, IBM, etc. if they have a presence in country. Private local businesses are also used; it just depends on the country, size of the post and the survey data available. 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.

Defined Contribution Fund (DCF)

The Defined Contribution 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% 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 excess 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.

Total liability related to the Defined Contribution Fund is $102 million and $84 million as of September 30, 2011 and 2010 respectively.

Defined Benefit Plans

In 18 countries, involving over 5,000 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:

- Conventional defined benefit plans with assets held in the name of trustees of the plan (usually senior FSNs) who engage plan administrators, investment advisors and actuaries.
- Fully funded defined benefit plans offered by insurance companies at predetermined rates.
- Fully funded defined benefit plans offered by insurance companies with annual adjustments to premiums.
- Conventional defined benefit plans funded through a deposit administration policy.
- Discrete optional tiers within the host country's social security system.

Total liability reported for these defined benefit plans is $248 million and $258 million as of September 30, 2011 and 2010 respectively.

Lump Sum Retirement and Voluntary 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.

The September 30, 2011 and 2010 liability for these payments was estimated by projecting the current liability based upon the assumption that current FSN employees will work to retirement age and by using economic assumptions similar to those used for Foreign Service Officers in determining the FY 2011 FSRDF actuarial liability. Those assumptions were:

Rate of Return on Investments	4.76%
Rate of inflation	2.40%
Salary Increase	3.15%

Based upon the projection, the total liability related to this Lump Sum Retirement and Voluntary Severance is $856 million and $768 million as of September 30, 2011 and 2010 respectively as shown below *(dollars in millions)*.

At September 30,	**2011**	**2010**
Lump Sum Retirement	$ 362	$ 326
Voluntary Severance	494	442
Total	$ 856	$ 768

11 International Organizations 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 contributes an assessed share of the budgets and expenses of these organizations and activities. These payments are funded through Congressional appropriations to the Department of State's Contributions to International Organizations (CIO) and Contributions for International Peacekeeping Activities (CIPA) Accounts. The purpose of these appropriations is to ensure continued American leadership within those organizations and activities that serve important U.S. interests. Within the Department, the Bureau of International Organizations (IO) develops and implements U.S. policy in the UN, international organizations, and UN peacekeeping operations.

Funding by appropriations for dues assessed for certain international organizations is not received until the fiscal year following assessment. These financial commitments are regarded as funded only when monies are authorized and appropriated by Congress. For financial reporting purposes, the amounts assessed but unfunded are reported as liabilities of the Department, since authorization for payment is expected. In some cases, 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.

IO also provides support to international organizations through the Department's International Organizations and Programs (IO&P) Account. For this support, a payable exists when a pledge, generally considered a voluntary contribution, to an international organization has been accepted by the recipient organization inclusive of restrictions denoted by the U.S. Government.

Amounts presented in this note represent amounts that are paid through the CIO, CIPA and IO&P Accounts and administered by IO. Payables to international organizations by the Department that are funded through other appropriations are included in the Accounts Payable line item to the extent such payables exist at September 30, 2011 and 2010.

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,	**2011**	**2010**
Regular Membership Assessments Payable to UN	$ 757	$ 699
Dues Payable to UN Peacekeeping Missions	433	314
International Organization Liabilities	1,107	1,040
	2,297	2,053
Less Amounts not Authorized to be Paid	639	558
International Organization Liabilities	$ 1,658	$ 1,495
Funded Amounts	$ 292	$ 246
Unfunded Amounts	1,366	1,249
Total International Organization Liabilities	$ 1,658	$ 1,495

RECLASSIFICATION OF PRIOR YEAR AMOUNTS

In the Department's FY 2010 financial statements, the funded portion of the International Organization Liabilities is presented in the Accounts Payable line item and the unfunded amount is presented in a line item titled Liability to International Organizations. In this year's financial statements, the funded portion has been reclassified and is presented on the balance sheet with the unfunded portion in the International Organization Liabilities line item.

12 Leases

The Department is committed to over 8,900 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 $78.9M of the lease costs.

CAPITAL LEASES

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

The following is a summary of Net Assets under Capital Leases and Future Minimum Lease payments as of September 30, 2011 and 2010 *(dollars in millions)*. Lease liabilities are not covered by budgetary resources.

	2011	2010
Assets Under Capital Leases:		
Land and Buildings	$ 108	$ 132
Accumulated Depreciation	(52)	(51)
Net Assets under Capital Leases	$ 56	$ 81

Future Minimum Lease Payments:

2011

Fiscal Year	Lease Payments
2012	$ 13
2013	13
2014	12
2015	10
2016	8
2017 and thereafter	159
Total Minimum Lease Payments	215
Less: Amount Representing Interest	(130)
Obligations under Capital Leases	$ 85

2010

Fiscal Year	Lease Payments
2011	$ 15
2012	15
2013	15
2014	14
2015	15
2016 and thereafter	366
Total Minimum Lease Payments	440
Less: Amount Representing Interest	(335)
Obligations under Capital Leases	$ 105

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 having remaining terms in excess of one year as of September 30, 2011 and 2010, for each of the next 5 years and in aggregate are as follows *(dollars in millions)*:

Year Ended September 30, 2011	Operating Lease Amounts
2012	$ 418
2013	303
2014	205
2015	132
2016	88
2017 and thereafter	221
Total Minimum Future Lease Payments	$ 1,367

Year Ended September 30, 2010	Operating Lease Amounts
2011	$ 397
2012	291
2013	194
2014	126
2015	81
2016 and thereafter	214
Total Minimum Future Lease Payments	$ 1,303

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 for which 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 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 $10 to $50 million if the outcomes were adverse to the Department, an amount 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 2011 and 2010 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 in 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 operates three rewards programs for information that have been critical to combating international terrorism, narcotics trafficking, and war crimes for over 20 years. The Rewards for Justice Program offers and pays rewards for information leading to the arrest or conviction in any country of persons responsible for acts of international terrorism against United States 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 Information 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. Pending reward offers under the three programs total $588 million. We have paid out $163 million since FY 2003. Reward payments are funded with current year appropriations as necessary and, in the opinion of management and legal counsel, no further contingent liability is required because probable payments will not materially affect the financial position or results of operations of the Department.

14 Earmarked Funds

Earmarked funds 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, benefits or purposes, and accounted for separately from the Government's general revenues. See Note 4, *Investments* for further information on investments in U.S. Treasury securities for earmarked funds. There are no intradepartmental transactions between the various earmarked funds.

The Department administers fourteen earmarked funds as listed on the right.

Treasury Fund Symbol	Description	Statute
19X5497	Foreign Service National Defined Contribution Fund	22 USC 3968(a)(1)
19X5515	H1-B and L Visas Fraud Detection and Prevention	118 Stat. 3357
19X8166	American Studies Endowment Fund	108 Stat. 425
19X8167	Trust Funds	22 USC 1479
19X8186	Foreign Service Retirement and Disability Fund	22 USC 4042-4065
19X8271	Israeli Arab Scholarship Programs	105 Stat. 696, 697
19X8272	Eastern Europe Student Exchange Endowment Fund	105 Stat. 699
19X8340	Foreign Service National Liability Trust Fund	105 Stat. 672
19X8341	Foreign Service National Liability Trust Fund	105 Stat. 672
19X8812	Gifts and Bequests, National Commission on Educational, Scientific, and Cultural Cooperation	22 USC 287q
19X8813	Center for Middle Eastern-Western Dialogue Trust Fund	118 Stat. 84
19X8821	Unconditional Gift Fund	22 USC 809, 1046
19X8822	Conditional Gift Fund	22 809, 1046
95X8276	Eisenhower Exchange Fellowship Program Trust Fund	PL 101-454

A brief description of the individually reported earmarked funds and their purposes follows.

FOREIGN SERVICE RETIREMENT AND DISABILITY FUND (19X8186)

The Foreign Service Retirement and Disability Fund (FSRDF) was established in 1924 to provide pensions to retired and disabled members of the Foreign Service. The FSRDF's revenues consist of contributions from active participants and their U.S. Government agency employers; appropriations; and interest on investments. Monthly annuity payments are made to eligible retired employees or their survivors. Separated employees without title to an annuity may take a refund of their contributions. Public Law 96-465 limits the amount of administrative expense that can be charged to the fund to $5,000. Cash is invested in U.S. Treasury securities until it is needed for disbursement. The Department also issues separate annual financial statements for the FSRDF.

FOREIGN SERVICE NATIONAL SEPARATION LIABILITY TRUST FUNDS (FSNSLTF) (19X8340 AND 19X8341)

FSNSLTF funds separation liabilities to foreign service national (FSNs) and personal services contractor (PSCs) employees who voluntarily resign, retire, or lose their jobs due to a reduction in force. The liability is applicable only in those countries that, due to local law, require a lump-sum voluntary separation payment based on years of service. The FSNSLTF was authorized in 1991 and initially capitalized with a transfer from the Department. Contributions are made to the FSNSLTF by the Department's appropriations, from which the FSNs and PSCs are paid. Once the liability to the separating FSN or PSC is computed in accordance with the local compensation plan, the actual disbursement is made from the FSNSLTF.

VISAS FRAUD DETECTION AND PREVENTION FUNDS (VFDPF) (19X5515)

Visas Fraud Detection and Prevention Funds are supported by fees paid by employers applying for foreign workers under the American Competitiveness and Workforce Improvement Act of 1998 and the Global War on Terrorism and Tsunami Relief (Public Law 109-13). Section 426 of the Consolidated Appropriations Act, 2005 (Public Law 108-447) authorizes one-third of the fees collected for H-1B, L, and H-2B visa applications to be available to the Department of State for fraud prevention and detection activities. These fees help finance the Department's Border Security Program.

CONDITIONAL AND UNCONDITIONAL GIFT FUNDS (19X8821 AND 19X8822)

The Department maintains two Trust Funds for receiving and disbursing donations. It is authorized to accept gifts from private organizations and individuals in the form of cash, gifts-in-kind, and securities. Gifts are classified as Restricted or Unrestricted Gifts.

Restricted Gifts must be used in the manner specified by the donor. Unrestricted Gifts can be used for any expense normally covered by an appropriation, such as representational purposes or embassy refurbishment.

Condensed Financial Information for Earmarked Funds *(dollars in millions)*	**FSRDF**	**FSNSLTF**	**VFDPF**	**GIFT**	**All Other Earmarked**	**Total Amt Earmarked Funds**
Balance Sheet As of September 30, 2011:						
Assets:						
Fund Balances with Treasury	$ —	$ 264	$ 106	$ 25	$ 3	$ 398
Investments	16,397	—	—	8	28	16,433
Taxes and Interest Receivable	181	—	—	—	—	181
Other Assets	21	—	—	98	103	222
Total Assets	**$ 16,599**	**$ 264**	**$ 106**	**$ 131**	**$ 134**	**$ 17,234**
Liabilities:						
Actuarial Liability	$ 18,219	$ 262	$ —	$ —	$ —	$ 18,481
Other Liabilities	69	—	—	—	102	171
Total Liabilities	**$ 18,288**	**$ 262**	**$ —**	**$ —**	**$ 102**	**$ 18,652**
Net Position:						
Unexpended Appropriations	—	—	—	—	—	—
Cumulative Results of Operations	(1,689)	2	106	131	32	(1,418)
Total Liabilities and Net Position	**$ 16,599**	**$ 264**	**$ 106**	**$ 131**	**$ 134**	**$ 17,234**
Statement of Net Cost for the Year Ended September 30, 2011:						
Gross Program Costs	$ —	$ 17	$ 34	$ 10	$ 25	$ 86
Less: Earned Revenues	1,367	81	—	—	24	1,472
Net Program Costs	(1,367)	(64)	34	10	1	(1,386)
Costs Not Attributable to Program Costs	1,549	62	—	—	—	1,611
Less Earned Revenues Not Attributable to Program Costs	—	—	—	—	—	—
Net Cost of Operations	**$ 182**	**$ (2)**	**$ 34**	**$ 10**	**$ 1**	**$ 225**
Statement of Changes in Net Position for the Year Ended September 30, 2011:						
Net Position Beginning of Period	$ (1,507)	$ —	$ 223	$ 121	$ 32	$ (1,131)
Budgetary Financing Sources	—	—	(83)	20	1	(62)
Net Cost of Operations	(182)	2	(34)	(10)	(1)	(225)
Taxes and Other Nonexchange Revenue	—	—	—	—	—	—
Change in Net Position	(182)	2	(117)	10	—	(287)
Net Position End of Period	**$ (1,689)**	**$ 2**	**$ 106**	**$ 131**	**$ 32**	**$ (1,418)**

Condensed Financial Information for Earmarked Funds *(dollars in millions)*	**FSRDF**	**FSNSLTF Restated**	**VFDPF**	**GIFT**	**All Other Earmarked Restated**	**Total Amt Earmarked Funds Restated**
Balance Sheet As of September 30, 2010:						
Assets:						
Fund Balances with Treasury	$ —	$ 200	$ 222	$ 16	$ —	$ 438
Investments	15,862	—	—	7	32	15,901
Taxes and Interest Receivable	186	—	—	—	—	186
Other Assets	18	—	1	98	85	202
Total Assets	**$ 16,066**	**$ 200**	**$ 223**	**$ 121**	**$ 117**	**$ 16,727**
Liabilities:						
Actuarial Liability	$ 17,504	$ —	$ —	$ —	$ —	$ 17,504
Other Liabilities	69	200	—	—	85	354
Total Liabilities	**$ 17,573**	**$ 200**	**$ —**	**$ —**	**$ 85**	**$ 17,858**
Net Position:						
Unexpended Appropriations	—	—	—	—	—	—
Cumulative Results of Operations	(1,507)	—	223	121	32	(1,131)
Total Liabilities and Net Position	**$ 16,066**	**$ 200**	**$ 223**	**$ 121**	**$ 117**	**$ 16,727**
Statement of Net Cost for the Year Ended September 30, 2010:						
Gross Program Costs	$ —	$ 50	$ 31	$ 9	$ 23	$ 113
Less: Earned Revenues	1,364	50	—	—	22	1,436
Net Program Costs	(1,364)	—	31	9	1	(1,323)
Costs Not Attributable to Program Costs	1,358	—	—	—	—	1,358
Less Earned Revenues Not Attributable to Program Costs	—	—	—	—	—	—
Net Cost of Operations	**$ (6)**	**$ —**	**$ 31**	**$ 9**	**$ 1**	**$ 35**
Statement of Changes in Net Position for the Year Ended September 30, 2010:						
Net Position Beginning of Period	$ (1,513)	$ —	$ 216	$ 119	$ 33	$ (1,145)
Budgetary Financing Sources	—	—	38	11	—	49
Net Cost of Operations	6	—	(31)	(9)	(1)	(35)
Taxes and Other Nonexchange Revenue	—	—	—	—	—	—
Change in Net Position	6	—	7	2	(1)	14
Net Position End of Period	**$ (1,507)**	**$ —**	**$ 223**	**$ 121**	**$ 32**	**$ (1,131)**

United States' Leadership: Conventional Weapons Destruction

The United States is a world leader in the destruction of conventional weapons. Since 1993, the United States has invested more than $1.9 billion to save lives and promote post-conflict recovery in 81 countries by clearing landmines and unexploded ordnance; helping countries safely dispose of deteriorating and excess small arms, light weapons, and munitions, including man-portable air-defense systems (MANPADS); and helping countries properly secure and manage their military stockpiles.

