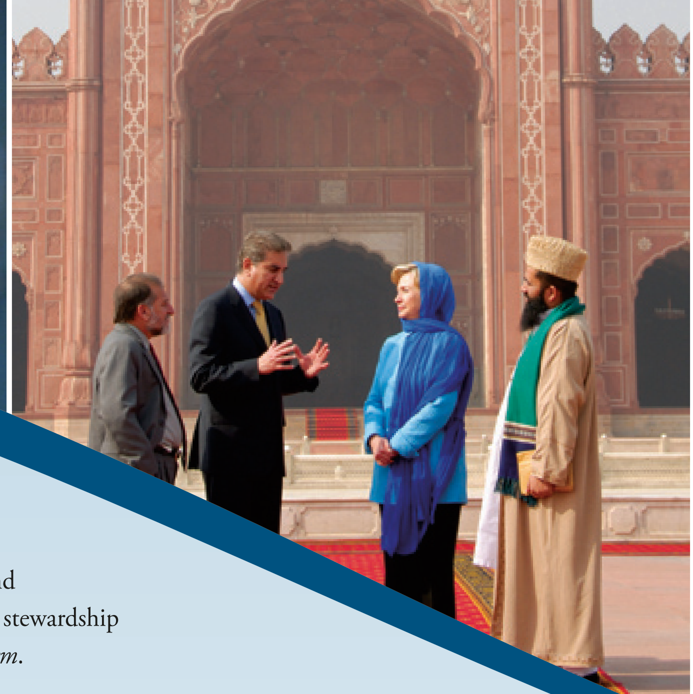
FISCAL YEAR 2010

Agency Financial Report

United States Department of State

SMART POWER IN ACTION



ABOUT THIS REPORT

The United States Department of State's *Agency Financial Report* (AFR) for Fiscal Year (FY) 2010 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/2010/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 2010; (2) a complete agency *Annual Performance Report* (APR) for FY 2010 and *Annual Performance Plan* (APP) for FY 2012 as part of the FY 2012 *Congressional Budget Justification* (CBJ), which is the Department's budget request to Congress, to be issued in February 2011; and (3) a *Summary of Performance and Financial Information*, to be released also in February 2011. 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 2010 HIGHLIGHTS *(dollars in millions)*	Percent Change 2010 over 2009	2010	2009 (Restated)	2008 (Restated)	2007
Balance Sheet Totals as of September 30					
Total Assets	+14%	$ 68,165	$ 59,553	$ 51,717	$ 45,234
Total Liabilities	–	22,502	22,536	21,102	19,894
Total Net Position	+23%	45,663	37,017	30,615	25,340
Results of Operations for the Year Ended September 30					
Total Net Cost of Operations	-1%	$ 21,380	$ 21,613	$ 17,753	$ 13,636
Budgetary Resources for the Year Ended September 30					
Total Budgetary Resources	+5%	$ 52,581	$ 50,138	$ 38,825	$ 31,511
Full-time, permanent employees in the Foreign Service	+6%	13,008	12,258	11,582	11,467
Full-time, permanent employees in the Civil Service	+4%	10,039	9,614	9,291	8,784
Full-time Foreign Service Nationals	+1%	6,051	6,010	6,736	7,802
Number of Passports Issued **(including passport cards 2008 – 2010)*	+3%	13.9 million*	13.5 million*	16.2 million*	18.4 million

ABOUT THE COVER

The cover images are symbolic of what Secretary Clinton has called "Smart Power: the full range of tools at our disposal – diplomatic, economic, military, political, legal, and cultural – picking the right tool, or combinations of tools, for each situation." Secretary Clinton smiles during a press conference after the annual Australia-U.S. Ministerial Consultations. With Australia as a trading partner, jobs have been created in America and Australia utilizing Smart Power. Other images reflect disaster relief (Secretary Clinton discusses conditions of country with Haiti's President Rene Preval following their devastating earthquake), humanitarian assistance (volunteers unloading supplies following the flooding in Pakistan), peace and security (signing of plutonium disposition protocol at Nuclear Security Summit), and strengthening democracy (voter aided in casting her vote by election officials at the Imam Ali hospital in Sadr City, Baghdad).

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Message from the Secretary

As the President's chief advisor for foreign affairs, I am pleased to present the U.S. Department of State's Agency Financial Report for fiscal year 2010. This report presents financial and performance information that reflects our dedication to achieving America's foreign policy goals in a fiscally responsible manner and carrying out our mission to advance freedom for the benefit of the American people and the international community. We take seriously our duty to effectively invest taxpayer dollars for the long-term success of our nation and are committed to accountability to the American public.

I began my tenure as Secretary of State by stressing the need to elevate diplomacy and development alongside defense. The challenges we face and the responses we need to meet those challenges are more complex than ever. During the past year, the Department increasingly has focused on how civilian power can meet the challenges of the 21st Century, including by collaborating with other nations and organizations to design and implement global and regional solutions to the world's most pressing problems. We continue to see the rewards of this approach using the full range of tools or combination of tools at our disposal for each situation. Civilian power improves our relations with the people of countries throughout the world, protects our national security, and reinvigorates American leadership. We have repaired old alliances and forged new partnerships to solve common problems and achieve shared aspirations. We have strengthened institutions that provide incentives for cooperation, disincentives for sitting on the sidelines, and defenses against those who would undermine global progress. Also, we have championed the values that are at the core of the American character.

Our commitment to strong corporate governance is unwavering. To that end, we continue to improve our financial management, and I am pleased to report we have received an unqualified opinion on our financial statements as of and for the fiscal year ending September 30, 2010. I am also pleased to provide an unqualified statement of assurance regarding the

Department's 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 Agency Financial Report are complete and reliable in accordance with the guidance from the Office of Management and Budget.

I am proud to represent the Department's thousands of employees, including both American and Foreign Service Nationals, who serve at more than 270 posts worldwide.

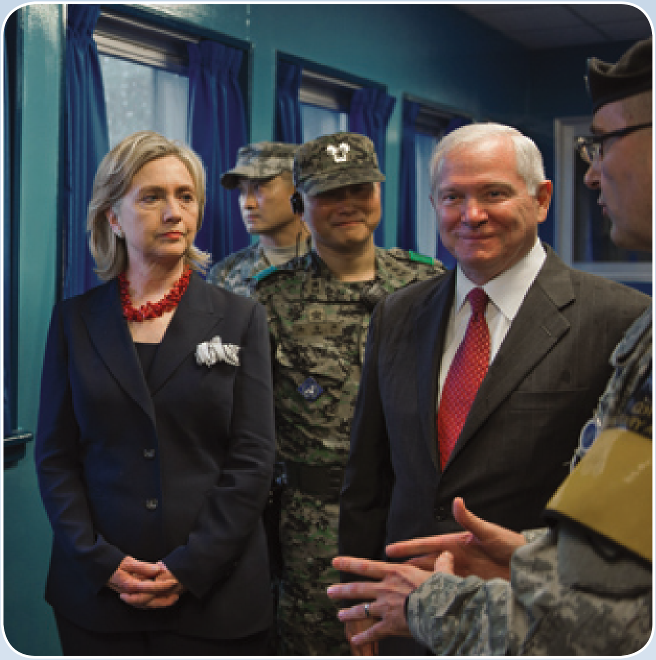
Hillary Rodham Clinton
Secretary of State
November 15, 2010

Smart Power

At the dawn of the 21st Century, the United States faces a broad and complex array of challenges to our national security, including ongoing wars and regional conflicts, the global economic crisis, terrorism, weapons of mass destruction, climate change, worldwide poverty, food insecurity, and pandemic disease. Military force may sometimes be necessary to protect our people and our interests but diplomacy and development are equally important in creating conditions for a peaceful, stable, and prosperous world.

The 2010 National Security Strategy states, "We must balance and integrate all elements of American power and update our national security capacity for the 21st Century. We must maintain our military's conventional superiority while enhancing its capacity to defeat asymmetric threats. Our diplomacy and development capabilities must be modernized and our civilian expeditionary capacity strengthened to support the full breadth of our priorities." As part of a "Smart Power" approach, the Administration has reinvigorated U.S. foreign policy with robust diplomacy and strengthened our traditional alliances, built new partnerships, and elevated development to equal status with diplomacy and defense, recognizing that development is central to solving global problems. Smart Power for the Department and USAID translates into specific policy approaches in five areas. The Department and USAID will:

- Update and create vehicles for cooperation with our partners;
- Pursue principled engagement with those who disagree with us;
- Elevate development as a core pillar of American power;
- Integrate civilian and military action in conflict areas; and
- Leverage key sources of American power, including our economic strength and the power of our example.



Secretary of State Clinton and Secretary of Defense Gates being briefed at the Korean border of the Demilitarized Zone in a UN truce village building, July 21, 2010. ©AP Image

On September 22, 2010, President Barack Obama signed the Presidential Policy Directive on Global Development, the first of its kind by a U.S. administration. The directive charts a course for development, diplomacy, and defense to mutually reinforce and complement one another in an integrated comprehensive approach to national security. With Smart Power, diplomacy and development are indispensable in the forward defense of America's interests in a world shaped by growing economic integration and fragmenting political power, by the rise of emerging powers and the persistent weakness of fragile states, by the potential of globalization and risks from transnational threats, and by the challenges of hunger, poverty, disease, and global climate change. The successful pursuit of diplomacy and development is essential to advancing our national security objectives: security, prosperity, respect for universal values, and a just and sustainable international order.