U.S. Support for Mine Action

- Clearing landmines and unexploded ordnance
- Mine risk education
- Landmine Impact studies
- Survivors' assistance
- Technology research and development
- Training

A demining technician from The HALO Trust conducts clearance operations in Georgia, June 16, 2009. Department of State

History of U.S. Program

U.S. humanitarian demining efforts began in 1988 in Afghanistan, and expanded with the establishment of the U.S. Humanitarian Mine Action Program in 1993. In 2001, the U.S. program was expanded to include the destruction and improved security of conventional weapons and munitions.

U.S. Interagency Support for Global Action

This interagency effort by the U.S. Departments of State, Defense, the U.S. Agency for International Development (USAID), and the Centers for Disease Control and Prevention, has provided as much as one-quarter of annual global aid for humanitarian mine action. This includes clearing mines and unexploded ordnance—the vast majority of which were generated and abandoned by parties other than the United States; mine risk education; national landmine impact surveys; survivors' assistance; research and development of new technologies for use in humanitarian demining; and training. The Department of State works with some 60 non-governmental partner organizations to carry out these efforts, as detailed in our annual report, *To Walk the Earth in Safety*.

Dramatic Reduction in Casualties

One measure of the success of this program is its contribution to the dramatic reduction in the annual number of civilian casualties from landmines. According to the International Campaign to Ban Landmines' annual *Landmine Monitor* report for 2010, in the past decade that figure dropped from an estimated 15,000-20,000 to 3,956 reported casualties from mines and other explosive devices.

Current Activities

In FY 2010, the Office of Weapons Removal and Abatement (PM/WRA) in the Department of State's Bureau of Political-Military Affairs contributed $161.5 million to conventional weapons destruction programs in 43 countries. This included support for the third Workshop on a Regional Approach to Stockpile Reduction in South East Europe and the deployment of PM/WRA's Quick Reaction Force, which destroyed WW-II era ordnance in Papua New Guinea. In all, more than 1.5 million weapons and 90,000 tons of ammunition have been destroyed since 2001 through U.S. programs.

In addition, PM/WRA coordination with the Defense Threat Reduction Agency has enhanced physical security and stockpile management of remaining small arms and light weapons, most recently in Croatia, Ecuador, and Romania. The United States also has been active in countering the illicit proliferation of MANPADS—serious potential threat to global civilian aviation—destroying more than 32,000 excess MANPADS in 30 countries since 2003. This also prevented them from being obtained by criminals and terrorists.

Learn more about United States conventional weapons destruction efforts at www.state.gov/t/pm/wra.

15 Statement of Net Cost

The Consolidated Statement of Net Cost reports the Department's gross and net cost for its strategic objectives and 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 carries out a mission or major line of activity, and whose managers report directly to top management. For the Department, a Bureau (e.g., Bureau of African Affairs) is considered a responsi-

CONSOLIDATING SCHEDULE OF NET COST

For the Year Ended September 30, 2011
(dollars in millions)

STRATEGIC GOAL	Under Secretary for: Arms Control, Int'l Security	Economic, Business and Agriculture	Global Affairs	Political Affairs	Public Diplomacy and Public Affairs	Management-Consular Affairs	Intra-Departmental Eliminations	Total
Achieving Peace and Security								
Total Cost	$ 524	$ 33	$ 2,478	$ 5,298	$ 2	$ —	$ (714)	$ 7,621
Earned Revenue	(145)	(7)	(767)	(926)	—	—	714	(1,131)
Net Program Costs	379	26	1,711	4,372	2	—	—	6,490
Governing Justly and Democratically								
Total Cost	94	6	40	948	—	—	(78)	1,010
Earned Revenue	(27)	(1)	(7)	(166)	—	—	78	(123)
Net Program Costs	67	5	33	782	—	—	—	887
Investing in People								
Total Cost	965	58	303	5,099	—	—	(35)	6,390
Earned Revenue	(11)	(1)	(3)	(70)	—	—	35	(50)
Net Program Costs	954	57	300	5,029	—	—	—	6,340
Promoting Economic Growth and Prosperity								
Total Cost	154	10	65	1,548	—	—	(127)	1,650
Earned Revenue	(43)	(2)	(11)	(271)	—	—	127	(200)
Net Program Costs	111	8	54	1,277	—	—	—	1,450
Providing Humanitarian Assistance								
Total Cost	—	—	1,968	—	—	—	(1)	1,967
Earned Revenue	—	—	(1)	—	—	—	1	—
Net Program Costs	—	—	1,967	—	—	—	—	1,967
Promoting International Understanding								
Total Cost	186	12	79	1,873	915	—	(154)	2,911
Earned Revenue	(51)	(2)	(14)	(328)	(108)	—	154	(349)
Net Program Costs	135	10	65	1,545	807	—	—	2,562
Strengthening Consular and Management Capabilities								
Total Cost	—	—	—	820	637	3,452	(795)	4,114
Earned Revenue	—	—	—	(171)	(128)	(3,745)	795	(3,249)
Net Program Costs	—	—	—	649	509	(293)	—	865
Executive Direction and Other Costs Not Assigned								
Total Cost	6	6	168	5,857	729	—	(2,779)	3,988
Earned Revenue	(3)	(4)	(109)	(3,820)	(474)	—	2,677	(1,733)
Net Program Costs before Assumption Changes	3	2	59	2,037	255	—	(102)	2,255
Actuarial Loss on Pension Assumption Changes	—	—	11	385	48	—	—	444
Net Program Costs	3	2	70	2,422	303	—	(102)	2,699
Total Cost & Loss on Assumption Changes	1,929	125	5,113	21,828	2,331	3,452	(4,683)	30,095
Total Revenue	(280)	(17)	(912)	(5,752)	(710)	(3,745)	4,581	(6,835)
Total Net Cost	$ 1,649	$ 108	$ 4,201	$ 16,076	$ 1,621	$ (293)	$ (102)	$ 23,260

bility segment. For presentation purposes, Bureaus have been summarized and reported at the Under Secretary level (e.g., Under Secretary for Political Affairs).

The presentation of program results by strategic objectives and 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 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, 2011 and 2010, these consist of costs and earned revenue summarized below *(dollars in millions)*:

	2011			2010 Restated		
Program	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**
Costs:						
Executive Direction & Other	$ 3,572	$ 775	$ 2,797	$ 4,363	$ 796	$ 3,567
FSRDF	1,105	547	558	746	550	196
ICASS	1,948	1,456	492	1,753	1,402	351
International Commissions	142	1	141	143	1	142
Total Costs	6,767	2,779	3,988	7,005	2,749	4,256
Earned Revenue:						
Executive Direction & Other	946	673	273	1,191	796	395
FSRDF	1,367	547	820	1,364	537	827
ICASS	2,079	1,456	623	1,913	1,402	511
International Commissions	18	1	17	11	1	10
Total Earned Revenue	4,410	2,677	1,733	4,479	2,736	1,743
Actuarial Loss on Pension Assumption Changes	444	—	444	612	—	612
Total Net Cost for Executive Direction and Other Costs Not Assigned	$ 2,801	$ 102	$ 2,699	$ 3,138	$ 13	$ 3,125

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), whether or not the Department reimburses that entity.

Indirect Costs: Indirect costs consist primarily of Strengthening Consular and Management Capabilities charges for central support functions performed in 2011 and 2010 under the Under Secretary for Management by the following organizations *(dollars in millions)*:

Bureau (or equivalent)	**2011**	**2010 Restated**
Bureau of Diplomatic Security	$ 2,576	$ 2,844
Office of Overseas Buildings Operations	1,402	1,262
Bureau of Administration	979	757
Bureau of Information Resource Management	639	503
Bureau of Personnel	617	606
Bureau of Resource Management	1,076	2,247
Foreign Service Institute	225	163
Medical Services and Other	122	158
Total Central Support Costs	$ 7,636	$ 8,540

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. Since the Office of Overseas Buildings Operations 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 2011 and 2010 was as follows *(dollars in millions)*:

Program Receiving Allocation	2011	2010 Restated
Achieving Peace and Security	$ 1,747	$ 1,735
Governing Justly and Democratically	309	307
Investing in People	139	136
Promoting Economic Growth and Prosperity	505	499
Providing Humanitarian Assistance	2	3
Promoting International Understanding	611	612
Strengthening Consular and Management Capabilities	2,301	2,626
Executive Direction and Other Costs Not Assigned	2,022	2,622
Total	$ 7,636	$ 8,540

Since the cost 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 American Citizens 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 2011 and 2010 was as follows *(dollars in millions)*:

Under Secretary	2011	2010 Restated
Political Affairs	$ 12,177	$ 11,239
Public Diplomacy	1,516	1,433
Management (Consular Affairs)	2,032	1,889
Arms Control, International Security Affairs	1,385	1,108
Global Affairs	585	554
Economic, Business and Agriculture Affairs	87	65
Total	$ 17,782	$ 16,288

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, respectively, for the years ended September 30, 2011 and 2010 *(dollars in millions)*:

Inter-Entity Cost	2011	2010
Other Post-Employment Benefits:		
Civil Service Retirement Program	$ 39	$ 125
Federal Employees Health Benefits Program	125	112
Federal Employees Group Life Insurance Program	2	1
Litigation funded by Treasury Judgment Fund	—	—
Subtotal – Imputed Financing Source	166	238
Future Workers' Compensation Benefits	15	13
Total Inter-Entity Costs	$ 181	$ 251

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

EARNED REVENUES

Earned revenues occur when the Department provides goods or services to the public or another Federal entity. Earned revenues are reported regardless of whether the Department is permitted to retain all or part of the revenue. Specifically, the Department collects but does not retain passport, visa, and certain other consular fees. Earned revenues for the years ended September 30, 2011 and 2010, consist of the following *(dollars in millions)*:

	2011			2010		
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	$ 858	$ —	$ 858	$ 824	$ —	$ 824
Machine Readable Visa	1,273	—	1,273	992	—	992
Expedited Passport	163	—	163	166	—	166
Passport, Visa and Other Surcharges	757	—	757	607	—	607
Fingerprint Processing, Diversity Lottery, and Affadavit of Support	28	—	28	24	—	24
Subtotal – Consular Fees	3,079	—	3,079	2,613	—	2,613
FSRDF	1,367	547	820	1,364	537	827
ICASS	2,079	1,456	623	1,913	1,402	511
Other Reimbursable Agreements	3,948	1,897	2,051	3,792	1,961	1,831
Working Capital Fund	784	658	126	806	692	114
Other	159	23	136	109	23	86
Total	$ 11,416	$ 4,581	$ 6,835	$ 10,597	$ 4,615	$ 5,982

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% of their base salary, and each employing agency contributes 7.25%; FSPS participants contribute 1.35% of their base salary and each employing agency contributes 20.22%. Employing agencies report employee/employer contributions biweekly. Total employee/employer contributions for 2011 and 2010 were $336 million and $300 million, respectively.

The FSRDF also receives a U.S. Government contribution to finance (1) FSRDS benefits not funded by employee/employer contributions; (2) interest on FSRDS unfunded liability; (3) FSRDS disbursements attributable to military service; and (4) FSPS supplemental liability payment. The U.S. Government contributions for 2011 and 2010 were $286 million and $300 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2011 and 2010 were $744 million and $762 million, respectively.

Consular Fees are established primarily on a cost recovery basis and are determined by periodic cost studies. Most consular fees increased in FY 2010 as a result of a Cost of Service Study conducted for the Department. 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 year ended September 30, 2011 and 2010. 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 year-ended September 30, 2011 and 2010, the Department received approximately $53.3 billion and $52.6 billion in budgetary resources, respectively, primarily consisting of the following:

Source of Budgetary Resources
(dollars in billions)

	2011	2010
Budget Authority:		
Direct or related appropriations	$ 28.0	$ 31.0
Authority financed from Trust Funds	1.5	1.0
Spending authority from providing goods and services	9.6	8.1
Unobligated Balances – Beginning of Year	13.3	12.0
Other	.9	.5
Total Budgetary Resources	$ 53.3	$ 52.6

Apportionment Categories of Obligations Incurred:
(dollars in millions)

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2011			
Obligations Apportioned Under			
Category A	$ 10,265	$ 3,358	$ 13,623
Category B	20,785	5,424	26,209
Exempt from Apportionment	—	—	—
Total	$ 31,050	$ 8,782	$ 39,832

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2010			
Obligations Apportioned Under			
Category A	$ 24,383	$ 7,500	$ 31,883
Category B	6,736	624	7,360
Exempt from Apportionment	—	1	1
Total	$ 31,119	$ 8,125	$ 39,244

Per OMB Circular A-11, 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, 2011 and 2010 was approximately $24.7 billion and $22.7 billion, respectively. This includes amounts of $828.6 million for September 30, 2011 and $771 million for September 30, 2010, 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 $127.2 million and $141.5 million for 2011 and 2010, 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.

STATEMENT OF BUDGETARY RESOURCES VS BUDGET OF THE UNITED STATES GOVERNMENT:

The reconciliation as of September 30, 2010 is presented below. The reconciliation as of September 30, 2011 is not presented, because the submission of the Budget of the United States (Budget) for FY 2013, which summarizes the execution of the FY 2011 Budget, occurs after publication of these financial statements. The Department of State Budget Appendix can be found on the OMB website (*http://www.whitehouse.gov/omb/budget*) and will be available in early February 2012.

For the Fiscal Year Ended September 30, 2010 *(dollars in millions)*	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources (SBR)	$ 52,581	$ 39,244	$ 365	$ 25,115
Funds not Reported in the Budget:				
Expired Funds	(778)	(33)	–	365
International Assistance Program	(2,175)	(1,628)	–	(1,322)
Other	(517)	(157)	–	(1)
Budget of the United States	$ 49,111	$ 37,426	$ 365	$ 24,157

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 2011 and 2010, the Department collected $41 million and $25 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 present the other principal financial statements are complementary, but both the types of information about assets, liabilities, income and expenses 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, because the fees are returned to Treasury and cannot be obligated or spent by the Department, they are not shown as a resource.

For the Year Ended September 30, *(dollars in millions)*	**2011**	**2010 Restated**
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 39,832	$ 39,244
Spending Authority from Offsetting Collections and Recoveries	(11,211)	(9,142)
Offsetting Receipts	(299)	(365)
Net Obligations	28,322	29,737
Imputed Financing	166	238
Other Resources	347	55
Total Resources Used to Finance Activities	**28,835**	**30,030**
Resources Used to Finance Items not Part of Net Cost:		
Resources Obligated for Future Costs - goods ordered but not yet provided	(1,763)	(5,259)
Resources that Finance the Acquisition of Assets	(2,400)	(2,064)
Resources that Fund Expenses Recognized in Prior Periods	(682)	(1,016)
Other	(435)	(96)
Total Resources Used to Finance Items not Part of Net Cost	**(5,280)**	**(8,435)**
Total Resources Used to Finance the Net Cost of Operations	**23,555**	**21,595**
Components of the Net Cost of Operations that will not require or generate Resources in the Current Period:		
Increase in Actuarial Liability	715	521
Passport Fees Reported as Revenue Returned to Treasury General Fund	(1,013)	(810)
Depreciation and Amortization	688	609
Interest Income of Trust Funds	(745)	(763)
Other	60	396
Total Components of the Net Cost of Operation that will not require or generate Resources in the Current Period	**(295)**	**(47)**
Net Cost of Operations	**$ 23,260**	**$ 21,548**

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 FASAB 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; its assets and activities summarized in the schedules below do not appear in the financial statements. The Department's fiduciary activities are disclosed in the following schedules of Fiduciary Activity and Fiduciary Net Assets:

Schedule of Fiduciary Activity

As of September 30, *(dollars in millions)*	**2011 19-X-6038**	**2011 19-X-6224**	**2011 19-X-6225**	**2011 Total**	**2010 19-X-6224**	**2010 19-X-6225**	**2010 Total**
Fiduciary Net Assets, Beginning of Year	$ —	$ 10	$ 1	$ 11	$ 288	$ 1	$ 289
Contributions	400	—	76	476	—	—	—
Fiduciary Revenues	—	—	—	—	—	—	—
Disbursements to and on behalf of beneficiaries	(180)	—	(76)	(256)	(278)	—	(278)
Increases/(Decreases) in Fiduciary Net Assets	(180)	—	(76)	(256)	(278)	—	(278)
Fiduciary Net Assets, End of Year	$ 220	$ 10	$ 1	$ 231	$ 10	$ 1	$ 11

Fiduciary Net Assets

As of September 30, *(dollars in millions)*	**2011**	**2011**	**2011**	**2011**	**2010**	**2010**	**2010**
Fiduciary Assets	**19-X-6038**	**19-X-6224**	**19-X-6225**	**Total**	**19-X-6224**	**19-X-6225**	**Total**
Cash & Cash Equivalents	$ 54	$ —	$ 1	$ 55	$ —	$ 1	$ 1
Investments	166	10	—	176	10	—	10
Total Fiduciary Net Assets	$ 220	$ 10	$ 1	$ 231	$ 10	$ 1	$ 11

20 Restatements

The Department employs a significant number of local nationals, currently approximately 52,000, known as Foreign Service Nationals (FSNs). By statute, the Department is required to establish compensation plans for FSNs in its employ in foreign countries. The plans are based upon prevailing compensation practices in the host country unless the Department makes a public interest determination to do otherwise. To do this, posts conduct surveys and use Local Compensation Plan (LCP) comparators. For comparators, the Department relies on entities such as the World Bank, United Nations, other embassies, and major businesses such as Shell, Xerox, IBM, etc. if they have a presence in country. 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. Therefore, the LCPs include a wide variety of unique after-employment benefits including Local Social Security System (LSSS), substitutes for local LSSS plans where the Department has decided not to participate in LSSS, defined benefit plans, defined contribution plans, and lump sum payments at retirement and involuntary or voluntary separation.

In Fiscal Year 2011, several issues were identified relating to the financial reporting of after-employment benefits for Foreign Service Nationals (FSN). These issues relate to (1) the reporting of assets and liabilities for defined benefit plans, (2) the reporting of liabilities for the Department's FSN Defined Contribution Fund (a defined contribution plan), and (3) the reporting of liabilities for lump sum payments at retirement or voluntary separation. The Department has restated its Fiscal Year 2010 Consolidated Balance Sheet, Consolidated Statement of Changes in Net Position, and Consolidated Statement of Net Cost and associated footnotes for the effect of the changes detailed below. The restatement had no effect on the Statement of Budgetary Resources. As a result of the restatement, the Foreign Service Retirement Actuarial Liability line on the Consolidated Balance Sheet was renamed After-Employment Benefit Liability.

REPORTING FOR FSN DEFINED BENEFIT PLANS

In the past, the Department reported the net liability related to FSN defined benefit plans. This was because the principles set forth in SFFAS No. 5 are not well-suited for reporting given the unique characteristics of FSN defined benefit plans established overseas. For example, the Department does not have title to the assets in the plans, and they are not considered public monies in that they are not subject to the control or regulation of the Department or any of its officers. The net liability consisted of the present value of the defined benefit obligation less the fair value of any plan assets. SFFAS No. 5 requires that Federal defined benefit plans report assets separately from the pension liability rather than reporting only a net liability, and the Department has adopted this SFFAS No. 5 reporting requirement.

REPORTING THE LIABILITY FOR THE FSN DEFINED CONTRIBUTION FUND (FSN DCF)

The FSN DCF is a defined contribution retirement plan to provide deferred compensation upon separation to FSNs at overseas missions in lieu of participation in host country social security programs where it has been determined that participation in the LSSS is not in the public interest of the U.S. Government. The Department pays to the Fund 12% of the each participant's salary. The Department's prior accounting treatment was to recognize a liability upon a participant's separation. The Department has changed its accounting to recognize a payable when the employee has rendered service.

REPORTING THE LIABILITIES FOR LUMP SUM PAYMENTS AT RETIREMENT OR VOLUNTARY SEPARATION

A number of the local compensation plans call for employees to receive a lump-sum payment at retirement or upon voluntary separation. The Department's prior accounting treatment was to recognize a liability upon a participant's separation. The Department has changed its accounting to recognize a payable when the employee has rendered service and for the estimated future outflows that are probable and measurable.

Consolidated Balance Sheet:	As of September 30, 2010		
(dollars in millions)	As Previously Reported	Restatement	As Restated
Cash and Other Monetary Assets	$ 103	$ 169	$ 272
Total Assets	68,165	169	68,334
After-Employment Benefit Liability	17,504	1,110	18,614
Other Liabilities	986	(29)	957
Total Liabilities	22,502	1,081	23,583
Cumulative Results of Operations - Earmarked Funds	(846)	(285)	(1,131)
Cumulative Results of Operations - Other Funds	17,221	(627)	16,594
Total Net Position	45,663	(912)	44,751
Total Liabilities and Net Position	68,165	169	68,334

The changes to the Consolidated Balance Sheet are reflected in Notes 6, 9 , 10 and 14 of the financial statements.

Consolidated Statement of Changes in Net Position:	For the Year Ended September 30, 2010		
(dollars in millions)	As Previously Reported	Restatement	As Restated
Cumulative Results of Operations			
Beginning Balances	$ 13,471	$ (744)	$ 12,727
Net Cost of Operations	(21,380)	(168)	(21,548)
Total Cumulative Results of Operations	16,375	(912)	15,463
Net Position	45,663	(912)	44,751

Consolidated Statement of Net Cost:	For the Year Ended September 30, 2010		
(dollars in millions)	As Previously Reported	Restatement	As Restated
Total Net Cost	$ 21,380	$ 168	$ 21,548

The changes to the Consolidated Statement of Net Cost are reflected in Notes 15 and 18 of the financial statements.

21 Subsequent Event

Subsequent to September 30, 2011, the date of these financial statements, but prior to the issuance of these statements, events transpired which now prohibit the Department from making payments to certain International Organizations. As of September 30, 2011, amounts payable to International Organizations included approximately $81 million which the Department will now not pay.

Knowledge Leadership Initiative

With a set of collaborative programs widely used by its diverse, skilled, and global workforce, the Department has remained a leader in the Federal Government for knowledge sharing.

In 2011, State launched Corridor, an in-house networking service that helps Department personnel connect and work together worldwide. Corridor members publish their profiles, expand their professional networks, identify colleagues in the United States and abroad who share their professional and personnel interests or have expertise they need, and form collaborative work groups. Within six months of inauguration, more than 7,000 Department personnel in the United States and abroad had joined Corridor and had formed more than 400 groups.

Corridor is the latest addition to the suite of tools in the Knowledge Leadership initiative, an effort begun in 2003 to strengthen the Department's leadership in foreign affairs by enabling and encouraging State personnel to find and contribute knowledge anywhere, anytime. The program exploits the power of new social media to encourage Department personnel to share their knowledge, expertise, and experience with their State colleagues and, in many cases, with the U.S. Government's foreign affairs and national security communities:

- The Communities@State program has more than 70 active online communities covering subjects as diverse as consular affairs, management trends, and security overseas.
- State's Diplopedia wiki, an online encyclopedia, provides more than 14,600 articles on foreign affairs subjects and diplomatic tradecraft. Nearly 5,000 Department personnel have contributed their knowledge to Diplopedia.
- Enterprise search integrates these programs into a vibrant and growing knowledge resource.

The Bureau of Information Resource Management's Office of eDiplomacy supports collaboration and knowledge sharing through programs including Corridor, Diplopedia, and Tech@State.
Department of State

Most of these programs draw on open source technology, making them extraordinarily cost effective. State has also put its experience and lessons learned on knowledge management at the disposal of more than 40 Federal agencies.

Also in 2011, State intensified its effort to draw on the knowledge resources of external partners to address diplomatic challenges. The Virtual Student Foreign Service program has connected more than 200 students at U.S. colleges and universities with over 100 missions abroad to conduct real projects on diplomatic subjects. Tech Camps, part of Secretary Clinton's Civil Society 2.0 initiative, have brought together the technology communities and foreign civil society organizations in Asia, Europe and Latin America to foster technology solutions for pressing economic and social needs. Tech@State conferences have convened the foreign policy, development, and technology communities to identify trends and opportunities on targeted foreign policy topics, from mobile money to crisis response.

Required Supplementary Information

COMBINING SCHEDULE OF BUDGETARY RESOURCES

For the Year Ended September 30, 2011 *(dollars in millions)*

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budgetary Resources:						
Unobligated Balance, brought forward, October 1:	$ 6,875	$ 168	$ 85	$ 547	$ 5,662	$ 13,337
Recoveries of Prior Year Unpaid Obligations	899	18	7	109	569	1,602
Budget Authority:						
Appropriations	13,081	3,470	133	1,400	11,464	29,548
Borrowing Authority	1	—	—	—	—	1
Spending authority from offsetting collections (gross):						
Earned						
Collected	8,165	—	7	46	660	8,878
Change in receivable from Federal sources	96	—	—	2	81	179
Change in unfilled customer orders:						
Advance received	657	—	—	(2)	(103)	552
Without Advance from Federal sources	—	—	—	—	—	—
Nonexpenditure transfers, net, anticipated and actual	(101)	—	—	229	54	182
Temporarily not available pursuant to Public Law	(534)	—	—	—	—	(534)
Permanently not available	(322)	(12)	(1)	(23)	(95)	(453)
Total Budgetary Resources	**$28,817**	**$ 3,644**	**$ 231**	**$ 2,308**	**$18,292**	**$53,292**
Status of Budgetary Resources:						
Obligations Incurred:						
Direct	$ 14,274	$ 3,368	$ 172	$ 1,646	$ 11,590	$ 31,050
Reimbursable	8,320	—	7	31	424	8,782
Unobligated balance:						
Apportioned	5,863	262	45	532	5,862	12,564
Exempt from apportionment	1	6	—	—	—	7
Unobligated balance not available	359	8	7	99	416	889
Total Status of Budgetary Resources	**$28,817**	**$ 3,644**	**$ 231**	**$ 2,308**	**$18,292**	**$53,292**
Change in Obligated Balance:						
Obligated Balance, net						
Unpaid Obligations, brought forward, October 1	$ 9,906	$ 116	$ 185	$ 1,188	$ 13,339	$ 24,734
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(235)	—	(3)	—	1	(237)
Obligations incurred, net	22,594	3,368	179	1,677	12,014	39,832
Less: Gross Outlays	(19,657)	(3,326)	(249)	(1,458)	(11,039)	(35,729)
Less: Recoveries of prior-year unpaid obligations, actual	(899)	(18)	(7)	(109)	(569)	(1,602)
Change in uncollected customer payments from Federal sources	(96)	—	—	(2)	(81)	(179)
Obligated balance, net, end of period:						
Unpaid obligations	11,944	140	108	1,298	13,745	27,235
Less: Uncollected customer payments from Federal sources	(331)	—	(3)	(2)	(80)	(416)
Net Outlays:						
Gross outlays	19,657	3,326	249	1,458	11,039	35,729
Less: Offsetting collections	(8,822)	—	(7)	(44)	(557)	(9,430)
Less: Distributed Offsetting receipts	(299)	—	—	—	—	(299)
Net Outlays	**$10,536**	**$ 3,326**	**$ 242**	**$ 1,414**	**$10,482**	**$26,000**

Deferred Maintenance for the Fiscal Year Ended September 30, 2011

The Department occupies more than 3,000 government-owned or long-term leased real properties at more than 270 overseas locations. It uses a condition assessment survey method to evaluate the asset's condition, and determine the repair and maintenance requirements for its overseas buildings.

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 $185 million and $111 million in 2011 and 2010 for buildings and facilities-related equipment and heritage assets that have not been funded. The deferred maintenance amount rose primarily due to a refinement in our facility condition survey method of gathering maintenance requirements and the inclusion of normal maintenance determined to have been deferred.

The Department's Building 84, located in Charleston, S.C., shows its rooftop photovoltaic (generating electrical power by converting solar radiation into direct current electricity) panels. *State Magazine April 2011*

Other Accompanying Information

Financial Management Plans and Reports

Overview

INTRODUCTION

The Department of State's financial activities operate 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 twenty-four hours a day, seven days a week.

The Bureau of Resource Management (RM) is headed by the Department's Chief Financial Officer who serves as the corporate financial manager and strategic planner. RM has overall responsibility for the preparation and execution of the budget; management of financial systems, reporting and internal controls; management of global financial operations and services; directing the Department's strategic planning and performance reporting efforts; administering interagency administrative support cost sharing related to overseas missions; and coordinating interagency resource planning efforts with the intelligence community. RM produces a number of essential documents including the Joint State/USAID Strategic Plan, the Department Performance Plan, the Agency Financial Report, the Department Performance Report, A Citizen's Guide to Foreign Affairs, the Joint Summary of Performance and Financial Information, the Executive Budget Summary, and the Congressional Budget Justification Document.

RM employs over 500 people around the globe, primarily in Washington, Charleston, South Carolina and Bangkok, Thailand. RM's services to its customers are critical to carry out the Department's mission effectively.

The RM management team and staff have a proven record of outstanding achievement as evidenced by (but not limited to):

- Successful resourcing of all Secretarial-level priorities while simultaneously resolving a huge funding shortfall for current services;
- Successful implementation of new financial management systems;
- Successful implementation of a grading system to measure transparency and quality of budget requests for all interagency activities at post (ICASS);
- Growth in requests for and use of the Post Support Unit as a centralized financial processing unit for overburdened post financial management staff; and
- Implementation of Quality Management System under ISO 9001 standards and Capability Maturity Model Integration (CMMI) frameworks for core financial operations and systems.