Management's Discussion and Analysis

About the Department

OUR MISSION STATEMENT

Advance freedom for the benefit of the American people and the international community by helping to build and sustain a more democratic, secure, and prosperous world composed of well-governed states that respond to the needs of their people, reduce widespread poverty, and act responsibly within the international system.

Our Organization

People are the most critical factor to the success of diplomacy and development, and the Department and USAID are implementing a long-range strategy to build a cadre of employees with the right skills and support, who are in the right place at the right time. We rely on the creativity, knowledge, skills, and integrity of our dedicated employees to carry out our mission. Their attitudes and actions are key to mobilizing the shared effort needed to solve problems on a global scale and build a more peaceful and prosperous future for our children and for children around the world.

The Department is the lead institution for the conduct of American diplomacy and 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.

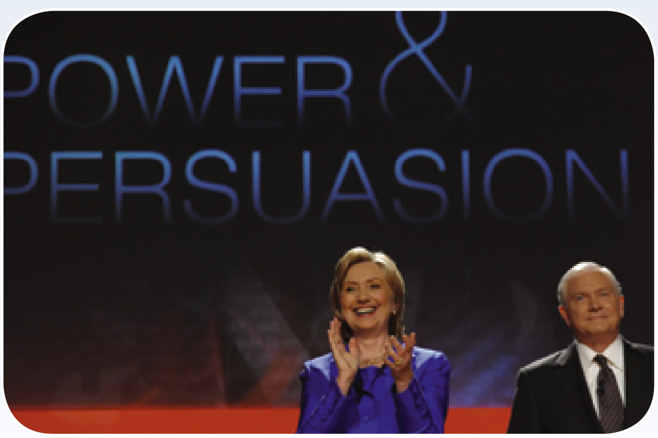
DIVERSITY
Commitment to having a workforce that represents the diversity of America.

BUILDING CIVILIAN CAPACITY – "DIPLOMACY 3.0"

Diplomacy 3.0 is an ambitious multi-year hiring program that recognizes diplomacy as one of the three essential pillars of U.S. foreign policy: diplomacy, development, and defense. To return diplomacy to the forefront in achieving foreign policy goals, Secretary Clinton has a plan, dependent on continuing budget support, to increase the Department's Foreign Service personnel by 25% by the year 2013 with a 13% increase in Civil Service over the same period. In FY 2010, for example, we hired 1,220 new Foreign Service employees which was 732 new hires above attrition.

Overseas, we need more and better-trained Foreign Service personnel to work in critical fields like post-conflict stabilization and reconstruction and to address the many challenges posed by failed and failing states. Domestically, the Department needs more personnel as well, especially in those areas that directly support overseas posts and operations. Without more personnel, the Department cannot build a "training float," i.e., sufficient personnel to both train and staff positions. This is especially important with regard to longer-term training, e.g., in critical languages such as Arabic, Chinese, Farsi, Hindi, and Urdu, that require one or two years. Meeting an expanding mission and properly staffing overseas posts, many of which are either difficult or dangerous, requires more personnel trained in the various skills demanded of "smart" diplomacy in the 21st Century.

The Department is very focused on finding and attracting people who have the critical skills needed, and our outreach is targeted to a talented, diverse pool of candidates.



Secretary of State Clinton and Secretary of Defense Gates discuss the reach, limitations, and effective use of American power in Washington, D.C., October 2009. ©AFP Image

At our headquarters in Washington, D.C., the Department's mission is carried out through six regional bureaus, each of which is responsible for a specific geographic region of the world, as well as the Bureau of International Organization Affairs, and numerous functional and management bureaus. These bureaus 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, nonproliferation, and consular services.

To address unique challenges in FY 2010, the following Special Envoys, Representative, and Advisor Offices were created:

- Special Envoy for North Korean Human Rights Issues
- Special Envoy to Monitor and Combat Anti-Semitism
- Special Representative for Global Intergovernmental Affairs
- Special Envoy for Conventional Armed Forces
- Special Envoy to the Organization of the Islamic Conference
- Special Envoy for Holocaust Issues
- Special Representative for International Labor Affairs
- Special Advisor for International Disability Rights

Special Envoys are personally designated by the Office of the Secretary and are appointed to address a particular issue or *ad hoc* situation. These eight Special Envoys were appointed in addition to those already serving in FY 2009.

The Department's organizational chart appears on page 9.

The Department operates more than 270 embassies, consulates, and other posts worldwide. In each embassy, the Chief of Mission (usually an Ambassador) is responsible for executing U.S. foreign policy goals and coordinating and managing all U.S. Government functions in the host country. 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

Secretary of State Clinton honors unaccompanied tour families at the Diplomacy at Home for the Holidays reception. *State Magazine February 2010*

the primary U.S. Government point of contact for Americans overseas and for 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.

The passport process is often the only contact most U.S. citizens have with the State Department. The Department's Bureau of Consular Affairs operates 21 passport agencies, two passport processing centers, and two visa processing centers located throughout the United States and is assisted by 9,400 acceptance facilities nationwide.

The Department plans to open new passport agencies in the following cities in FY 2011: St. Albans, Vermont; Buffalo, New York; El Paso, Texas; San Diego, California; and Atlanta, Georgia. Moreover, in FY 2010 the Department opened two consulates in Afghanistan — one in Herat and one in Mazar-e-Sharif — and converted a branch office in Almaty, Kazakhstan to a consulate general.

The Department also operates several other types of offices around the world in support of our mission, including two foreign press centers, one reception center, five offices that provide logistics support for overseas operations, 20 security offices, and two financial service centers. An updated global map on pages 10-11 details the Department locations around the world.

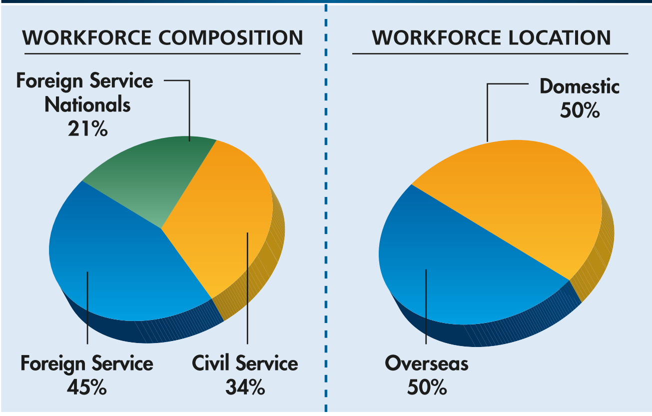
Additionally, the Department is now using a wide variety of technological tools to enhance its effectiveness and efficiency. Many offices increasingly rely on digital videoconferences and websites to support their missions, including several social networking web tools such as Facebook, Twitter, YouTube, and blog sites, which are leveraged to enable dialogue with broader audiences.

Our People

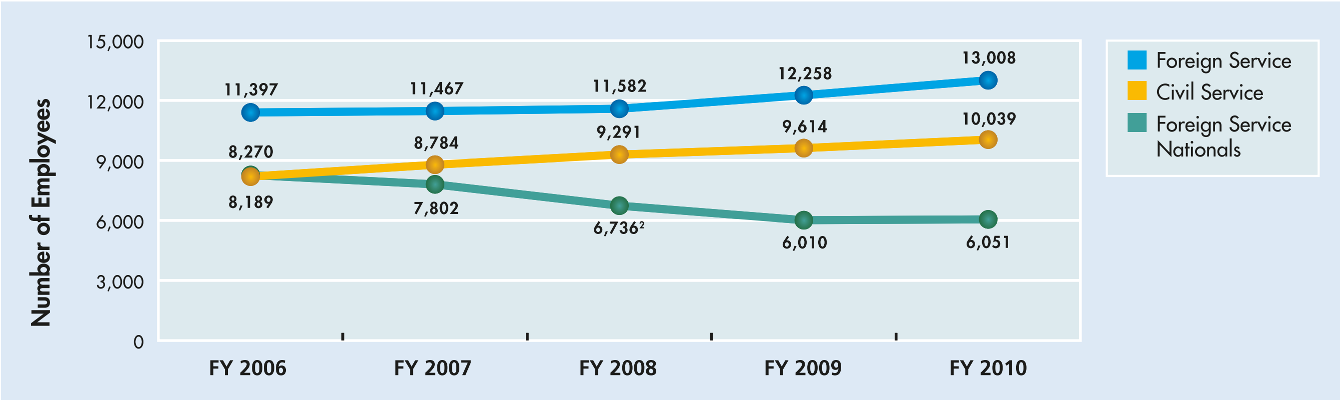
The Foreign and Civil Service officers and staff in the Department of State and U.S. missions abroad represent the American people. They work together to achieve the goals and implement the initiatives of American foreign policy. The Foreign Service is a corps of more than 13,000 officers who are dedicated 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, at times, hardships. Members of the Foreign Service are required to agree to worldwide availability, and thus may 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, totaling over 10,000 employees, provides continuity and expertise in accomplishing all aspects of our mission. Civil Service officers, most of whom are headquartered in Washington, D.C., are involved in virtually every policy and management area – from democracy

FULL-TIME PERMANENT EMPLOYEES
(AS OF SEPTEMBER 30, 2010)



SUMMARY OF FULL-TIME PERMANENT EMPLOYEES[1]



[1] *These numbers do not include FSNs employed under Personal Services Agreements or as Personal Services Contractors.*

[2] *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.*

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.