MISSION

To integrate strategic planning, budgeting, and performance, and to secure the resources necessary to accomplish the Department of State's mission.

The RM mission statement is incorporated into the Department's strategic goal for Strengthening Consular and Management Capabilities. Pursuant to the CFO Act of 1990, this designation makes the CFO responsible for all financial management activities related to Department programs and operations. This overview relates to the CFO role and financial management responsibilities set forth under the CFO Act.

BUREAU OF RESOURCE MANAGEMENT GOAL STATEMENT

To establish worldwide financial services, integrate budget, planning and performance, and ensure that all RM employees know they play a crucial role in the success of American foreign policy.

Performance measures for this goal include timely financial reporting, elimination of material weaknesses in internal control, the achievement of unqualified ("clean") audit opinions, elimination of improper payments, and implementing financial systems and processes that meet Federal requirements. In addition to these, RM endeavors to consolidate and standardize financial operations, leverage best business practices and electronic technologies, and build a first-rate finance team.

FY 2011 RESULTS

Providing World Class Customer Service.

Central to our vision of a premier, global financial system is the worldwide cadre of financial managers who rely on our financial systems to conduct the Department's business and support bureau missions. It is critical our systems meet the needs of this diverse customer base. Product review groups have been instituted to better enable us to work with our customer base, identifying priorities for improvements to systems, associated business processes, and support mechanisms.

We continue to receive high marks on the Overseas Customer Survey. Overall satisfaction with financial applications rose to 85% in 2011 from 83% in 2010. Consolidated Overseas Accountability Support Toolbox (COAST) reporting remains the leader in customer satisfaction, with 90% of respondents reporting favorably (up from 88% in 2010). Global eTravel's e2 Solutions showed the greatest improvement, rising ten percentage points from 66% to 76%.

Implementing Resource Management Systems and Processes that Meet Federal Requirements.

Ongoing system improvements continued to contribute to the Department achieving a 'Green' rating on key monthly performance measures – 98% of invoices are paid on time; interest payment penalties are less than .01% of total Department payments; and the error rate for erroneous/duplicate payments is less than 0.15% of the Department's total payments. These cost controls came about even as the volume of the Department's overall transactions continues to rise.

All agencies are required to protect personally identifiable information (PII), including the elimination of the unnecessary use of Social Security Numbers (SSN) in their systems. To comply with this guidance, new coding schemes for eliminating the use of SSN as the vendor code were undertaken in the Regional Financial Management System (RFMS) and the Global Financial Management System/Momentum (GFMS). The systematic conversion of all existing SSN-based vendor codes in RFMS into non-sensitive codes was completed in July 2010 and the GFMS conversion was completed in March 2011.

To further improve controls and the accuracy of transaction funding references across our regional and domestic systems, a multi-phase project to provide real time integration between the Global Financial Management System (GFMS) and Regional Financial Management System (RFMS) was started in fiscal year 2011. This integration will eliminate complex, offline interfaces; ensure timely fiscal data and funds availability checks; and improve operational efficiency by avoiding costly rework generated by rejected batch transactions.

The first phase of this project was to integrate GFMS invoices, payments, direct disbursements (IPAC), and Working Capital Fund (WCF) charges. As transactions are entered in GFMS, real time referencing occurs verifying funding and accounting information. If the RFMS obligation does not have sufficient funds or the accounting information does not match, the document will not process. To test these new procedures, a pilot project started in July 2011.

Standardized Solutions Supported by a Global Architecture Framework.

FY 2011 also saw continued focus on consolidation of financial and other administrative systems as part of our ongoing efforts to standardize resource management systems, provide consistency across applications, and uniformly apply best practices for development and maintenance of our critical support systems.

Our Global Direct Connect initiative moves posts that have operationally practical and reliable network connections from their batch processing environment to a real time, on-line connection. In FY 2011, we successfully completed deployment of DirectConnect to eligible posts, replacing the batch connections at 17 remaining posts. All 183 eligible posts are now using Global Direct Connect to access the Regional Financial Management System (RFMS).

COAST Cashiering, the latest major enhancement to the COAST suite, will replace the legacy WinACS cashiering system. It improves upon 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. As part of the COAST suite of applications, COAST Cashiering seamlessly integrates with COAST Encryption, streamlining the certification, encryption, and submission of Cashiering transactions to the Global Financial Service Centers. Pilots are underway in Rome and Buenos Aires, with plans for pilot expansion through the second quarter of FY 2012. Full deployment is targeted to start in the fourth quarter of FY 2012 and be completed in FY 2013.

The Department's Resource Allocation and Budget Integration Toolkit (RABIT) and the International Cooperative Administrative Support Services (ICASS) system were brought into RM's existing portfolio of systems, incorporating each into RM's disciplined and certified system development and maintenance organization.

RABIT is an application used by all the regional bureaus, as well as some functional and domestic bureaus, to prepare their operating budgets. It has gone through significant enhancements this year, including:

- A new Public Diplomacy (PD) Resource Allocation Module allowing bureaus to plan, track, and report on resources devoted to PD programs while linking funding levels and performance outcomes;
- A new Overseas Buildings Operations (OBO) module to capture salary costs and assist in preparing five-year budget formulations; and
- Improvements to existing features and functions.

The ICASS system is the principal means by which the U.S. Government provides and shares the cost of common administrative support at its more than 270 diplomatic and consular posts overseas. The Department of State is the primary service provider and it offers these administrative support services to other agencies under its non-Economy Act authorities contained in 22 U.S.C. 2695 and 2684. In FY 2011, we defined and initiated a multi-stage strategy to rebuild the ICASS Software Platform to better meet the needs of its post and agency users.

Leveraging Best Business Practices and E-Government.

The Global eTravel initiative achieved significant migration success in FY 2011 by continuing to expand the use of a web-based commercially available off-the-shelf system (COTS) software. As of September 2011, all domestic bureaus and 155 posts have been migrated. These entities collectively generate over 96% of the Department's temporary duty (TDY) travel volume. In the last 12 months, 15 customer-driven enhancements were delivered with new software releases.

The Department continued to make significant progress migrating to a Grants Management Line of Business (GMLOB) solution in FY 2011. The OMB's lines of business initiative seeks to cut costs and improve service by consolidating computer networks and functions into a few agencies that would act as service providers to other agencies. Implementation of the Department of Health and Human Services' (HHS) GrantSolutions system as the single, standard system for the Department will replace the collection of separate, stovepipe Federal assistance systems used across the Bureaus. Internally, we refer to this system as the State Assistance Management System (SAMS).

During FY 2011, the Department expanded deployment from one to thirteen Bureaus. By the end of FY 2012 the Department anticipates full deployment of SAMS to the approximately 12 remaining bureaus. The result is a single automated system that is integrated with the Department's Global Financial Management System (GFMS). It will standardize the department's assistance-related business process from solicitation through award and close-out ensuring a high degree of consistency and manageability as well as compliance with key U.S. Government initiatives such as Grants.gov and GMLOB, and reporting requirements such as the Federal Funding Accountability & Transparency Act of 2006 (FFATA) and the Federal Assistance Award Data System (FAADS).

The Department continued to execute a phased deployment strategy that — when completed — will completely replace six legacy payroll systems with a single, COTS-based solution that is 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 statutory differences 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.

December 2010 saw the first phase of GFACS placed into production with the implementation of the Foreign Service Annuitant payroll, replacing the legacy Foreign Affairs Retirement and Disability System (FARADS). Beginning calendar year 2011, 16,000 Foreign Service Annuitants and their beneficiaries have been paid monthly as a result of pension processing in GFACS. Work continues on the next

The new consulate in Dubai, United Arab Emirates, has made possible the consolidation of offices scattered throughout the city of Dubai into a six acre compound to increase the efficiency and accessibility of its services to the public, including assisting American citizens and visa services.

Department of State/OBO

phases of the GFACS deployment – the Locally Employed (LE) Staff and American payroll modules.

In FY 2011, RM opened the Sofia Post Support Unit (PSU). The PSU supports financial processing operations at posts abroad, remotely taking on the lower level financial transaction processing work for a post and allowing at-post financial management personnel to perform higher value-added and location- specific tasks. With the addition of the Sofia PSU, RM has further expanded its capabilities to provide centralized processing services to support additional posts and enable the wholesale systematic consolidation of some financial processes.

Looking Forward.

RM will continue to work to ensure fundamental financial management "compliance" results – on time, accurate financial statements that achieve an unqualified ("clean") audit opinion, financial systems and processes that meet Federal requirements, and effective internal controls.

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

In FY 2012 and beyond, RM will continue to expand its centralized processing services to support additional posts and wholesale systematic consolidation of some financial processes.

RM will also undertake activities that support effective strategic decision-making and mission performance. These activities include strengthening the Department's financial management analytic capabilities. With its financial data warehouse, RM will work to expand its analytical capability to provide the Department's senior management with timely and thorough financial/cost analysis to support funding decisions. At a time when the U.S. Government (USG) is facing a significant deficit, the Department will undoubtedly be faced with some difficult choices over critical but competing priorities. Having the CFO establish or independently verify the fully loaded costs of programs or initiatives, with affordable cost alternatives and expected results, will be essential in maximizing the effectiveness of the Department's funding. This ability to better quantify costs with results will also bolster the Department's credibility with Congress and OMB.

Our long-term goal for resource management is a standardized and integrated set of worldwide systems that support process improvement and uniform delivery of timely, accurate, and meaningful information. We want to do this in an incremental way that builds on our successes. For our corporate resource management system investments, OMB has reviewed and approved our approach as part of its review of all agency financial system investments across the Federal Government.

We have embarked on a multi-year effort to consolidate resource management systems within RM and specifically within the RM/DCFO systems area. This includes budget systems, cost distribution systems, and post-level applications that were developed independently in the past. Ultimately, we expect our resource management systems to:

- Meet user requirements;
- Share a common platform and architecture;
- Reflect rationalized standard business processes;
- Be developed using CMMI similar to ISO 9000; and
- Be compliant, controlled and secure.

In FY 2012, RM financial system initiatives include:

- ***COTS Software Update – Global Financial Management System (GFMS).*** GFMS is based on CGI Federal's Momentum™ commercial off-the-shelf product. Every year, CGI issues new releases to the Momentum software to comply with new Federal reporting requirements, respond to user enhancement requests, keep current with technology improvements, and correct system defects. In FY 2013, we will update our release of GFMS from version 6.0 to version 7.0. During FY 2012, user work group sessions will be conducted to review Momentum functional and technical enhancements to determine system configuration settings and business impacts. User work group sessions will also be conducted to improve the user interface through the use of configurable functionality to better meet our customers needs. This update effort will also see the introduction of automated independent testing through the use of an automated test tool package.

- ***Integration Improvements.*** Through the GFMS/RFMS Virtual Merge initiative, RM will continue to leverage the platform's Enterprise Service Bus (ESB) integration platform to improve business processes and lower the total cost of ownership of its financial systems. The next phase of the project will integrate GFMS and RFMS for vendor information and obligation documents. As GFMS references overseas allotments, the vendor and the obligation will be processed in RFMS automatically through the integration framework. We are also planning next steps for the integration of the Department's Integrated Logistics Management Systems (ILMS) with RFMS, and have a standard procurement-to-pay business model.
- ***Accounts Receivable Migration.*** When the Global Financial Management System (GFMS) was implemented in 2007, migration of accounts receivable from the existing legacy system (Domestic Accounts Receivable Tracking System - DARTS) was excluded to mitigate risk and keep the implementation scope manageable. Implementing Momentum Accounts Receivable is on schedule for early 2012. It will eliminate the custom DARTS interface and provide a cohesive fully integrated accounts receivable capability.
- ***COAST Offerings.*** We will continue rollout of a much improved encryption capability and expand pilot deployment of cashiering capabilities through the second quarter of FY 2012. Full deployment of cashiering is targeted to start in the fourth quarter of FY 2012 and be completed in FY 2013.

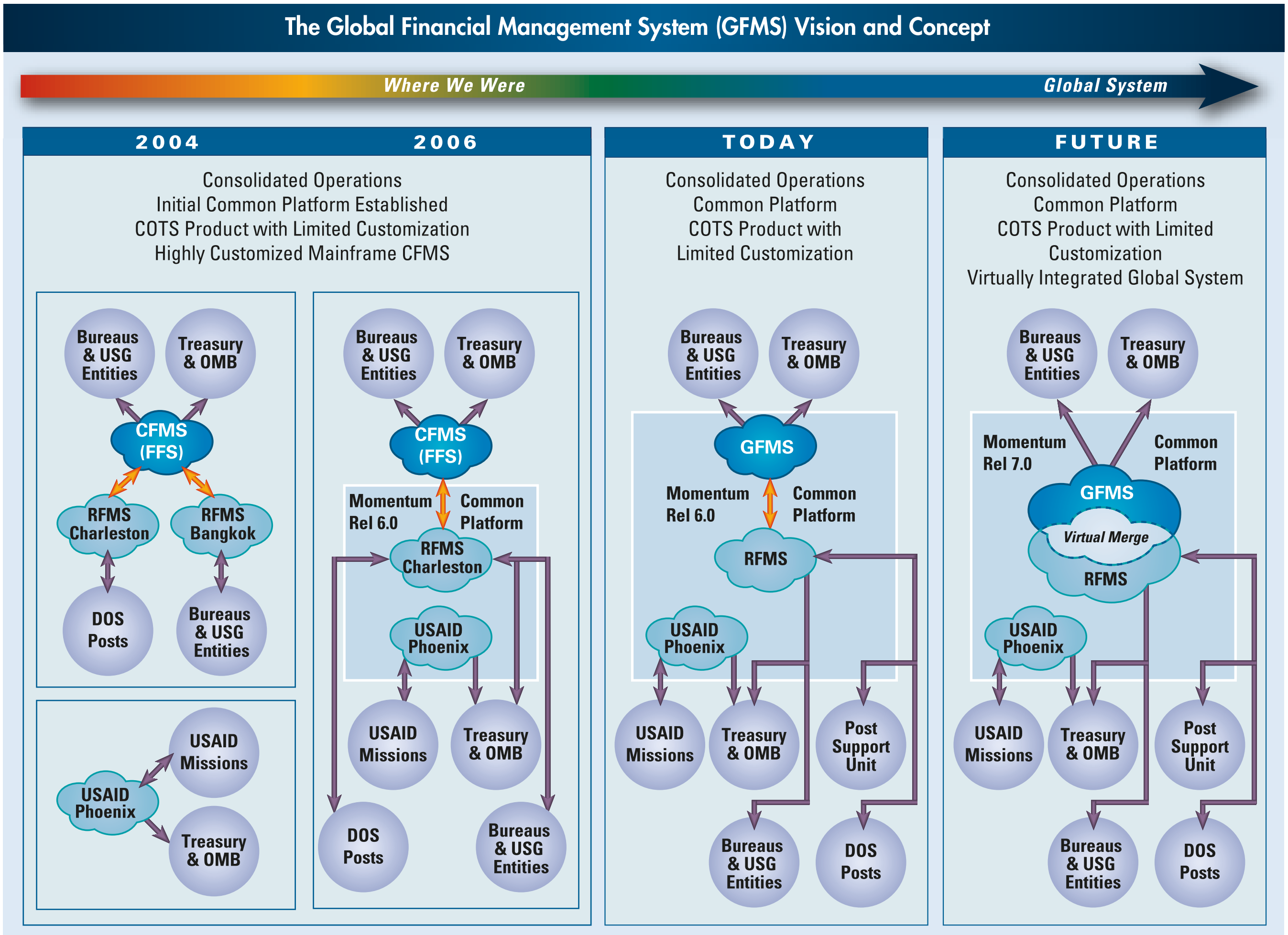
The Department will complete its overseas deployment of Global eTravel in FY 2012. The Department's next major customer enhancement for the system is scheduled for January 2012. It is a new release that will provide our travelers with streamlined, simplified, and intuitive methods to create, approve, and submit TDY authorizations and vouchers. This redesign is a culmination of extensive studies focused on improving usability and customer satisfaction.

Work will continue on deployment of the Global Foreign Affairs Compensation System (GFACS) deployment. Next will be the payroll module for Locally Employed (LE) Staff, with pilots scheduled to begin in calendar year 2012. As part of the GFACS investment, we also plan to implement a new web-based global Time and Attendance (T&A) product that will feature electronic routing, signature, and self-service features. Looking out further, deployment of the GFACS American payroll module is currently scheduled to occur in FY 2014.

The International Cooperative Administrative Support Services (WebICASS) is undergoing re-development in several incremental phases. The first phase is scheduled for deployment in May 2012 and will operate as a stand-alone application at post. It will include a new user interface to facilitate navigation through the application, new cost centers for Diplomatic Security (DS) residential guards, and technical architecture upgrades.

FINANCIAL MANAGEMENT SYSTEMS

Through the Joint Financial Management System Program, the Department is integrating its overseas and domestic financial operations onto a common, global financial management software platform in Charleston, South Carolina. This is dramatically improving operations and reducing costs by eliminating system redundancies and replacing obsolete and unsupported financial systems. It is also providing the infrastructure for integrating other administrative activities within the Department, such as the Integrated Logistics Management System, Global eTravel, State Assistance Management System, and other domestic and post-level systems.



The diagram above depicts the state of our vision, a virtual global financial management system.

The common platform underlying the Department's global financial management solution is CGI-Federal's Momentum™ financial management system. This solution uses the same software and technical platform to support the Global Financial Management System (GFMS) domestically, the Regional Financial Management System (RFMS) overseas, and USAID's Phoenix financial management system. With the completion of Global Direct Connect in FY 2011, State has achieved a single integrated view of financial data through data standardization, common business processes, and the seamless exchange of information through the Department's financial and administrative sectors. The GFMS and RFMS components of State's solution are further described below.

Global Financial Management System.

The Global Financial Management System (GFMS) centrally accounts for billions of dollars recorded through over 5 million annual transactions by 1000+ users and over 25 "handshakes" with other internal and external systems.

GFMS is critical to State's day-to-day operations. The GFMS supports execution of State's mission by effectively accounting for business activities and recording associated financial information, including obligations and costs, performance, financial assets, and other data. It supports the Department's domestic offices and serves as State's repository of corporate data.

Regional Financial Management System.

RFMS is the global accounting and disbursing system that has been implemented for posts around the world. RFMS includes a common accounting system for funds management, obligation and voucher processing; the RFMS/D system to provide disbursing services; and the Consolidated Overseas Accountability Support Toolbox (COAST) post-based system for analysis, reporting and other post-level activities. The system incorporates State's standard account structure and improves transaction standardization and timeliness between post and headquarters, which results in the consistent, timely processing and recording of financial data on a worldwide basis.

Financial Management Information to Improve Decision Making.

With the consolidation and streamlining of our worldwide financial systems operations, the ability to capture and maintain accurate, meaningful financial information, and provide it to decision makers in a timely fashion, has vastly improved.

To support overseas financial management officers and post decision makers, RM implemented COAST reporting in late FY 2006. 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. RM continues to enhance its COAST reporting tool, which provides daily updates on all financial transactions to more than 180 posts overseas and domestic bureaus, allowing them to analyze, and "slice and dice" their financial data for local reporting purposes using modern reporting and query tools on their local workstation. Future enhancements currently in progress will allow for access to payroll specific data at the post and bureau level, and will take advantage of COAST's existing "drill down" and other reporting functionality. This will give Department financial managers far greater insight into payroll costs, including providing detailed reporting on overtime and other premium pay types.

Domestically, and in support of Department-wide reporting, RM implemented the GFMS Data Warehouse in FY 2007. Based on a modern, browser-based technology platform, the GFMS Data Warehouse enables users to access financial information from standard, prepared reports or customize queries and reports in real time to compile the financial information needed for informed decision making on a day-to-day basis. The GFMS Data Warehouse also provides, on a daily basis, critical financial information to the Department's Enterprise Data Warehouse. In addition to adding and improving reports and queries, managerial cost accounting and acquisitions reporting modules have been added to the GFMS Data Warehouse since its inception. Plans for FY 2012 include expanding available content and further enhancing management reporting capabilities, including executive-level dashboard reporting. Upgrades to more current technology platforms will also occur in FY 2012.

Management of Departmental Obligations

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 2011, the Department assessed $79 million of penalties against one company, and collected $29 million of outstanding penalties from five companies. Balance outstanding at September 30, 2011, was $85 million.

Debt Management

Outstanding debt from non-Federal sources (net of allowance) increased from $53 million in FY 2010 to $109 million in FY 2011. Civil Monetary Penalties increased by $50 million in FY 2011, resulting in the dramatic increase overall to the non-Federal source figures.

Non-Federal receivables consist of debts owed to the International Boundary and Water Commission, Civil Monetary Fund, and amounts owed for Repatriation Loans, medical costs, travel advances, and other miscellaneous receivables.

The Department uses installment agreements, salary offset, and restrictions on passports as tools to collect its receivables. It also receives collections through its cross-servicing agreement with the Department of the Treasury. In 1998, the Department entered into a cross-servicing agreement with the Department of the Treasury for collections of delinquent receivables. In accordance with the agreement and the Debt Collection Improvement Act of 1996 (Public Law 104-134), the Department referred $2 million to Treasury for cross-servicing in FY 2011. Of the current and past debts referred to Treasury, $1 million was collected in FY 2011.

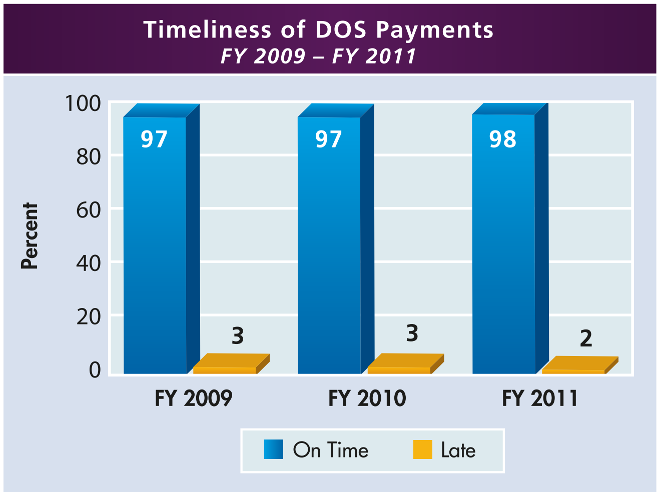
Receivables Referred to the Department of the Treasury for Cross-Servicing

	FY 2011	FY 2010	FY 2009
Number of Accounts	920	772	1,006
Amounts Referred *(dollars in millions)*	$2.1	$2.0	$1.7

Prompt Payment Act

TIMELINESS OF PAYMENTS

The Prompt Payment Act (PPA) requires Federal agencies to pay their bills on time or an interest penalty must be paid to vendors. In FY 2011, the Department paid timely over 98% of the 548,225 payments subject to prompt payment act regulations. The chart below reflects the timeliness of the Department's payments from FY 2009 through FY 2011. During FY 2011, the Department paid $251 thousand in interest penalties, compared to $526 thousand in FY 2010, a 52 percent decrease.



Electronic Payments

The payments made through Electronic Funds Transfer (EFT) were 96 percent of the total payments made for domestic and overseas payments. Domestic operations accomplished 99 percent of its payments with EFT this year. Overseas operations have a lower EFT percentage than domestic operations due to the complexities of banking operations in some foreign countries. Each year, RM disburses over 3.7 million separate payments.

Improper Payments Information Act, as Amended by IPERA

The Improper Payments Information Act of 2002 (IPIA), Public Law 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 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 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. OMB Circular A-123 Appendix C, *Requirements for Effective Management and Remediation of Improper Payments*, 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

Based on a 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 IPERA and OMB guidance. These reviews were conducted in addition to audits under the Single Audit Act, the CFO Act, GAO reviews, and reviews by the Department's Office of Inspector General. The Department conducted a full risk assessment of programs in FY 2010. Full risk assessments are done every three years. In the interim years, simplified annual assessments evaluating any significant legislative, programmatic, funding, and/or other changes are 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. Additionally, the Department does not have any programs designated by OMB as "high-priority" programs subject to the reporting requirements of Executive Order 13520 on Reducing Improper Payments. The Department's future plans include developing a process to integrate risk assessment efforts between reviews conducted to meet compliance requirements with OMB Circular A-123 Appendix A and C, as well as with our FMFIA program.

RECAPTURE OF IMPROPER PAYMENTS REPORTING

A number of improper payment activities, both preventative and recovery, exist domestically and overseas at the Department, Bureau, post, and program levels to support IPERA efforts and ensure the integrity and accuracy of Department payments. The Bureau of Resource Management has established a two-tiered erroneous payment monitoring and review program that supplements the formal accounts receivable process. The Global Financial Services (GFS), Office of Claims, has integrated erroneous payment identification and collection as key functions of the accounts payable process and the paying office's operations. This activity has historically represented the Department's recapture results, but starting in FY 2011 it is classified as overpayments recaptured outside of recapture payment audits activity based

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)
All	$15.6 million	$14.4 million	$0	$0	$15.6 million	$14.4 million
CY=FY 2011, PYs=FY 2005 - 2010						

on the revised IPERA guidance. These results are presented in the table above entitled "overpayments recaptured outside of recapture payment audits". The claims office has established an internal debt management unit, whose primary mission is the identification and collection of erroneous payments, coordinating with the Accounts Receivable Division (ARD) as necessary.

The GFS Office of Oversight Management and Analysis conducts a monthly query of all domestic payments, which includes the largest portion of all Department payments subject to IPERA recapture audit requirements, focusing on identifying potential erroneous 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. The GFS approach has incorporated various manual and automated data analysis techniques and processes to identify, validate and collect erroneous payments, including use of data mining software, manual sampling of internal payment records, U.S. Treasury taxpayer identification number matching, and sampling of vendors. Starting in FY 2011, this activity will represent the Department's recapture results, pursuant to newly released OMB guidance as the Department concluded only this internal activity that fits the definitions and purpose of the IPERA Recapture Audit program requirements. These results are presented in the table below entitled "payment recapture audit reporting".

In FY 2011, this effort identified and validated 15 transactions totaling $567,336 of actual duplicate/erroneous payments from a review of 138,782 payments, totaling $9.6 billion. The Department has collected, or recovered, all but $322 of the identified amount, virtually having a recovery rate of 100%. Since the recaptured funds

PAYMENT RECAPTURE AUDIT REPORTING								
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)
All	$9.6 billion	$9.6 billion	$567,336	$567,014	99.9%	$322	.1%	$0

PAYMENT RECAPTURE AUDIT REPORTING *(continued)*							
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)
All *(continued)*	0%	$40.57 million	$40.57 million	$41.13 million	$41.13 million	$322	$0
CY=FY 2011, PYs=FY 2005 - 2010							

PAYMENT RECAPTURE AUDIT TARGETS						
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
All	$567,336	$567,014	99.9%	90%	90%	90%

DISPOSITION OF RECAPTURED FUNDS						
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
All	$0	$0	$0	$567,014	$0	$0

AGING OF OUTSTANDING OVERPAYMENTS			
Type of Payment	CY Amount Outstanding (0-6 months)	CY Amount Outstanding (6 months to 1 year)	CY Amount Outstanding (over 1 year)
Contracts	$322	$0	$0

were not expired, they 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. The significant decrease from the prior year to the current year is based on the revised activity identified as recapture auditing activity, as explained above.

The GFS duplicate or erroneous payment program using the domestic payment file for recapture audit analysis has proven to be a cost effective tool. The file presently includes the majority of payments subject to IPERA requirements such as most domestic vendor payments and grant payments. Efforts are ongoing to establish a file that includes all payment types required for review under IPERA if reviewing these additional payments is deemed cost-effective. The Bureau of Resource Management realizes that additional recapture audit opportunities may exist and will continue to collectively assess areas of greater risk of improper and erroneous payments and implement recapture audit measures deemed cost-effective. 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.

SENSITIVE PAYMENTS

In addition to the annual required IPIA reviews, Departments are also encouraged to conduct reviews of programs and activities that are commonly 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.

Although the Department does not have programs determined risk-susceptible for making significant improper payments at or above the threshold levels set by OMB, the Department performed elective procedures in FY 2011 to determine if improper payments were made in association with two areas of sensitive payments: premium class travel, and payments made from funding received for the American Recovery and Reinvestment Act (ARRA).

Sensitive Payment Categories Recommended by GAO for Review	Sensitive Payment Categories Selected by the Department for Review	Year Reviewed
Executive Compensation: Employee compensation, including salary, bonuses, and awards.	Executive Compensation	FY 2010 – by Independent Auditor
Travel: Travel expenditures including relocation expenses.	Premium Class Travel (includes Business and First Class Travel)	FY 2006 – FY 2011
Official Entertainment Funds: Costs associated with entertaining visiting dignitaries and state functions.	Representation Costs (includes official entertainment funds)	FY 2009
Speaking Honoraria and Gifts.	Speaking Honoraria and Gifts	Planned for future review
Executive Perquisites: Parking, limousine service, dining facilities, office space and furnishings, and other government owned and furnished facilities.	Executive Perquisites	FY 2012
	American Recovery and Reinvestment Act payments	FY 2009 – FY 2011

The matrix above indicates areas of sensitive payments that the Department has identified for review, some annually and some on a rotating schedule depending on the level of risk and sensitivity.

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 10 percent ($36,645) in FY 2011, and the error rate in FY 2010 was 16 percent ($48,566). During FY 2012, the Department will undertake efforts to correct the deficiencies noted during the FY 2011 review.

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.

American Recovery and Reinvestment Act (ARRA) Reviews

The Department received $564 million in funding from the American Recovery and Reinvestment Act. The Department has placed emphasis during FY 2009 and FY 2010 in obligating and during fiscal years 2010 and 2011 in expending the monies as quickly as possible to positively contribute to the facilitation of the country's recovery from the current recession. A random sample of ARRA expenses was selected and supporting documentation was reviewed. In all instances the expenses were found to be appropriate, in compliance with the Department's policies regarding ARRA activity, and supported by adequate documentation.