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

Secretary Clinton unveiling names added to the American Foreign Service Association Memorial Plaque honoring those who lost their lives under heroic or tragic circumstances while on active duty serving the State Department, May 2010. *State Magazine July/August 2010*

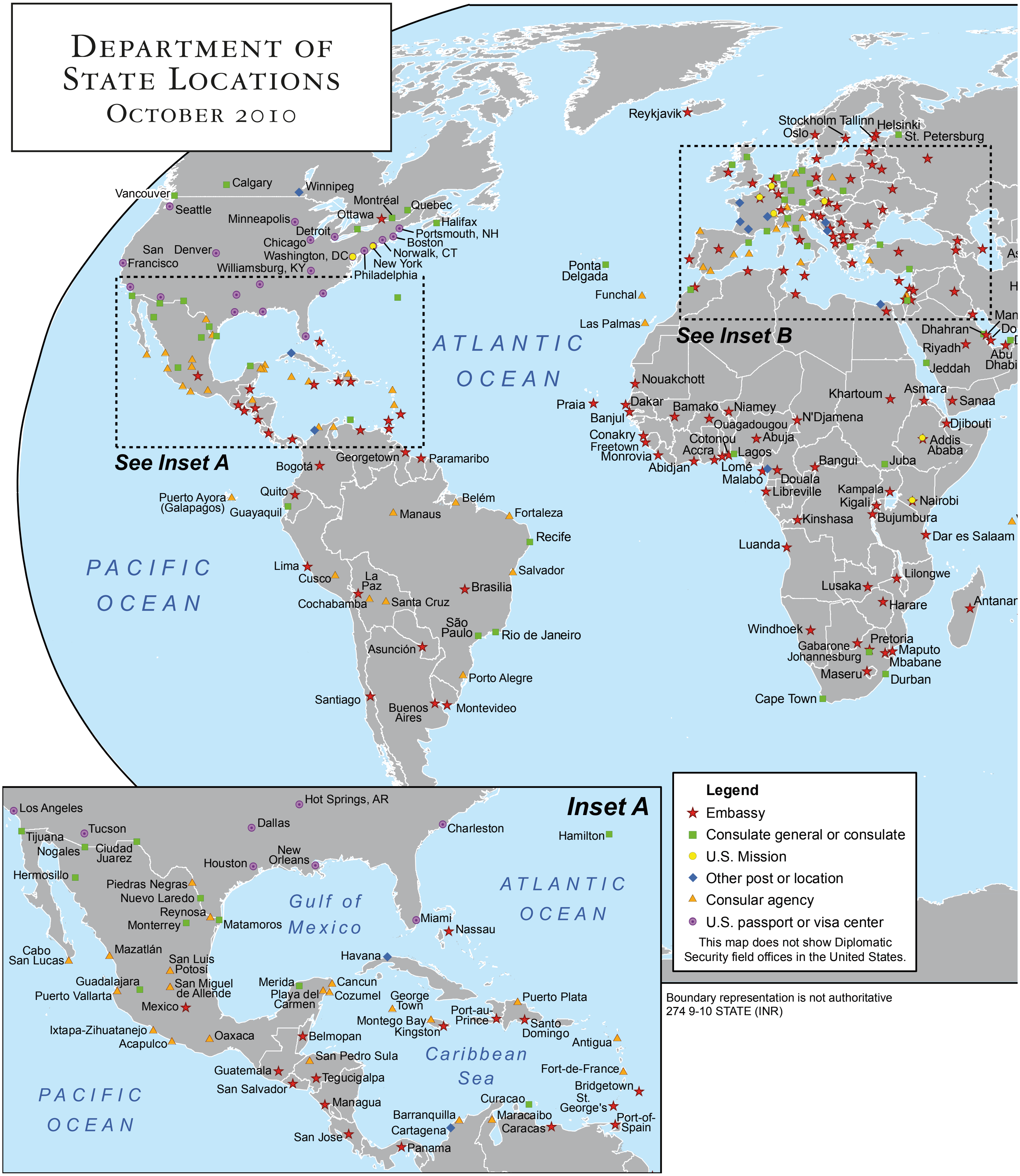
EMPLOYEE COMPOSITION AND NUMBERS

The pie charts on page 7 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 2010, the Department comprised 29,098 full-time employees.

The Department has many hard-to-fill positions vacant overseas and faces an ongoing challenge of ensuring it has the right people, with the right skills, in the right places to accomplish priority tasks. The Department faces persistent shortages of staff with critical language skills despite the importance of foreign language proficiency in advancing U.S. foreign policy and economic interests overseas. To address this challenge, the Department just completed the first year of an ambitious, multi-year hiring program entitled *Diplomacy 3.0,* which is designed to ensure the front lines of diplomacy are adequately staffed and trained.

UNITED STATES DEPARTMENT OF STATE

Department of State Locations
October 2010



Boundary representation is not authoritative
274 9-10 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
Paris:
Embassy Paris
US Mission to OECD
US Mission to UNESCO
Montreal:
Consulate General Montreal
US Mission to ICAO
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
Yuzhno-Sakhalinsk
Bishkek
Almaty
Tashkent
Ashgabat
Dushanbe
Vladivostok
Shenyang
Sapporo
Beijing
Seoul
Tokyo
Busan
Fukuoka
Nagoya
Osaka-Kobe
Mazar-e Sharif
Herat
Kabul
Peshawar
Islamabad
Lahore
Chengdu
Wuhan
Shanghai
Manama
Doha
New Delhi
Kathmandu
Naha (Okinawa)
Dubai
Abu Dhabi
Muscat
Karachi
Kolkata
Dhaka
Guangzhou
Hong Kong
Honolulu
Mumbai (Bombay)
Hyderabad
Chiang Mai
Hanoi
Vientiane
Rangoon
Sanaa
Chennai (Madras)
Bangkok
Manila
Phnom Penh
Ho Chi Minh City
Cebu
Colombo
Koror
Kolonia
Majuro
Kuala Lumpur
Bandar Seri Begawan
Medan
Singapore
PACIFIC OCEAN
Victoria
Jakarta
Surabaya
Bali (Denpasar)
Dili
Port Moresby
Honiara
INDIAN OCEAN
Antananarivo
Port Louis
Apia
Suva
Papeete (French Polynesia)
Perth
Canberra
Sydney
Melbourne
Auckland
Wellington
Inset B
Edinburgh
North Sea
Belfast
Copenhagen
Riga
Moscow
Dublin
Vilnius
Minsk
Bremen
Hamburg
The Hague
Amsterdam
Berlin
Warsaw
Poznan
London
Dusseldorf
Leipzig
Brussels
Frankfurt
Prague
Krakow
Kyiv
Luxembourg
ATLANTIC OCEAN
Paris
Strasbourg
Munich
Vienna
Budapest
Rennes
Zurich
Bratislava
Chisinau
Bern
Geneva
Lyon
Ljubljana
Zagreb
Milan
Venice
Belgrade
Bordeaux
Genoa
Banja Luka
Bucharest
Toulouse
Nice
Marseille
Sarajevo
Florence
Mostar
Pristina
Sofia
Black Sea
Caspian Sea
A Coruña
Rome
Holy See
Podgorica
Skopje
Tbilisi
Tirana
Istanbul
Barcelona
Naples
Thessaloniki
Madrid
Valencia
Ankara
Yerevan
Baku
Lisbon
Palma de Mallorca
Palermo
Izmir
Sevilla
Athens
Adana
Algiers
Fuengirola (Málaga)
Tunis
Valletta
Nicosia
Rabat
Mediterranean Sea
Beirut
Damascus
Baghdad
Casablanca
Tripoli
Haifa
Tel Aviv
Amman
Jerusalem
Alexandria
Cairo
Kuwait

THE 3Ds – DIPLOMACY, DEVELOPMENT AND DEFENSE

"OUR ARMED FORCES WILL ALWAYS BE A CORNERSTONE OF OUR SECURITY, BUT THEY MUST BE COMPLEMENTED. OUR SECURITY ALSO DEPENDS UPON DIPLOMATS WHO CAN ACT IN EVERY CORNER OF THE WORLD, FROM GRAND CAPITALS TO DANGEROUS OUTPOSTS [AND] DEVELOPMENT EXPERTS WHO CAN STRENGTHEN GOVERNANCE AND SUPPORT HUMAN DIGNITY...."

— President Barack Obama

Diplomacy, Development and Defense, the "3Ds" of U.S. national security, form a central framework for American strength and influence. Increasing the profile of diplomacy and development, alongside defense, is smart — mainly because the cost of conflict is higher than ever before. Prevention, including greater attention to failed and failing States, is imperative.

The U.S. Government recognizes the importance of preventing and deterring conflict by working with and through partners and allies as well as through better collaboration between defense and civilian agencies and organizations. 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 for our diplomacy and development efforts as key partners alongside defense.