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, Art Bank, Art in Embassies, Cultural Heritage Program, 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

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.

Top left: The Adams Room.
Top right: Thomas Jefferson State Reception Room.
Right: The U.S. Department of State partners with Time Inc. and InStyle to decorate the Diplomatic Reception Rooms for the Holidays in December 2010.
Department of State

Art Bank works include "Morgans Corner, Georgetown" (2002) Raymond Ewing, watercolor (left) and "Flowers" (2009) Kota Ezawa, intaglio (above).

Art Bank

The Art Bank 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.

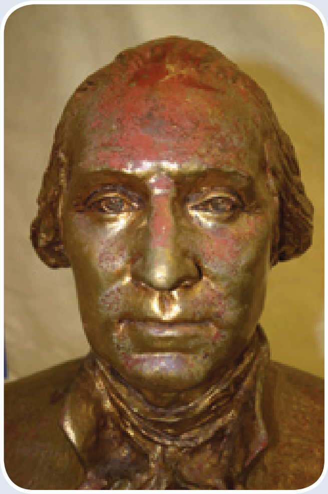
Rare & Special Book Collection

In recent years, the 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 Program

The Cultural Heritage Program, 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.

Bust of George Washington (1732-1799), first President of the United States by Felix de Weldon, 1945, cast in zinc, finished with white paint and gold leaf. Restorative conservation on all surface materials. The original life size bust is displayed in the United States Embassy in Canberra, Australia.



Art in Embassies

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.

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.

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

Department of State/OBO

The Seoul Old American Legation, Seoul, South Korea, built in 1883 and now used as a guesthouse, is an exceptionally well preserved example of traditional Korean residential architecture. Originally serving as both home and office of America's representative, it has been acknowledged by the Korean people as a symbol of freedom against aggressors.

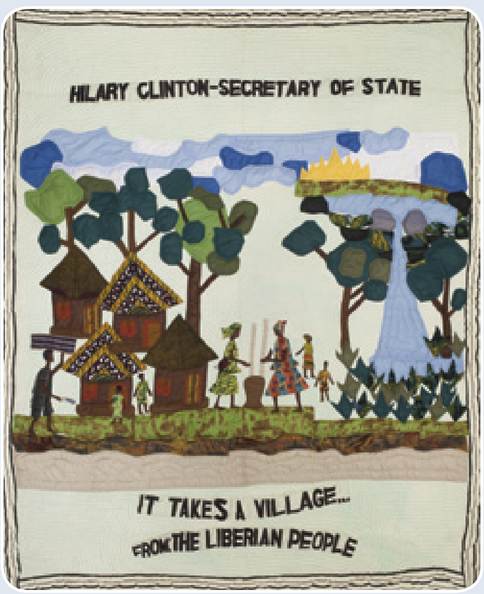
Department of State/OBO

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 situated within the Bureau of Public Affairs, and actively collects artifacts for exhibitions.

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. 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.



Handmade quilt. Gift to Secretary of State Hillary Clinton from Liberian President Ellen Johnson Sirleaf on the occasion of the Secretary's trip to Liberia, July 2009.

Department of State

Filled with 18th and 19th Century furniture, Chinese porcelain, and a fine 1846 portrait of Secretary of State Daniel Webster, the Blair House Rear Drawing Room welcomes guests for receptions throughout the year.

Department of State

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. Contracting and Procurement
2. Coordinating and Overseeing Foreign Assistance
3. Diplomacy with Fewer Resources
4. Effective Leadership
5. Financial Management
6. Information Security and Information Management
7. Military to Civilian-Led Presence Transitions
8. Protection of People and Facilities
9. Protecting American Citizens and American Borders
10. Public Diplomacy

1 Contracting and Procurement

The Department must ensure that it implements sound business practices and management efficiencies in all procurement actions, and that the contracting and grants officer workforce is skilled, trained, and effective in administering billions in contract and grants dollars that bureaus and posts disburse annually.[1] OIG is concerned that the Department's primary acquisition organization, the Bureau of Administration's Office of Acquisitions Management, continues to experience an increase in the number of procurement transactions processed and considerable growth in the dollar value of procurement actions issued without a corresponding increase in contracting personnel to handle the workload. Frequent turnover of contract support staff, especially overseas, has resulted in waste, a lack of adequate coordination, and a loss of institutional memory.

OIG identified several instances in which contract administration and oversight were not adequate, including overpayments to contractors. For example, the Department did not adequately manage the $1.26 billion contract for the Afghanistan Police Training Program.[2] As a result, $172.4 million of funds provided by the Department of Defense (DoD) were not valid expenditures or in accordance with reimbursable agreements. In Iraq, Afghanistan, and Tajikistan, poor contract monitoring resulted in increased costs and poor performance.[3] In another case, a construction project in Tajikistan was not properly designed or monitored because the embassy staff did not have the technical knowledge to oversee the contractor's performance. The result was incomplete and poorly constructed facilities that posed a safety hazard to embassy staff and did not meet required codes and guidelines.[4] Overall, the anticipated cost of the Department's multi-year plan to upgrade or build new overseas facilities is about $1 billion annually, and the Department must ensure contractors are properly chosen, work is properly conducted and monitored, and costs are contained.

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[1] The Department estimates that it disburses approximately $18 billion annually in contracts and grants according to the Bureau of Administration's FY 2013 Bureau Strategic and Resource Plan, June 9, 2011, page 2.

[2] *DoD and DOS Need Better Procedures to Monitor and Expend DoD Funds for the Afghan National Police Training Program* (AUD/CG-11-30).

[3] *PAE Operations & Maintenance (O&M) Support at Embassy Kabul, Afghanistan* (MERO-I-11-05); *PAE O&M Support for INL's Counternarcotics Compounds in Afghanistan* (MERO-I-11-02); *DynCorp O&M Support at Camp Falcon in Kabul, Afghanistan* (MERO-I-11-12).

[4] *Limited-Scope Review: Design & Construction of a Recreation Center at Embassy Dushanbe, Tajikistan* (MERO-I-11-04).

In addition, OIG determined there is a pressing need to improve monitoring of grantee performance in the area of refugee grants for humanitarian assistance, protection of refugees, victims of conflict, and democracy building activities. State Department grants to non-governmental organizations for refugee and humanitarian programs have dramatically increased to more than $1 billion annually since FY 2010, and audits have revealed that grantees do not always adhere to grant agreement terms regarding deliverables and costs. The audit of one grant, valued at $50 million, revealed that the Department did not adequately monitor program performance and did not detect questionable charges, such as security costs of $21 million and the $700,000 purchase of vehicles without prior grant officer approval.[5]

2 Coordinating and Overseeing Foreign Assistance

Foreign assistance funding and the Department's role in coordinating and managing assistance programs has grown as the government transitions to civilian-staffed missions in the Middle East region. The Department faces challenges in meeting this increased responsibility at current staffing levels.[6] OIG reported that some assistance programs need closer monitoring to ensure performance goals are met and that management controls are in place and working, especially in conflict environments where security risks impede proper performance monitoring.

The U.S. Government's foreign assistance budget totaled $34.8 billion in FY 2010. The Department's and U.S. missions' roles in coordinating and managing foreign assistance have grown considerably in recent years. The 2010 Quadrennial Diplomacy and Development Review (QDDR) calls for strengthening the Department's capacity to support development by directing chiefs of mission to focus more on development priorities, and assessing skills and building a training curriculum for Department personnel.

The Department's Office of the Director of U.S. Foreign Assistance (F) is responsible for preparing an integrated State/USAID assistance budget and managing performance to deliver results. For the first time since the office was established in 2006, USAID will develop a budget proposal for FY 2013 for the programs it manages. OIG found the process has been somewhat disorderly in its early stages, presenting a risk of imposing redundant or conflicting requirements on State and USAID bureaus.[7]

In its embassy inspections, OIG has found that chiefs of mission, especially those with large assistance programs, need to provide more active leadership and coordination to ensure that assistance programs support strategic goals[8] and complement each other. OIG identified duplication between agencies' PEPFAR programs in South Africa.[9] In Kabul, interagency tensions over policy and process contributed to poor internal communication and possible program failures with significant political fallout.[10]

OIG continues to find that some officers lack training to perform their oversight responsibilities, and that their responsibilities are not always clearly established with program bureaus.[11] This situation results in uneven oversight. In some cases, performance evaluation is inadequate to assess program effectiveness.[12] For example, in Colombia, OIG found that

[5] *Improved Oversight Needed for State Department Grants to the International Republican Institute* (SIGIR 10-22).

[6] *The Bureau of PRM's Internally Displaced Persons Program in Pakistan* (MERO-I-11-01)*; Performance Evaluation of Palestinian Authority Security Forces (PASF) Infrastructure Construction Projects in the West Bank* (MERO-I-11-03)*; Training and Logistical Support for PASF - Performance Evaluation (MERO-I-11-09); PRM's Reintegration Assistance Program for Refugees Returning to Afghanistan (MERO-I-11-10).*

[7] *Inspection of the Office of the Director of U.S. Foreign Assistance* (ISP-I-11-57).

[8] Inspections of: Exercise of COM Authority in Managing the PEPFAR Program Overseas (ISP-I-10-01) and Embassy Cairo, Egypt (ISP-I-10-02A).

[9] *Inspection of Embassy Pretoria, South Africa and Constituent Posts* (ISP-I-11-42A).

[10] *Compliance Follow-up Review of Embassy Kabul, Afghanistan* (ISP-C-11-53A).

[11] Inspections of embassies: Amman, Jordan (ISP-I-10-35A); Ankara, Turkey (ISP-I-11-55A); Bangkok and Consulate General Chiang Mai, Thailand (ISP-I-11-03A); Conakry, Guinea (ISP-I-11-44A); Jakarta, Indonesia and Constituent Posts (ISP-I-11-24A); New Delhi, India and Constituent Posts (ISP-I-11-39A); Santo Domingo, Dominican Republic (ISP-I-11-40A); and Seoul, Republic of Korea (ISP-I-11-55A).

[12] Inspections of: the Bureau of Near Eastern Affairs Office of Middle East Partnership Initiative (ISP-I-10-76); and Embassy Chisinau, Moldova (ISP-I-10-40A).

an emergency program for displaced persons and refugees that had been funded at $12-$20 million annually did not adequately take into account increasing host government funding, declining needs, and opportunities to redirect resources to more effective use.[13]

3 Diplomacy with Fewer Resources

The Office of Management and Budget recently directed all Federal agencies to reduce waste and reorder priorities[14] in support of high-level efforts to reduce the deficit. The Deputy Secretary and the Department's 2010 QDDR also stress the importance of working smarter and better prioritizing work to produce results. Department planning guidance[15] has gone further by referencing cost-cutting targets such as fully consolidating the State-USAID management platform, expanding regionalization of administrative services, and making more effective use of the financial management Post Support Unit.

Redundant Management Platforms

OIG inspections highlighted the importance of implementing these and other cost-saving measures—and the accompanying challenges. For example, consolidating the State-USAID management platform is a longstanding—and as yet unaccomplished—goal of the Under Secretary for Management. OIG has found some progress toward consolidation, but it continues to find redundant platforms, such as duplicative warehouses, motor pools, and furniture pools.[16]

Rightsizing

The Office of Rightsizing was established, in part, to ensure missions were appropriately staffed, given the high cost of maintaining U.S. staff overseas—averaging $550,000 per person, per year. The Department will need to work closely with the Office of Rightsizing, the missions, and regional bureaus to ensure that staffing is appropriate. OIG recommended reducing U.S. staffing at five embassies and in one domestic bureau at[17] considerable savings. Often, the political environment has changed or workload has declined, but corresponding staff levels have not been adjusted. A related issue involves whether the Department can eliminate some of the consulates and consular offices it maintains overseas and fold their functions into embassies or larger consulates general. In FY 2011, OIG identified potential savings of $18.8 million through formal recommendations to close or downsize consulate offices and agencies in Cameroon, Germany, Greece, and South Africa.[18]

Excess, Obsolete, Underutilized Properties

Since 2003, GAO has identified real property management as a government-wide high-risk area, primarily because of the existence of excess and underutilized real properties. The Department manages an inventory of real properties with an estimated replacement value of $52 billion. The Bureau of Overseas Buildings Operations identified 314 overseas properties as excess or underutilized, with a replacement value of more than $900 million. While political, legal, and local market obstacles hinder the sale of some of these properties, institutional obstacles such as resistance from chiefs of mission and underreporting of underutilized properties are also sometimes at fault. Over the last year, OIG identified more than $5 million in funds that could be put to better use through the sale of underutilized properties in South Africa and Sweden.[19]

[13] *Inspection of Embassy Bogotá, Colombia* (ISP-I-11-41A).

[14] Fiscal Year 2013 Budget Guidance (OMB M-11-30).

[15] State 038907, dated April 22, 2011.

[16] Inspections of embassies: Cairo (ISP-I-10-02A), New Delhi (ISP-I-11-39A), Lilongwe (ISP-I-10-60A), and Pretoria (ISP-I-11-42A).

[17] Inspections of embassies: Warsaw (ISP-I-11-64A), Hong Kong (ISP-I-10-78A), Athens (ISP-I-11-15A), Santo Domingo (ISP-I-11-40A), Pretoria (ISP-I-11-42A), and the Bureau of Near Eastern Affairs (ISP-I-11-49A).

[18] Inspections of embassies: Yaoundé, Cameroon (ISP-I-11-45A); Berlin, Germany (ISP-I-11-65A); Athens, Greece (ISP-I-11-15A); and Pretoria, South Africa, and Constituent Posts (ISP-I-11-42A).

[19] Inspections of embassies: Pretoria, South Africa, and Constituent Posts (ISP-I-11-42A) and Stockholm, Sweden (ISP-I-11-30A).

4 Effective Leadership

OIG continues to find deficiencies in senior leadership in both overseas and domestic locations. On several recent inspections, OIG found that poor leadership resulted in reduced effectiveness, low morale, and costly personnel curtailments.[20]

In some cases, leaders spent too much time on outside activities at the expense of mission priorities. In other cases, confrontational leadership styles lowered morale and adversely impacted communication and coordination. In a survey of employees who served in high-threat locations such as Iraq and Afghanistan, 45 percent of respondents noted leadership shortcomings as a source of stress. Based on the number of leadership deficiencies identified over a four-year period, OIG provided memoranda to the Department's Executive Secretary and the Under Secretary for Management recommending a feedback system to regularly assess post and bureau managers and correct deficiencies.[21]

The Department has taken steps to strengthen leadership and management. It created a working group to implement the QDDR goal of empowering and holding accountable chiefs of mission (COMs) as chief executive officers. The working group has identified the qualities and qualifications COMs and deputy chiefs of mission (DCMs) need for successful assignments, and it is in the process of incorporating these qualifications into the selection process. Other positive, but challenging objectives include enhancing the evaluation of COMs and strengthening assistant secretary oversight of COMs.