"Unity of effort" is an overriding principle in the 3D framework. Secretary of State Hillary Clinton, Secretary of Defense Robert Gates, and USAID Administrator Rajiv Shah share the commitment to improve a whole-of-government approach to national security challenges. There is a heavy focus on how U.S. Government programs are aligned and on building whole-of-government policy responses to key themes as well as a more comprehensive look at the resources involved and available to support our programs and initiatives.

The Diplomacy, Development and Defense (3D) Planning Group was chartered to improve inter-departmental coordination of planning between the Department of Defense, the Department of State, and USAID. All three agencies recognize that their planning is strengthened by the inclusion of perspectives from other agencies with resulting plans reflecting a unity of the U.S. Government effort.

USAID Administrator Shah, Secretary of Defense Gates, and Secretary of State Clinton take part in a U.S. Global Leadership Coalition roundtable discussion, September 28, 2010. ©AP Image

HIGH PRIORITY PERFORMANCE GOALS

As a basis of the President's performance agenda, the Department and USAID selected eight outcome-focused High Priority Performance Goals (HPPGs), listed below, that reflect the Secretary's and Administrator's highest priorities.

- **Afghanistan and Pakistan.** For detailed information, see Stabilization Strategy, Feb 2010 at *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 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 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 the end of 2011, U.S. assistance will have supported the establishment of at least 12 work programs to support the development of Low-Emission Development Strategies (LEDS) that contain concrete actions. This effort will lay the groundwork for at least 20 completed LEDS by the end of 2013 and meaningful reductions in national emissions trajectories through 2020.
- **Food Security.** By 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.** 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 – Building Civilian Capacity.** 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.

THE QUADRENNIAL DIPLOMACY AND DEVELOPMENT REVIEW

In July 2009, Secretary Clinton announced the Department of State's Quadrennial Diplomacy and Development Review (QDDR). The QDDR is a comprehensive effort to identify the capabilities needed to strengthen and elevate diplomacy and development as key pillars of the national security strategy, alongside defense. Recommendations will establish how to improve the Department and USAID capabilities, operations, alignment, and planning.

The goal of this first-ever QDDR process is to guide the United States to agile, responsive, and effective institutions of diplomacy and development, including: transitioning from approaches no longer commensurate with current challenges; leveraging the full range of American policy tools and resources; measurably impacting global progress in security, prosperity, and well-being; preventing and responding to crises and conflict; and providing strong, flexible management platforms to support institutional objectives. The QDDR will set institutional priorities and provide strategic guidance as frameworks for the most efficient and effective allocation of resources. It will also, among other things, offer guidance on how the Department and USAID should update methodologies, deploy staff, add new tools and hone old ones, and exercise new or restored authorities. The QDDR is scheduled for release by the end of 2010.

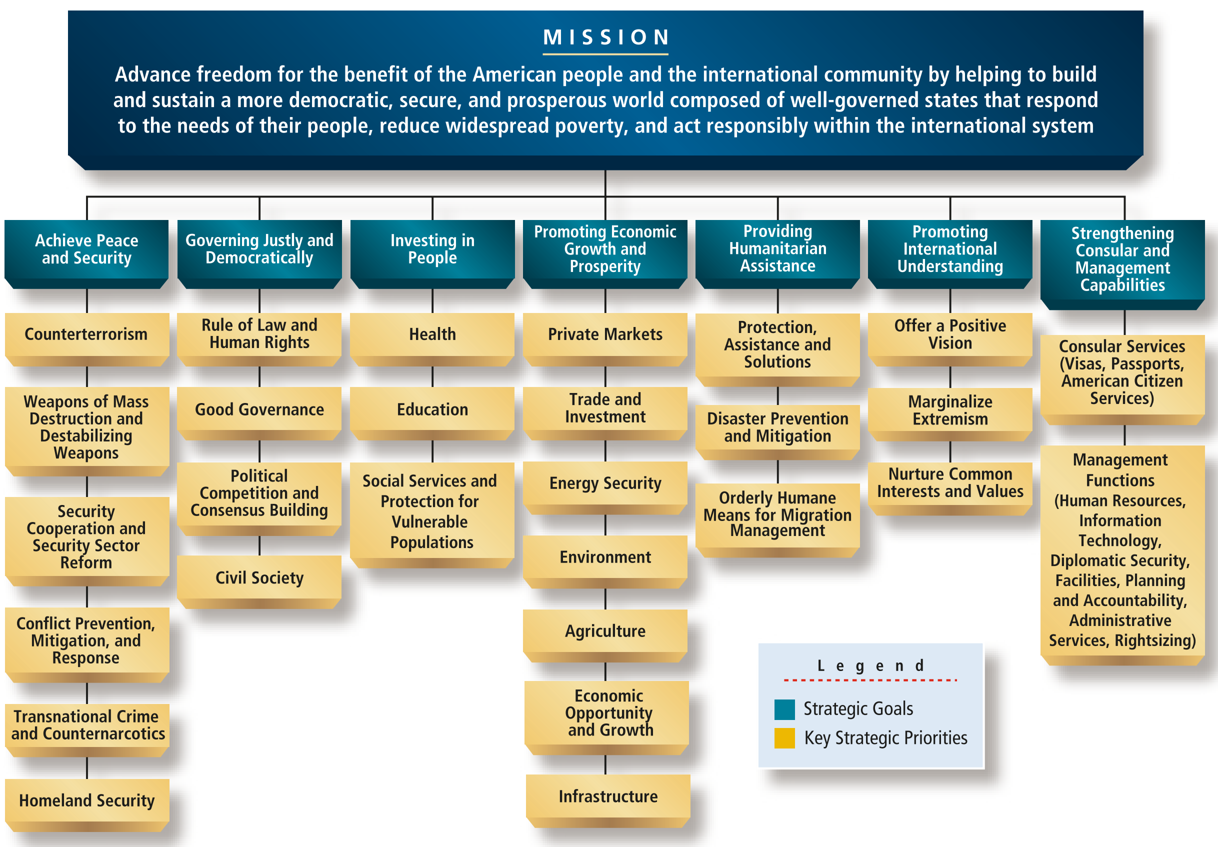
> "The QDDR will help us create short-term and long-term blueprints for advancing our foreign policy objectives and enhancing coordination between USAID and the Department, a crucial element of exercising Smart Power."
>
> *— Secretary of State, Hillary Rodham Clinton*

Performance Summary and Highlights

Performance Management at the Department of State

Performance management at the Department of State is a multi-phase process that includes: setting strategic goals and priorities, creating programs, monitoring program activities, measuring progress toward achievement of goals, using performance data to influence resource allocations, and communicating results to stakeholders. The Department is committed to using performance management best practices to ensure the most effective U.S. foreign policy outcomes and to promote greater accountability to our primary stakeholders, the American people.

Performance management at the Department is guided by a high level Joint Strategic Plan, shared by both the Department and USAID. The Department and USAID established a Joint Strategic Goal Framework organized by seven strategic goals and 39 strategic priorities. 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 priority. All levels of the Department's annual performance planning cycle, including the Mission Strategic and Resource Plan (MSRP) and the Bureau Strategic and Resource Plan (BSRP), integrate sustainable planning and budgeting leadership to enhance performance results. Further, missions and bureaus incorporate program evaluation as a best practice to determine the impact of our policies, understand better what is effective in our programs, and increase accountability to our stakeholders. The figure below depicts the goal framework that links Department-wide goals to bureau and mission level goals, programs, and performance information.



GLOBAL SECURITY – NUCLEAR NONPROLIFERATION

> "By upholding our own commitments under the Nuclear Non-Proliferation Treaty, we strengthen our global efforts to stop the spread of these weapons, and to ensure that other nations meet their own responsibilities."
>
> — *President Barack Obama*

Consistent with the UN Secretary General's call to pursue nuclear disarmament through agreement on a framework of separate, mutually reinforcing instruments, Secretary of State Clinton has led the U.S. engagement in strengthening the pillars of the nonproliferation regime — nuclear disarmament, access to civilian nuclear energy, and nonproliferation.

New START

The New START Treaty with Russia advances the goal of bolstering the nuclear nonproliferation regime through further reductions in deployed strategic nuclear warheads by both nations. New START's verifiable reduction of deployed strategic nuclear warheads by the world's two largest nuclear powers reflects the U.S. commitment to take concrete steps toward nuclear disarmament.

Mutual, Verifiable Weapons Limits:

- Warheads Deployed on Intercontinental Ballistic Missiles (ICBMs) and Submarine-Launched Ballistic Missiles (SLBMs) and Counted for Deployed Heavy Bombers – 1,550
- Deployed and Non-Deployed ICBM and SLBM Launchers and Heavy Bombers – 800
- Deployed Strategic Ballistic Missiles and Heavy Bombers – 700

Nuclear Posture Review

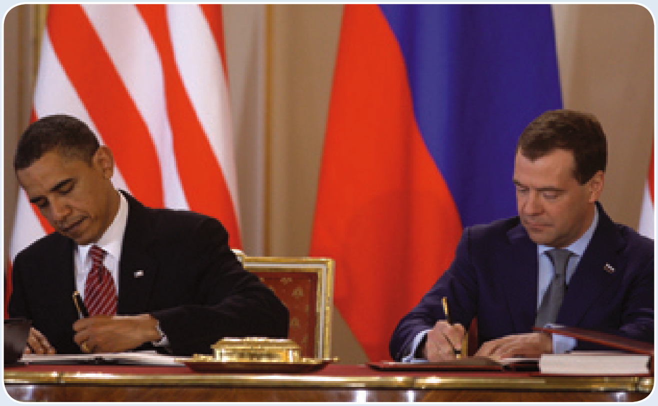
The Nuclear Posture Review (NPR) reduces the role of U.S. nuclear weapons, provides a strategy for a reduction in their number, and provides negative security assurances to non-nuclear weapons states that are party to the Nuclear Non-Proliferation Treaty (NPT) and in compliance with their nuclear nonproliferation obligations. As the only legally binding agreement that provides a global barrier to the spread of nuclear weapons, the NPT is the cornerstone of the global nonproliferation regime. It enhances the security of every State as well as global and regional security. The inter-related, interdependent objectives of the NPT are to:

- Prevent nuclear proliferation and nuclear terrorism
- Reduce the role of nuclear weapons
- Maintain effective strategic deterrence and stability at lower nuclear force levels
- Strengthen reassurance of U.S. allies and partners
- Sustain a safe, secure, and effective nuclear arsenal

Nuclear Security Summit

The Nuclear Security Summit highlighted agreement among 47 governments on the critical importance of securing all vulnerable nuclear materials within four years to prevent them from falling into the hands of terrorists.

- The leaders of 47 nations advanced a common approach and commitment to nuclear security.
- The Summit reinforced the principle that all States are responsible for ensuring the best security of their materials.
- The Summit Communiqué strengthened nuclear security and reduced the threat of nuclear terrorism.



President Obama and Russian President Medvedev signing New START Treaty in Prague, April 8, 2010. ©AP Image

THE U.S. GLOBAL HEALTH INITIATIVE

The Obama Administration is emphasizing global health in its diplomacy and development work around the world. With strategic investments in global health, the United States will spur progress in economic development, job creation, education, agricultural development, gender equity, and political stability. These are goals with a global impact: the health and stability of countries around the world have a direct impact on the security and prosperity of the United States.

Through the Global Health Initiative (GHI), the United States plans to invest $63 billion over six years to help partner countries improve health outcomes through strengthened health systems, with a particular 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 GHI aims to maximize the sustainable health impact the United States achieves for every dollar invested. It is an example of what we can do when we invest in Smart Power through development and diplomacy as key partners alongside defense — Smart Power in action.

Two boys play after an examination aboard the Military Sealift Command hospital Ship USNS Mercy in Sihanoukville, Cambodia, June 26, 2010. U.S. Army Image/public domain

FOOD SECURITY – FEED THE FUTURE

More than one billion people — one sixth of the world's population — suffer from chronic hunger and more than 3.5 million children die from undernutrition each year. The United States is working with other governments, multilateral institutions, NGOs, private companies, and others to sustainably reduce global hunger and poverty by tackling their root causes and employing proven strategies for achieving large scale and lasting impact. We are working with partners and stakeholders to advance action that addresses the needs of small-scale farmers and agri-businesses and harnesses the power of women to drive economic growth. Our efforts will build on our comparative advantage in research, innovation and private sector-led growth. We will increase our investment in nutrition and agriculture development while maintaining our support for humanitarian food assistance.

> "The question is not whether we can end hunger, it's whether we will."
>
> *— Secretary of State, Hillary Rodham Clinton*


Cambodian woman uses wooden boat for selling food on Mekong River. ©AP Image

Feed the Future is President Obama's signature initiative on global food security. It renews our commitment to combat chronic hunger and poverty. The strategy for Feed the Future recognizes that food security is not just about food but is also closely linked to economic security, environmental security, and human security. It is critical to the sustainable development of individuals, communities, and nations.

We know food security facilitates stable communities and resilient nations. We know agricultural development growth is more effective at reducing poverty than general economic growth. Finally, we know children need nutritious food to learn and grow.

Using Performance to Achieve Results

The Department of State uses performance management to measure organizational effectiveness, strengthen and inform decision-making, and improve programs and policies so that they are linked to specific performance targets and broader strategic goals. Since November 2007, the Department has had a Performance Improvement Officer (PIO) who oversees and reviews for greater effectiveness the strategic plans, annual performance plans and reports, and the goals of the agency. Foreign and Civil Service managers at all levels use performance management best practices to assess and mitigate risks, benchmark program results, comply with legislative requirements, and adjust strategies in response to performance successes and shortcomings.

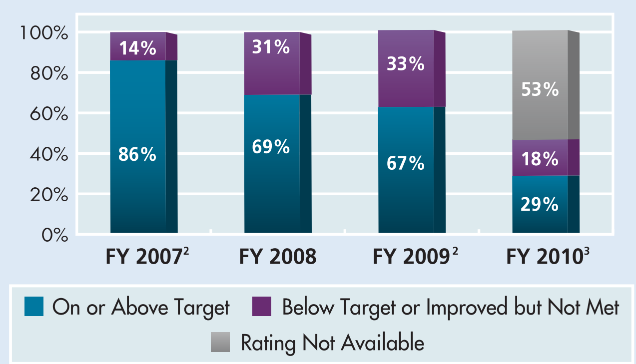
While this report focuses on the Department's performance results, both the Department and USAID work closely together — along with other U.S. Government agencies — to meet the global challenges of the 21st Century through short- and long-term planning and performance initiatives. Together, the Department and USAID practice an interagency, participatory whole-of-government approach that yields productive and long-lasting organizational reform. The agencies manage long-term performance through the State Department-USAID Joint Strategic Plan (JSP) and the Quadrennial Diplomacy and Development Review (QDDR). These initiatives build the framework for effective integration of diplomacy and development and institutionalize an ethic of review, analysis, and responsiveness within the agencies. At the mission level, strategic planning enables each country team to execute a coordinated delivery of program services that emphasizes one integrated U.S. Government effort.

Each year, the Department plans and organizes its foreign policy resources and efforts based on an annual assessment of progress toward achieving seven strategic goals. To measure progress towards these goals in FY 2010, an intra-agency working group selected performance indicators that best reflect U.S Government foreign policy priorities and major areas of investment. In FY 2009, the Department of State adopted a new set of criteria for developing and selecting performance indicators that represent its efforts. This shift to more "outcome-oriented" performance indicators resulted in a largely new set of indicators designed to provide information that is more meaningful to Congress, the President, and the American public, and more useful internally in supporting budget, policy, and planning decisions.

To assess the FY 2010 results, program managers examined each indicator closely to determine whether it met a previously established target and 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. The chart featured here summarizes the FY 2007 - 2010 ratings for the Department's indicators.

Now in their second year, these indicators are beginning to show key policy and management trends that support important policy, budget and planning decisions at all

Performance Ratings FY 2007-2010[1]



[1] Data Sources: FY 2007- Joint Highlights of Performance, Budget, and Financial Information, Fiscal Year 2007; FY 2008 - Citizens' Report, Fiscal Year 2008, Summary of Performance and Financial Results; FY 2009 - Joint Summary of Performance and Financial Information, Fiscal Year 2009; FY 2010 - Bureau of Resource Management Planning and Performance System. FY 2007-2009 performance ratings calculated from performance data provided in Department reports at the time of publication. FY 2007 – 2009 indicator ratings not available at time of publication have been omitted.

[2] The Department of State and USAID jointly reported indicators in the FY 2007 Joint Highlights Report and the FY 2009 Joint Summary of Performance and Financial Information. As a result, FY 2007 and 2009 indicator ratings featured in this chart include USAID indicators. All other years include only Department of State indicators.

[3] FY 2010 ratings are not available for indicators that are new or for which result data are not yet available as of September 30, 2010. The Department will report ratings for Foreign Assistance indicators for programs managed by State and/or shared with USAID in the FY 2012 Foreign Operations Congressional Budget Justification and FY 2010 Joint Summary of Performance and Financial Information to be released in early 2011.

levels of the organization. Twelve illustrative indicators are highlighted in the following section which is organized by strategic goal and accompanied by an explanation of each goal and analyses of results achieved in FY 2010.

Please note that the chart is not intended to show a trend line. While the shift to a set of more stable performance indicators will result in year-to-year comparability in the future, ratings shown in the bar chart include a significant set of indicators used for the first time in FY 2009. Therefore, there is limited ratings comparability from FY 2007 – 2010.

In addition, ratings are not yet available for new State Operations indicators for which targets have not been set. Furthermore, ratings for Foreign Assistance indicators will not be available until late 2010. For this reason, indicators which did not have ratings at the time of publication are not included in the chart. The Department of State and USAID "Joint Summary of Performance and Financial Information" for FY 2010 will feature a more complete set of performance information when it is released early in 2011. This report will be available at *http://www.state.gov/s/d/rm/rls/perfrpt/*.

Program Evaluation

Advancing an ambitious foreign policy agenda requires a sustained focus on global outcomes and trends that are most meaningful to the interests of the United States. Nuclear proliferation, hunger, climate change, the global economic crisis, terrorism, pandemic disease, conflict in the Middle East, and transnational criminal networks are just some of the pressing issues the Department faces. To meet the many challenges, the Department strategically uses performance metrics and program evaluation to achieve results for the American people while maximizing the impact of every dollar spent.