5 Financial Management

Although the Department received an unqualified opinion on its FY 2010 financial statements,[22] the Independent Auditor identified significant internal control deficiencies related to property and equipment, financial reporting, accounts payable accruals, budgetary accounting, liabilities to international organizations, and information technology. The auditor also reported that during the financial statement audit, the Department did not provide the requested documentation in a timely manner, which should have been an integral component of the Department's internal control structure.

In FY 2010, the Department made progress improving controls for several of the deficiencies, especially property and equipment. However, the Department acknowledged that additional work is needed to improve internal controls. The Department plans to build on the progress made during FY 2010 to address the deficiencies. For instance, it plans to expand its initiative for monitoring its IT infrastructure on an almost real-time basis to other components, such as firewalls and routers. To capture and maintain accurate and useful financial data, and ensure that the information is available in a timely manner, the Department plans to upgrade certain technology platforms and expand the availability of management reports from the primary accounting systems. The Department also plans to strengthen its financial management analytic capabilities. The Department is working to improve its process to estimate overseas and domestic accounts payable and establish a process for intra-governmental accounts payable. In addition, the Department is addressing weaknesses related to unliquidated obligations, including distributing aging reports to users.

6 Information Security and Management

The Department continues its efforts to meet the requirements of the Federal Information Security Management Act (FISMA) of 2002; however, it faces challenges in implementing a fully effective information security management program. During the FY 2011 FISMA evaluation, OIG determined that the Department has not documented policy and procedures to identify baseline controls in support of information technology systems. Specifically, the Department has not implemented the requirements of the National Institute for Standards and Technology (NIST) or effectively implemented a Plan of Actions and Milestones (POA&M) process to meet FISMA and Office of Management and Budget (OMB) requirements.

[20] Inspections of embassies: Luxembourg (ISP-I-11-17A), Bangkok (ISP-I-11-03A), Valletta (ISP-I-11-16A), and the Bureau of Consular Affairs, Office of Consular Systems and Technology (ISP-I-11-51).

[21] *Implementation of a Process to Assess and Improve Leadership and Management of Department of State Posts and Bureaus* (ISP-I-10-68).

[22] *Independent Auditor's Report on the U.S. Department of State 2010 and 2009 Financial Statements* (AUD/FM-11-03).

A common issue encountered in recent OIG inspections has been a lack of consistent application of Department-approved and/or industry standard systems development life cycle (SDLC) management methodologies. The Department has defined a methodology called Managing State Projects, but does not mandate its use. Development efforts are, however, required to use a methodology that includes the same basic control gates (requirements definition, approval, end user acceptance testing, etc.) as Managing State Projects. Over the last 18 months, OIG inspections have detailed systems development activities that do not follow any standard methodology. For example, the Office of Consular Systems and Technology did not consistently standardize and enforce the SDLC process; roles and responsibilities were not clear, and key business units were not involved throughout the process.[23]

The Office of the Director of U.S. Foreign Assistance (F Bureau) inspection[24] identified serious lapses in documentation with respect to the FACTS[25] application—an Exhibit 300 system and one of the Department's 14 major applications. The inspection of the Bureau of European and Eurasian Affairs[26] found a lack of SDLC methodology in their extensive SharePoint development activities. Not employing a standard and repeatable methodology in systems development activities often results in important steps being overlooked, such as testing to ensure that new applications do not interfere with the existing operating environment, deliver what customers expect, and do not introduce security vulnerabilities. In the Department's enterprise environment, it is also important to maintain control over enterprise-level changes to systems configurations when conducting development activities. During the inspections of the Bureau of Diplomatic Security—Countermeasures (DS/C) and F Bureau, as well as the Compliance Follow-up Review (CFR) of the Office of Overseas Buildings Operations, OIG found many significant development activities occurring without adequate coordination.

7 Military to Civilian-Led Presence Transitions

The U.S. presence in Iraq and Afghanistan will transition from military-led to civilian-led operations in December 2011 and 2014, respectively. As a result, the Department is assuming unprecedented roles and responsibilities that present both programmatic and personnel risks. Recent OIG reviews in Baghdad and Kabul[27] have highlighted the need for enhanced ongoing attention during transition. Funding levels for both operations and programs require constant oversight in dangerous environments. OIG found a lack of institutional memory due to personnel rotations, and divergent business cultures. The Department must ensure that it has the capabilities and resources to ensure the safety of personnel. OIG found that at the program level, security risks in conflict environments impede performance monitoring during site visits. Often, monitoring cannot be conducted, which increases the risk of waste and fraud.

Iraq Transition from Military to Civilian-Led Presence

The transition from a military- to a civilian-led mission in Iraq is a complex undertaking, with extensive requirements for staff, funding, and organization—all taking place in an environment that remains violent and unpredictable. Mortar and rocket attacks on the embassy compound, roadside bombings, and insurgent attacks against Government of Iraq (GOI) facilities and officials remain common. Under these conditions, planning and coordination are essential to ensure a smooth and successful turnover and assumption of responsibilities by the Department. And, only months remain[28] until the Department takes full responsibility from DoD.

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[23] *Inspection of the Bureau of Consular Affairs, Office of Consular Systems and Technology* (ISP-I-11-51).

[24] *Inspection of the Office of the Director of U.S. Foreign Assistance* (ISP-I-11-57).

[25] FACTS is a data repository and a powerful research tool and report generator.

[26] *Inspection of the Bureau of European and Eurasian Affairs* (ISP-I-11-22).

[27] Compliance Follow-up Reviews of: Embassy Baghdad, Iraq (ISP-C-11-08A); Embassy Kabul, Afghanistan (ISP-C-11-53A); and the Inspection of the Bureau of Near Eastern Affairs (ISP-I-11-49A).

[28] U.S. Military forces are scheduled to leave Iraq December 31, 2011, and all diplomatic activities and functions will fall under Embassy Baghdad - Chief of Mission.

As the U.S. Forces-Iraq (USF-I) draw down, the Department will need to be self-sufficient and replace functions and operations once provided by the military. Additionally, the Department will be responsible for securing locations that will include several sites in the International Zone, consulates in Erbil and Basra, embassy branch offices in Kirkuk and Mosul, and several sites throughout Iraq to support International Narcotics and Law Enforcement and Office of Security Cooperation programs. The total U.S. presence in Iraq after departure of the U.S. military is estimated to grow to 17,000.[29] In its budget request for FY 2012, the Department requested $5.2 billion for Overseas Contingency Operations for Iraq—or 12 percent of the Department's total discretionary budget.[30]

Transition from a military- to a civilian-led presence is following two separate but distinct tracks. First and foremost is the establishment of a long-term diplomatic presence leading to normalizing the bilateral relationship in economics, culture, diplomacy, and security; the internal stability of Iraq, and increased stability in the region.[31] Second, the Department will provide the infrastructure necessary for the Department's long-term diplomatic mission. The Department will be responsible for staffing, building, and supporting these posts. The tasks are daunting and numerous—providing facilities, security, life and medical support, information technology, and transportation for the entire Iraq Mission, including the Embassy and constituent locations.

Embassy Baghdad, the Bureau of Near Eastern Affairs, and the Bureau of Resource Management are finalizing program and operational planning, and have made substantial progress establishing embassy branch offices and consulates and other support facilities. The Department is continuing to develop detailed cost estimates for completing the transition to a civilian-led mission in Iraq, which includes construction and procurements; and future funding requirements to sustain programs and operations, including police training, the Office of Security Cooperation, provincial posts, security, air transportation, medical care, and facility requirements.

Afghanistan Transition from Military to Civilian Presence

The Department faces a number of challenges to support and sustain the civilian presence in Afghanistan as the U.S. military withdraws from Afghanistan. These challenges include the increased costs associated with the assumption of DoD security duties; the costs of opening two new consulates; the need for housing and office space for the increased civilian personnel; and the proposal to standardize pay and benefits for additional civilian personnel from all agencies involved. The cost to the government for the civilian increase is nearly $2 billion, of which the Department's share is approximately 80 percent.

As in Iraq, the Department will face increased costs in Afghanistan to include clearing travel routes, recovering killed and wounded personnel, recovering damaged vehicles and downed aircraft, and monitoring private security contractors. The Department also will have an unprecedented "critical need for logistical and life support."[32]

A legislative proposal to standardize personnel policies for civilians deployed to certain locations, including Afghanistan, will likely result in increased costs for civilian agencies. Civilians deployed to Afghanistan are compensated under different pay systems, which results in different overtime pay determined by the employee's pay system and grade/band level.[33] Additionally, rest breaks and leave, which vary between civilian agencies, result in different costs from agency to agency. If pay and incentive policies are standardized, as recently proposed, the Department would require all agencies deploying personnel to Afghanistan to provide the same allowances and benefits as State Department employees on duty in combat zones. Because the Department supports the

[29] U.S. Senate Foreign Relations Committee Report: *Iraq – The Transition from a Military Mission to a Civilian Led Effort*, January, 2011. On October 12, 2011, the Under Secretary for Management updated the number to 16,009.

[30] President's FY 2012 Budget; pages 119 and 140.

[31] U.S. Senate Foreign Relations Committee Report: *Iraq – The Transition from a Military Mission to a Civilian Led Effort*, January, 2011.

[32] *The U.S. Civilian Uplift in Afghanistan Has Cost Nearly $2 Billion, and State Should Continue to Strengthen Its Management and Oversight of the Funds Transferred to Other Agencies;* Joint Audit with Special IG for Afghanistan Reconstruction (AUD/SI-11-45 and SIGAR Audit-11-17).

[33] *Human Capital: Actions Needed to Better Track and Provide Timely and Accurate Compensation and Medical Benefits to Deployed Federal Civilians, U.S. Government Accountability Office* (GAO-09-562).

costs of other U.S. agencies' deploying civilian personnel to Afghanistan, the Department would absorb these increases.

The Department modified plans for the development of two temporary consulates in Herat and Mazar-e-Sharif to accommodate an increase in personnel due to the civilian increased presence. If permanent facilties are established, State would have to pay for supplies and services, including food, motor pools, vehicle repair, air traffic control at the airport, crash and rescue, medical evacuation, and hospital services, among many others, which would likely constitute a significant cost increase.

The Department has begun planning "in earnest" over the past six months to address the costs of supporting the civilian presence in Afghanistan.[34] However, uncertainty over the Department's budget, and that of other civilian agencies, makes planning difficult. The emphasis on reducing the Federal deficit increases the likelihood that spending will be reduced in coming years. Officials at partner agencies participating in the increased civilian presence are considering scaling back or even discontinuing operations.

A number of key policy decisions have not yet been made, including exactly when the civilian presence in Afghanistan will peak, how large it will be at its high point, and when and how quickly the number of civilians deployed to Afghanistan will decrease. These factors will bear upon the Department's future budget requests.

8 Protection of People and Facilities

Protecting people, facilities, and information continues to be one of the Department's highest priorities. Of greatest concern in the protection of people and facilities are areas in armed conflict or rated critical for the terrorist threat. These include countries such as Afghanistan, Iraq, and Pakistan, but also new areas of concern, including Mexico and Yemen. The Diplomatic Security Training Center prioritized training for Department personnel assigned to those locations, and personnel may not depart for those assignments until they have completed mandatory high-threat personal protection courses.

Increased staffing in Embassies Baghdad and Kabul, coupled with the transition to a post-conflict, Department-led U.S. Government presence, has led DS to deploy various high-tech countermeasures. Recently adopted countermeasures include unmanned aerial vehicles for static and route reconnaissance and use of the counter rocket, artillery and mortar (C-RAM) system to provide advance warning of incoming munitions. Managing security programs in areas of armed conflict and critical threat posts is an ongoing Department challenge.[35]

The increasing number of non-Department personnel assigned to sensitive positions overseas has resulted in an expansion of secure office space at U.S. overseas missions. Worldwide, controlled access areas (CAA) and core areas are being added and expanded. Department security requirements specify the construction and operation of such areas, and require that they be inspected by DS technicians on varying schedules to ensure that national security information is not being compromised. According to DS, there is a backlog of such DS inspections due to a shortage of technicians. The Department's challenge is to balance the need for new CAA space and core areas at U.S. overseas missions against its ability to protect the sensitive information contained in these areas.[36]

9 Protecting American Citizens and American Borders

The Department's consular officers who adjudicate visa and passport applications are the first line of defense in border security. They also provide services to and are responsible for the safety and security of Americans travelling or residing abroad. U.S. visas and passports are some of the most coveted travel documents in the world. The Department recognizes its responsibility to ensure that these documents are secure and that adjudicating officials have the best information available to detect and prevent fraud.[37]

[34] *The U.S. Civilian Uplift in Afghanistan Has Cost Nearly $2 Billion, and State Should Continue to Strengthen Its Management and Oversight of the Funds Transferred to Other Agencies*; Joint Audit with Special IG for Afghanistan Reconstruction (AUD/SI-11-45 and SIGAR Audit-11-17).

[35] *Classified Annex to the Compliance Follow-up Review of Embassy Kabul* (ISP-S-11-53A) and *Compliance Follow-up Review of Embassy Baghdad* (ISP-C-11-08A).

[36] *ALDAC 11 State 55583, dated June 6, 2011, Subject: Revised SCIF Guidance for RSOs, RDSEs ESCs/ESOs, and Tenant Agencies.*

[37] Bureau of Consular Affairs Strategic and Resource Plan, FY 2013.

While the Department must continue to provide secure documents, sound adjudications, and excellent services to U.S. citizens abroad, it must do so in the face of increasing demand for consular services. Several countries are hosting more Americans who travel for various reasons and also have more of their citizens seeking visas to travel to the United States. OIG noted the need to centralize and standardize work as much as possible and to ensure strong leadership to manage increasingly complex operations.[38] Technology is an important component to promote security and handle an increasing workload. OIG has identified failures to follow industry-wide standards for developing new technologies.[39] Another key challenge is to manage and ensure the same quality of services at smaller posts, which was the subject of several OIG recommendations.[40]

10 Public Diplomacy

With tighter budgets likely, public diplomacy officers must think more strategically about how best to use their resources to engage, inform, and influence foreign publics in support of U.S. strategic objectives. The Foreign Service Institute's Public Diplomacy Training Division created a strategic planning course in 2010, and revised and updated the curriculum in 2011. So far, however, only a limited number of public diplomacy practitioners have had the opportunity to take the full course, though strategic planning modules are a part of the tradecraft courses for public affairs officers, information officers, cultural affairs offices and senior locally-engaged staff. In recent years, the Under Secretary for Public Diplomacy and Public Affairs has taken steps to correct the situation, developing a global strategic framework, mandating that posts develop a separate public diplomacy goal paper as part of the Mission Strategic and Resource Plan, and providing better guidance on measuring progress toward achieving goals. Sessions on strategic planning are now a regular part of the global and regional conferences held for public affairs officers. OIG has found, however, that more needs to be done.[41]

A second challenge is finding the right balance between legitimate security concerns and the need to proactively engage foreign publics. Over the past decade, security considerations have increasingly restricted public access to U.S. embassies, and new embassy compounds are being constructed in locations not easily accessible to the people public diplomacy officers need to reach.[42] Security issues, coupled with financial constraints, also have made it more difficult for public diplomacy staffs to travel outside the capital to regularly engage important audiences. Posts have responded in various ways, for example, by creating alternative venues like American Corners that are hosted in and staffed by local institutions. To make American Corners and other newer venues effective, there should be a regular American presence and a defined plan for using the space to engage, inform, and influence host-country audiences.[43]

Public diplomacy officers are relying more heavily on Web sites and on social media. Some posts have done an extraordinary job in employing social media. But these outreach platforms, especially those intended to be interactive, require a great deal of staff time and resources. Many posts establish Facebook, YouTube, Twitter, and Flickr sites, but cannot keep them up-to-date with fresh, interesting content.[44] Effective use of social media often requires more training than officers and staff have received and more time than they have available.[45] Posts must balance the demands of the official mission Web site and its social media sites and determine how best to reach the key audiences.