Program evaluation and performance measurement are critical to the success of the Department's foreign policy goals. Program evaluation is essential both for prospective planning of programs and for retrospective assessment of effectiveness. Rigorous, independent program evaluations are a key resource in determining whether the Department's programs are achieving their intended outcomes. In FY 2010, the Department continued efforts to make program evaluation integral to managing its programs at all stages of their development — from planning and implementation through data collection, performance analysis, and budget formulation. The Department strengthened the connection between strategic planning, evaluation, and strategic priorities through the use of Country Operational Plans and Bureau Strategic and Resource Plans. The evaluations noted in these plans support the success of programs and initiatives linked to the Department's strategic goals and High Priority Performance Goals (HPPGs).

People stand in line to receive food in New Delhi, India, February 5, 2010. ©AP Image

In FY 2010, the Department implemented a new policy to expand the use of rigorous evaluation and assessment. The new evaluation policy lays the groundwork for a coordinated and robust evaluation function in the Department and provides a framework for the ongoing and systematic analysis of programs and policies. The policy requires grant- and contract-funded programs/projects to be evaluated at least once during their life cycle and more closely integrates the Department's strategic planning processes with evaluation planning. Further, together with tools developed to help design and implement quality evaluations, this policy advances the Department's efforts to build capacity to assess program impact, learn and share information about effective practices in our programs, provide evidence for policy and planning decisions, and increase accountability to the American people.

The Department's successful June 2010 conference on program evaluation further highlighted its commitment to evidence-based decision-making and to using evaluation to inform U.S. foreign policy and development goals. The conference, *New Paradigms for Evaluating Diplomacy in the 21st Century,* provided a forum for foreign affairs officials from the United States and abroad, including Denmark, Japan, the United Kingdom, New Zealand, and Belgium, to confer about the capacity of evaluation to affect change in foreign affairs. Panel discussions and workshops — on such topics as evaluating trade-capacity building and peace-building activities, interagency efforts to combat transnational crime, cultural diplomacy, gender and evaluation, and food insecurity — provided opportunities for a lively exchange of ideas on effective practices, methods, and approaches for examining the challenges that our nation and the world faces in the 21st Century. The Department's conference serves as the starting point for an ongoing exploration and discussion of evaluating diplomacy as one of the pillars — with development and defense — of an effective foreign policy framework.

In the next fiscal year, the Department will pursue full implementation of the new evaluation policy and the integration of evaluation as an inherent part of management and oversight of programs. This includes the establishment of guidelines and tools around evaluation scope, methods, resources, policies and procedures, independence, planning, and dissemination of public accountability results. Further, in consultation with program stakeholders, the Department will focus on strategically identifying evaluation priorities and planning and developing a body of evaluation work.

CLIMATE CHANGE

Climate change is one of the century's greatest challenges, and promoting low-carbon, climate-resilient growth is one of the highest priorities of both our diplomacy and our development work. Under President Obama, the United States, through domestic and international action, has done more to combat climate change than ever before. In December 2009, aided by U.S. leadership, the international community took a meaningful and unprecedented step forward in international climate negotiations. The resulting Copenhagen Accord outlines key elements that are essential to a long-term solution to the climate change challenge: a recognition of the scientific view that the increase in global temperature should be below 2 degrees Celsius; actions by all major economies to mitigate climate change; transparency to see that those actions are taken; and financing and technology support to help the poorest and most vulnerable developing nations.

President Obama asserts that the world's will to address climate change "hangs in the balance" and insists any deal must include transparency among nations. U.N. Climate Change Conference, Copenhagen, Denmark, December 18, 2009. ©AP Image

To respond to the profound threat that global climate change poses to development, the United States has also launched a Global Climate Change Initiative (GCCI) to spur global greenhouse gas emission reductions in the energy and forests and land-use sectors and to promote climate change adaptation in vulnerable countries and communities. As part of this effort, the United States has committed to contributing our share of a sum approaching $30 billion over the 2010–2012 period, as called for in the Copenhagen Accord, for "fast-start" funding to assist developing countries address climate change. These funds include support for the Administration's Copenhagen announcement that it would dedicate $1 billion for Reducing Emissions from Deforestation and Forest Degradation (REDD+) from 2010-2012.

Complementing this significant increase in financial assistance, President Obama launched the Major Economies Forum on Energy and Climate (MEF), establishing an enhanced dialogue among 17 developed and developing economies, representing 80 percent of global emissions, to help support the multilateral negotiating process and devise new ways to advance the development and deployment of clean energy technologies. Experts from these countries have since developed action plans covering 10 key clean energy technologies, and ministers at the July 2010 Clean Energy Ministerial launched a suite of initiatives aimed at implementing these action plans.

Looking Ahead and Addressing Challenges

In FY 2010, the United States coped with several urgent foreign policy challenges, including ongoing wars and regional conflicts, the global economic crisis, violent extremism, nuclear proliferation, climate change, global poverty and hunger, pandemic disease, and transnational criminal networks. In responding to these and other foreign policy challenges, the Department of State took significant steps in FY 2010 by implementing the President's National Security Strategy in the following six ways. First, by engaging our closest allies who share our most fundamental values and interests and our commitment to solving common problems — from Europe and North America to East Asia and the Pacific. Second, by helping to develop the capacity of developing partners, inasmuch as development is central to advancing American interests — as central as diplomacy and defense. Third, by deepening engagement with emerging centers of influence such as China, India, Turkey, Mexico, Brazil, Indonesia, South Africa, and Russia. Fourth, by reinvigorating America's commitment to be an active transatlantic, transpacific and hemispheric leader. Fifth, by reengaging with global institutions and working to modernize them to meet the evolving challenges we face so that these institutions are flexible, inclusive, and complementary. Sixth, by upholding and defending the universal values that are enshrined in the United Nations Charter and the Universal Declaration of Human Rights because today, everywhere, these principles are under threat.

During the year, the Department of State worked with other U.S. Government and foreign government agencies to deliver relief aid to Haiti and coordinate the International Donors' Conference Toward a New Future for Haiti. The Department also supported direct talks between the Israelis and the Palestinians. In Iraq, where the U.S. combat mission has ended, the Department worked with other U.S. Government agencies to transfer and transition to an unprecedented civilian-led partnership. The Department has also assisted in stepping up international pressure on Iran to negotiate seriously on its nuclear program. We also successfully concluded a new Strategic Arms Reduction Treaty with Russia in March 2010. The Department maintained its focus on the war in Afghanistan as well as on Pakistan as it recovers from devastating floods and continues to combat violent extremism.

The Department made significant progress on the ongoing Quadrennial Diplomacy and Development Review (QDDR), scheduled for release by the end of 2010. Introduced by Secretary Clinton in July 2009, the QDDR is a comprehensive

MIDDLE EAST PEACE

The Middle East presents the United States with some of its most pressing security and political issues. The U.S. Government has renewed its commitment to the region to increase prosperity, promote freedom, and counter extremist ideology. A comprehensive and lasting peace is the United States' number one priority for the Middle East. The United States will continue to help build a sovereign, stable, and self-reliant Iraq; counter the malign influence of Iran and its nuclear ambitions; and promote political, social, and economic progress throughout the region.

The United States is engaged in significant diplomatic efforts to bring about a comprehensive peace in the Middle East, which we define as peace agreements between Israel and the Palestinians, Israel and Syria,

Secretary of State Clinton hosting the re-launch of direct negotiations with Palestinian President Abbas, right, and Israeli Prime Minister Netanyahu, September 2, 2010. ©AP Image effort identifying the capabilities needed to strengthen and elevate diplomacy and development as key pillars of the national security strategy, alongside defense. The QDDR will provide the short-, medium-, and long-term blueprint for U.S. diplomatic and development efforts and will begin to align policy, strategy, capabilities, authorities, and resources — human and financial — to ensure effective execution of solutions to national security priorities. Additionally, at the request of the White House Office of Management and Budget (OMB) for the President's performance agenda, the

and Israel and Lebanon, as well as full normalization of relations between Israel and the Arab states. The United States is advancing a two-State solution to the Israeli-Palestinian conflict through the promotion of negotiations between Israel and the PLO. The goal is for the parties to conclude an agreement within a year to address the major compromises on the core issues necessary to implement a two-State solution and end the Israeli–Palestinian conflict. Throughout the process, the United States will play an active and sustained role in facilitating the discussions and offering proposals for overcoming any impasses that arise.

Engagement with Iran. The Iranian government's nuclear program, its destabilizing activities in the region including its support for terrorism, and its repression of its own citizens undermine U.S. Government efforts to foster peace and security in the Middle East. While we have engaged Iran on the basis of mutual respect and mutual interests, the response to our engagement efforts so far has not been encouraging. Nevertheless, because of this Administration's efforts to engage Iran, we are in a stronger position within the international community. The international community is increasingly united in calling on Iran to live up to its obligations and pursue meaningful engagement to resolve the concerns of the international community, as was evidenced in the adoption of UN Security Council Resolution 1929 as well as accompanying sanctions enacted by the EU, Australia, Canada, Japan, and, most recently, South Korea. The United States has furthered its resolve through the implementation of the Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA).

President Obama and Secretary of State Clinton standing during statement on U.S.–Mideast talks in White House Rose Garden, September 1, 2010. ©AP Image

Department and USAID have selected eight outcome-focused HPPGs that reflect the Secretary's and USAID Administrator's highest priorities. For more information on HPPGs, see page 13.

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; Human Resources; Public Diplomacy; Protection of People and Facilities; Information Security; Financial Management; Counterterrorism and Border Security; and Iraq Transition from Military to Civilian Presence. Accordingly, in FY 2010, the Department worked on improving management oversight of the procurement process, maintaining web and electronic outreach to foreign audiences, and continuing, in collaboration with the Department of Homeland Security and other U.S. Government agencies, to improve technology at ports of entry, the security of travel documents, and the screening technology used by officials at home and abroad.

AFGHANISTAN-PAKISTAN

Secretary Clinton arrives at the military airport in Kabul, Afghanistan to attend the inauguration of President Karzai, November 18, 2009. ©AP Image

The United States has made a long-term commitment to help Afghanistan rebuild itself after years of war. The insurgency in Afghanistan and parts of Pakistan poses a fundamental threat to U.S. strategic interests. Disrupting, dismantling, and eliminating al-Qaeda safe havens in Afghanistan and Pakistan are a top foreign policy priority. The Administration's strategy to achieve this goal in Afghanistan is to promote a more capable, accountable, and effective Afghan Government that serves its people by generating economic opportunities and can function with limited international support. Through diplomatic and development efforts, the United States supports the Afghan Government in its efforts to establish a framework for a vibrant civil society, one that emphasizes democratic principles through the rule of law and creates accountable and transparent forms of government.

In Pakistan, the strategy is to stabilize the government through macroeconomic reforms and private sector growth that lay the foundation for long-term economic stability and sustainable growth. Pakistan must also be convinced to systematically confront extremist threats by further developing its security capabilities. Both the Department and USAID are working together to strengthen each host country's capacity to provide services to its citizens effectively and enhance the long-term sustainability of development efforts.

During FY 2010, the GAO issued 38 reports and testimonies relating to the Department of State in which it made several recommendations. The Department is addressing the GAO's recommendations by:

- Conducting workforce management pilots and using the QDDR process to improve contract and grant administration in Iraq and Afghanistan;
- Continuing to recognize the limitations of a host country-led approach for food security and working to mitigate risks associated with this approach in the Department's implementation strategy to reduce vulnerabilities in the U.S. Government-wide strategy on Global Food Security;
- Continuing to take vigorous action to address all substantive concerns during the testing and production of Passport Cards and Border Crossing Cards;
- Improving the performance reporting for the Bureau of International Narcotics and Law Enforcement Affairs, and enhancing Department monitoring efforts to improve planning and documentation of U.S. Development Assistance in Pakistan's Federally Administered Tribal Areas;
- Undertaking a Department-wide assessment of the effectiveness of overseas outreach platforms; and
- Building on the Department's proactive analysis of capital security projects to better size facilities and provide for operations and maintenance requirements.

The Joint Summary of Performance and Financial Information for Fiscal Year 2010, to be issued in early 2011, will present a more detailed analysis of all management challenges for the Department for FY 2010, as identified by the OIG and GAO.

The Department's critical process of analysis, review, and change will strengthen and elevate diplomacy and development as key pillars of our national security strategy; make our diplomacy and development tools and institutions more agile, responsive and complementary; and set institutional priorities and provide strategic guidance on the capabilities we need in the 21st Century, given the range of challenges we face.

Strategic Goals and Results

The Department continuously evaluates its foreign policy choices, assesses the impacts of its action or inaction, gauges the probability of success and insists on measurable results. In FY 2010, the Department of State continued to increase its analytical rigor in strategic planning and performance management by focusing on outcome-oriented performance measures that support its seven strategic goals and 39 strategic priorities. Although the Department and USAID share a joint strategic framework, this report highlights performance only for the Department of State. The following section includes a high-level discussion of the public benefits, key achievements, and selected key performance measures, including illustrative indicators, for each of the seven strategic goals. This information informs Congress, the public, and other stakeholders about the performance of the Department and its contributions to the efficiency and effectiveness of the U.S. Government. The Department's Annual Performance Report (APR), to be issued in February 2011 as part of its Congressional Budget Justification (CBJ) in conjunction with the President's Budget, will present more detailed analysis of performance results for FY 2010.

Secretary of State Clinton and Secretary of Defense Gates participate in a ceremony at the Korean War Memorial in Seoul, July 2010.

©AP Image

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 set of dangers that know no borders and that threaten our national security, including the grave danger of weapons of mass destruction (WMD) falling into the wrong hands, terrorism and violent extremism, transnational crime, and persistent conflict in geostrategic States with repercussions that are felt well beyond those States' borders.

The U.S. Government responds to these challenges using Smart Power – the deliberate and balanced application of the three pillars of U.S. foreign policy – diplomacy, development, and defense. In the U.S. Government's efforts to build a safer and more secure world, our priorities include: seeking the peace and security of a world without nuclear weapons by working to reduce the role of nuclear weapons in our own national security strategy and through bilateral and multilateral arms control efforts; combating weapons of mass destruction through cooperative efforts with friends and allies; countering terrorism, including fighting transnational crime and reducing the potential for terrorists to acquire WMD; supporting stabilization operations activities, security sector reforms, and counternarcotics activities; sponsoring conflict mitigation and reconciliation; and ensuring homeland security. The challenges are daunting but we have made some notable progress.

In FY 2010, we strengthened our national security by implementing Smart Power in a variety of ways. We deepened our collaboration with the Department of Defense (DOD) across all security sector assistance accounts. We provided robust security assistance to Pakistan forces battling terrorists and insurgents within its borders, and began to focus on the threats emanating from within Yemen. We enabled the training of over 31,000 new peacekeepers from 71 countries. We negotiated air and land transit agreements with Kazakhstan to enhance the Northern Distribution Network's support to NATO in Afghanistan, a Defense Cooperation Agreement with Colombia, and a Supplemental Status of Forces Agreement with Poland to bolster ballistic missile defense. Our weapons removal programs destroyed thousands of unneeded or unsecured Man-Portable Air Defense Systems (MANPADS), small arms, light weapons, and tons of munitions from dozens of countries before the armaments could potentially fall into the wrong hands. We took a seminal step toward eliminating unnecessary complications from the sale of U.S. defense articles to our closest allies when the Senate ratified the Defense Trade Treaties with the United Kingdom and Australia and the full Congress passed the implementing legislation.

In December 2009, the President released the U.S. National Strategy on Countering Biological Threats. Pursuant to this Strategy, the Department is working to bolster the Biological Weapons Convention (BWC) by developing a rigorous, comprehensive program of cooperation, information exchange, and coordination; increasing participation in confidence-building measures; and increasing international capacity to detect, report, and respond to outbreaks of disease whether deliberate, accidental, or natural. At the 2011 Review Conference of the BWC, our goal is to develop a work plan that addresses these areas.

Through diplomatic leadership, we nearly doubled the size of the Contact Group for Piracy off the Coast of Somalia, helping to draw force contributions to the international counter-piracy "armada" operating off the Horn of Africa and improving the implementation of commercial shipping self-protection best practices, resulting in reduced pirate attack success rates. We further coordinated diplomacy and defense by providing foreign policy input to the Defense Department's top strategic documents, including the 2010 Quadrennial Defense Review and the Guide for the Employment of the Force, and by assigning to DOD 82 Foreign Policy Advisors (POLADs) to provide guidance to our senior military leaders on international relations.

In April 2010, the United States took three bold steps in the direction of creating the conditions for a world without nuclear weapons. The first step was the release of a Nuclear Posture Review that reduces the role of nuclear weapons in our national security strategy. The United States reaffirmed "negative security assurances" to all non-nuclear weapon states party to the Non-Proliferation Treaty (NPT) and in compliance with their nuclear nonproliferation obligations. This means that the United States will not use or threaten to use nuclear weapons against these non-nuclear weapon states. The second step was the signing of the New START Treaty with Russia that further reduces and limits the number of strategic arms on both sides and renews U.S.-Russian leadership on nuclear issues. The third step was the Nuclear Security Summit, which President Obama hosted in Washington, D.C., during which world leaders reached a consensus about the nature of the threat and agreed to a collective effort to secure nuclear material within four years.

Additionally, at the 2010 NPT Review Conference, the 189 NPT States Party committed to a concrete action plan that, if implemented by all States, will yield further international progress toward a world without nuclear weapons. The President chaired a 47-nation Nuclear Security Summit that endorsed his call to secure all vulnerable nuclear material in four years and pledged to work together to strengthen nuclear security and reduce the threat of nuclear terrorism. Participants issued a work plan identifying 50 specific commitments requiring action in order to meet these objectives. On May 3,

TRANSITION IN IRAQ

In 2010, the U.S. Government continued to execute the Administration's plan for a responsible drawdown of military force levels in Iraq, achieving the target of reducing to 50,000 combat troops in August 2010. The President intends to keep the U.S. commitment under the Security Agreement to remove all U.S. troops from Iraq by the end of 2011. The bilateral relationship between the United States and Iraq is evolving accordingly with civilian agencies assuming the lead for the United States. This transition will be manifested through: the expansion of the State Department's police development program; a realignment of assistance to provide greater emphasis on governance, economic development, agriculture, health and education; and the phasing down of the U.S. Government provisional presence.