[38] Inspections of embassies: New Delhi, India and Constituent Posts (ISP-I-11-39A); Embassy Mexico City, Mexico (ISP-I-09-21A); and *Standards, Training and Funding for Consular Country Coordinators* (ISP-I-10-73).

[39] *Inspection of the Bureau of Consular Affairs, Office of Consular Systems and Technology* (ISP-I-11-51).

[40] *Inspection of the Regional Consular Officer and Consular Management Assistance Team Programs* (ISP-I-11-18).

[41] Inspections of embassies: Dhaka (ISP-I-10-82A), The Hague (ISP-I-11-23A), Luxembourg (ISP-I-11-17A), New Delhi (ISP-I-11-39A), Abu Dhabi (ISP-I-10-62A), and Ulaanbaatar (ISP-I-11-58A).

[42] Inspections of embassies: Athens (ISP-I-11-15A), Gaborone (ISP-I-11-43A), Pretoria (ISP-I-11-42A), Dhaka (ISP-I-10-82A), and Valletta (ISP-I-11-16A).

[43] Ibid. See also inspection of Embassy Jakarta (ISP-I-11-24A), Rome (ISP-I-10-59A), and Yaoundé (ISP-I-11-45A).

[44] Inspection of embassies: Valletta (ISP-I-11-16A) and Helsinki (ISP-I-11-67A).

[45] Ibid.

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:	**Qualified –** Balance Sheet and Statement of Changes in Net Position
	Unqualified – Statement of Net Cost and Statement of Budgetary Resources
Restatement:	**Yes**

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Reporting	0	1	0	0	0	1
FSNAEB	0	1	0	0	0	1
Total Material Weaknesses	**0**	**2**	**0**	**0**	**0**	**2**

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:	**Qualified**					
FSNAEB	0	1	0	0	0	1
Total Material Weaknesses	0	1	0	0	0	1
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	**Qualified**					
ECA Summer Work Travel Program	0	1	0	0	0	1
Total Material Weaknesses	0	1	0	0	0	1
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)		
Overall Substantial Compliance	Yes	No
1. System Requirements	Yes	No
2. Accounting Standards	Yes	No
3. USSGL at Transaction Level	Yes	No

DEFINITION OF TERMS

Beginning Balance: The beginning balance shall 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.

Assisting U.S. Citizens Abroad

In 2011, the Bureau of Consular Affairs working with our embassies provided a wide array of services to U.S. citizens abroad. Of particular note was the response to several crises this year and the evacuations of U.S. citizens that occurred in Egypt and Japan.

Cairo—An evacuation is a mission-wide effort, and Cairo's whole team (the U.S. Embassy in Cairo staff) pulled together to make this one a success. Joined by a team of more than 20 consular officers from other posts, they helped mothers traveling alone with children, found food and water for Americans waiting hours to board flights to leave the country, and made tough calls on who qualified to board and who couldn't. They cared for a gunshot victim and his family, an elderly woman who had been trapped in her apartment near Tahrir Square and a journalist who allegedly had been abused by local security personnel. They worked hard to overcome obstacles and answer any question or need brought to them. This effort included officers from the U.S. Embassy in Khartoum and extended to colleagues in Athens, Frankfurt, Istanbul and Larnaca who hosted evacuees in transit through their countries on very short notice.

Equally vital to the success of the efforts was coordination with several task forces in Washington, which needed on-the-ground information to keep family members updated, inform senior policy makers and provide support and answers to issues raised by the officers working in Egypt. The Department of State ultimately helped approximately 2,350 U.S. citizens, family members, other nationals—and a cat named Midnight—evacuate Egypt.

Japan—The earthquake struck and the Embassy Tokyo consular personnel knew it was large. Soon, the embassy's consular section was faced with the enormity of the consular response that was needed. Within four hours, the section established a Consular Crisis Response Center (CCRC) that operated on a 24/7 basis for 25 days, during which it pursued more than 5,400 crisis-related welfare and whereabouts cases, including congressional inquiries for 130 individuals. The CCRC also accounted for all of the 111 Americans initially listed as unaccounted for in the five jurisdictions most affected by the crisis. To cope with the unprecedented demand for emergency American citizen services, 33 temporary duty officers joined the 11 consular officers in Tokyo. In three weeks, American Citizen Services-Tokyo issued what would normally be five years' worth of emergency passports. It also distributed potassium iodide pills to 3,401 American citizens and foreign dependents, marking the first time a U.S. mission had made such pills available to private citizens.

The embassy sent two Consular Assistance Field Teams to Tokyo's two international airports to assist departing Americans and organized two chartered evacuation flights, and five Mission Japan officers, including three consular officers, did intensive contingency planning with the U.S. military for the possible evacuation of up to 100,000 American citizens.

A crowd of U.S. citizens waits outside Cairo International Airport on the first day of evacuation flights. State Magazine May 2011.

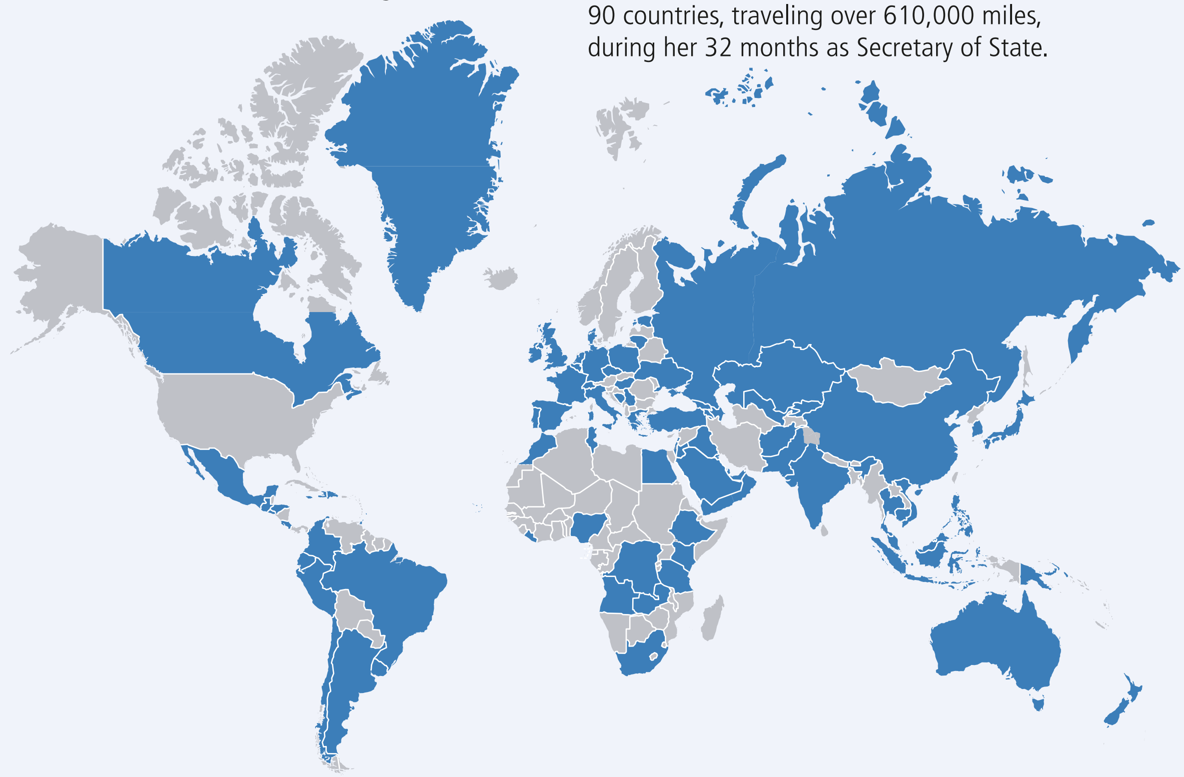
APPENDIX

GLOSSARY OF ACRONYMS

AFR	Agency Financial Report
AFP	Agence France Presse
AP	Associated Press
Appendix A	(Refers to) OMB Circular A-123, Appendix A
ARRA	American Recovery and Reinvestment Act
CFO	Chief Financial Officer
CSRS	Civil Service Retirement System
DOS	U.S. Department of State
EFT	Electronic Funds Transfer
ESCM	Embassy Security, Construction, Maintenance Appropriation
FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees Compensation Act
FEGLIP	Federal Employees Group Life Insurance Program
FEHB	Federal Employees Health Benefits Program
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FSC	Financial Services Center
FSN	Foreign Service National
FSNAEB	Foreign Service Nationals' After-Employment Benefits
FSNDCF	Foreign Service National Defined Contributions Retirement 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
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GFMS	Global Financial Management System
GFS	Global Financial Services
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
HHS	The Department of Health and Human Services
HR	Bureau of Human Resources (DOS)
IBWC	International Boundary and Water Commission
ICAO	International Civic Aviation Organization
ICASS	International Cooperative Administrative Support Services (DOS)
IG	Inspector General
IIP	Bureau of International Information Programs (DOS)
INL	Bureau of International Narcotics and Law Enforcement Affairs (DOS)
IPIA	Improper Payments Information Act
IT	Information Technology
JAMS	Joint Assistance Management System
LE Staff	Locally Employed Staff
LSSS	Local Social Security System
NATO	North Atlantic Treaty Organization
NGO	Non-governmental Organization
OBO	Overseas Buildings Operations (DOS)
OECD	Organization for Economic Cooperation and Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
P&F	Program and Financing Schedule
PEPFAR	President's Emergency Plan for AIDS Relief
PMS	Payment Management System (HHS)
PP&E	Property, Plant and Equipment
PSA	Personal Services Agreement
PSC	Personal Services Contractor
PSU	Post Support Unit
QDDR	Quadrennial Diplomacy and Development Review
RM	Bureau of Resource Management (DOS)
RSI	Required Supplementary Information
SAT	Senior Assessment Team (FMFIA)
S/CRS	Office of the Coordinator for Reconstruction and Stabilization (DOS)
SFFAS	Statements of Federal Financial Accounting Standards
UDO	Undelivered Orders
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development
USG	U.S. Government
WCF	Working Capital Fund

Global Diplomacy Travels

Hillary Rodham Clinton has visited almost 90 countries, traveling over 610,000 miles, during her 32 months as Secretary of State.



Countries Visited

Afghanistan
Angola
Argentina
Armenia
Australia
Azerbaijan
Bahrain
Barbados
Belgium
Bosnia and Herzegovina
Brazil
Cambodia
Canada
Cape Verde
Chile
China
Colombia
Costa Rica
Czech Republic
Democratic Republic of Congo
Denmark
Dominican Republic
Ecuador
Egypt
El Salvador
Estonia
Ethiopia
France
Georgia
Germany
Greece
Greenland
Guatemala
Haiti
Honduras
Hong Kong
Hungary
India
Indonesia
Iraq
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Kazakhstan
Kenya
Kosovo
Kuwait
Kyrgyz Republic
Lebanon
Liberia
Lithuania
Malaysia
Mexico
Morocco
Netherlands
New Zealand
Nigeria
Oman
Pakistan
Papua New Guinea
Peru
Philippines
Poland
Portugal
Qatar
Russia
Saudi Arabia
Serbia
Singapore
South Africa
South Korea
Spain
Switzerland
Tanzania
Thailand
Trinadad and Tobago
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
Uruguay
Uzbekistan
Vietnam
Yemen
Zambia

DUTIES OF THE SECRETARY OF STATE

Under the Constitution, the President of the United States determines U.S. foreign policy. The Secretary of State, appointed by the President with the advice and consent of the Senate, is the President's chief foreign affairs adviser. The Secretary carries out the President's foreign policies through the State Department and the Foreign Service of the United States.

Created in 1789 by the Congress as the successor to the Department of Foreign Affairs, the Department of State is the senior executive Department of the U.S. Government. The Secretary of State's duties relating to foreign affairs include the following:

- Serves as the President's principal adviser on U.S. foreign policy;
- Conducts negotiations relating to U.S. foreign affairs;
- Grants and issues passports to American citizens and exequaturs to foreign consuls in the United States;
- Advises the President on the appointment of U.S. ambassadors, ministers, consuls, and other diplomatic representatives;
- Negotiates, interprets, and terminates treaties and agreements;
- Ensures U.S. Government protection of American citizens, property, and interests in foreign countries;
- Supervises the administration of U.S. immigration laws abroad;
- Provides information to Congress and American citizens regarding the political, economic, social, cultural, and humanitarian conditions in foreign countries; and
- Administers the Department of State and supervises the Foreign Service.

In addition, the Secretary of State retains domestic responsibilities that Congress entrusted to the State Department upon its creation. These responsibilities include the custody of the Great Seal of the United States, the preparation of certain presidential proclamations and the custody of certain original treaties and international agreements.

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FY 2011 IMAGE CREDITS

Associated Press (AP): *Cover, Table of Contents, Message from the Secretary, pages 7, 19, 21, 22, 26, 33, 45, 50*
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State Magazine: *Cover, Inside cover, pages 17, 29, 35, 121, 148*

Table of Contents Image Captions: Images (L) to (R): (1) Secretary of State Clinton visits with more than 200 women from Zambia and other Sub-Saharan African countries participating in a three-day African Women's Entrepreneurship Program training held in conjunction with the AOGA Forum. State Magazine September 2011; (2) Secretary of State Clinton is escorted by Ministry of Foreign Affairs and Trade Deputy Director General Ahn Seung-doo upon her arrival in Seoul, South Korea, April 16, 2011. Department of State; (3) Secretary of State Clinton chats with Assistant Secretary of State for European and Eurasian Affairs Philip Gordon, center, and U.S. Ambassador to Greece Smith, left, before speaking with Embassy staff and families in Athens, Greece, July 18, 2011. Department of State; (4) German Chancellor Merkel speaks with Secretary of State Clinton during a bilateral meeting on the sidelines at the International Conference on Security Policy in the hotel "Bayerischer Hof" in Munich, southern Germany, February 5, 2011. ©AP Image; and (5) Secretary of State Clinton and Pakistan's Foreign Minister Khar pose for photo prior to their meeting at the Association of Southeast Asian Nations (ASEAN) Regional Forum in Nusa Dua, Bali, Indonesia, July 23, 2011. ©AP Image.

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