2010, the Review Conference of the NPT, held every five years, began its month-long work to review and strengthen the NPT. A consensus final document on substantive issues was achieved for the first time in ten years and consensus was reached on a plan of follow-on actions to strengthen each of the three pillars of the NPT — disarmament, nonproliferation, and access to the peaceful uses of nuclear energy — making this the first NPT Action Plan to cover all three pillars. The Secretary announced an initiative to broaden access to peaceful uses of nuclear energy, pledging $50 million over five years to the International Atomic Energy Agency (IAEA) to expand efforts to broaden the use of nuclear energy for cancer treatment, food and water security, and the development of infrastructure for the safe, secure use of civil nuclear power. Our efforts led to the P-5 (United States, Russia, China, France, and United Kingdom) announcement on October 1, 2010 of plans for a P-5 conference in the spring of 2011 to examine further transparency and verification steps toward that goal.

The United States, in partnership with its P5+1 allies (the United Kingdom, France, Germany, China, and Russia), remains committed to the dual track policy of engagement and pressure as a means to persuade Iran to comply with its obligations. The United States and the international community are committed to meaningful negotiations with Iran to resolve the concerns about Iran's nuclear program. The United States and the international community will continue to pressure Iran to make a choice between complying with its international nuclear obligations or face increasing isolation. International consensus remains solid that Iran must comply with its nonproliferation obligations.

Key Achievements

- Signed and transmitted to the Senate for its advice and consent to ratification, the New START Treaty with Russia that replaced the original Strategic Arms Reduction Treaty (START) with an agreement to reduce and limit nuclear strategic offensive arms to levels lower than those in the Moscow Treaty, while including effective verification measures drawn from START.

- Took additional steps — including those identified above and with regard to strengthening the implementation of other international treaties related to WMD and the Euro-Atlantic security relationship — that represent further efforts towards establishing the conditions for a world without nuclear weapons.

- Maintained an international coalition that condemned North Korea's missile and nuclear tests through the adoption of the United Nations (UN) Security Council Resolution 1874.

- Held the first round of the U.S.- China Strategic and Economic Dialogue, engaging China on regional security concerns, nonproliferation, and military-to-military relations.

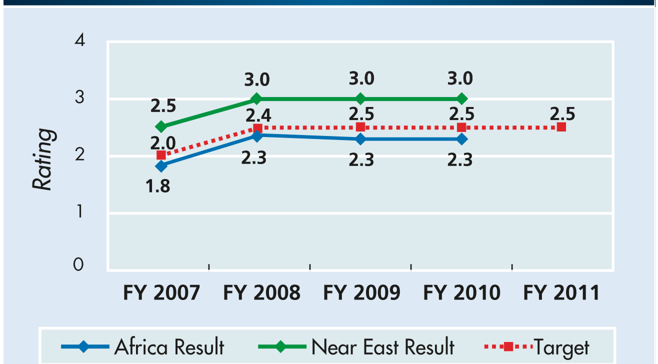
- Surpassed our goal to train and equip 75,000 new peacekeepers to participate in peacekeeping operations worldwide by 2010.

- Succeeded in getting the UN Security Council to adopt a fourth legally binding Resolution (UNSCR 1929) that places additional restrictions on Iran's nuclear activities, ballistic missile programs and, for the first time, conventional military.

Summary and Analysis of Performance Trends

The Department focuses significant efforts in this goal on peacekeeping operations in Africa and Near East Asia. Peacekeeping operations ratings is an illustrative indicator for this Strategic Goal. UN Peacekeeping Missions in Near East Asia received an average rating of 3 out of 4 by Department

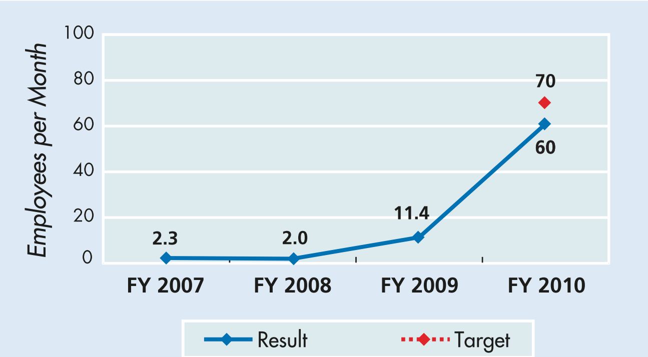
Peacekeeping Operations Ratings in Africa and Near East Asia



Source: Internal State Department Mission Reports, UN Secretary General Reports, UN Security Council Reports analysts for FY 2010, surpassing the target of 2.5. The rating mirrors the score received in FY 2008 and FY 2009. The FY 2010 average rating for United Nations Peacekeeping Missions in Africa remained at FY 2009 levels, with a score of 2.3 which is slightly below the target of 2.5. This decline reflects the increasingly difficult security, political, and economic environment in many parts of Africa.

In a rapidly and continuously changing global environment, failing and post-conflict states pose one of the greatest national and international security challenges of our time. Through the Office of the Coordinator for Reconstruction and Stabilization, the Department is addressing the urgent need for a set of formalized, collaborative, and institutionalized foreign policy tools that can adequately address the diverse stabilization needs of the global community by pulling together the government's wide range of expertise. The U.S. Government can better influence key transitional moments in fragile states if it can deploy civilians early enough in the cycle of reconstruction and stabilization operations. The Department has begun to do so in connection with the scheduled January 2011 referendum in South Sudan. In step with this strategy, the Department is tracking an output indicator measuring the average number of civilian deployments per month. Deployments increased over five fold in FY 2010 compared to FY 2009.

Average Monthly Number of Civilian Reconstruction and Stabilization Deployments to Conflict Zones[1,2]



Source: Field reports and reach-back information from deployed employees, and S/CRS database.

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

[2] FY 2011 target to be determined upon passage of final FY 2011 congressional appropriation for the Civilian Stabilization Initiative.

The Department exceeded its target of 70 deployments per month in the fourth quarter of FY 2010, but did not meet the target for the full year.

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. We have long acknowledged the link between democratic governments, free societies and peaceful nations and devoted our diplomatic efforts and foreign assistance to encouraging free elections, democratic governance, and protection of human rights based on international standards. While this commitment to promoting human rights and democracy is part of our history, the dialogue on these issues continues to evolve. The Department goals include ensuring that people are free from bodily harm, free to select their leaders, free to express themselves, and protected by the law. The U.S. Government also recognizes that in order for people to fully realize the benefits of these rights and freedoms, they must have the education and the tools to be active citizens in their country's political processes.

The Administration pursues policies that champion the enforcement of universal human rights, as enshrined in the Universal Declaration of Human Rights, through principled engagement with governments, civil society, and corporate partners. The Administration devotes attention to a broad range of human rights issues and is committed to promoting human rights even in those places where doing so is most difficult. Our foreign assistance programs are targeted toward countries where egregious human rights violations occur, democracy and human rights advocates are under pressure, and governments are not democratic or are in transition.

To achieve these policy goals, the Department continues to engage in bilateral and multilateral efforts with governments and civil society. This multi-pronged effort is focused on:

Secretary Clinton delivers a speech in front of the Brandenburg Gate in Berlin, November 9, 2009. ©AP Image

institutionalizing democratic gains and protecting human rights, including international religious freedom; encouraging freedom of expression and access to information; advancing respect for labor rights — including through engagement with the business community — and establishing standards for the global business environment; defending the rights of people with disabilities; and amplifying the voices of civil society and human rights activists.

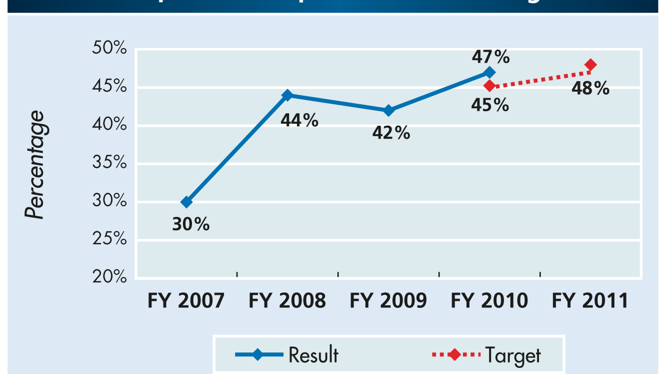
Key Achievements

- Through an emergency assistance program for human rights defenders, the Department offered a lifeline of protection for those advocating for basic human rights and reporting on gross violations of human rights. The Department expanded this program to specifically assist defenders of Lesbian, Gay, Bisexual, and Transgender (LGBT) rights. In FY 2010, legal, medical, relocation, and other forms of urgent assistance were provided to 155 human rights defenders and/or nongovernmental organizations in 30 countries around the world.
- Over the past year, we spearheaded an effort to place the protection of civil society at the forefront of the U.S. Government's human rights and democracy agenda, as affirmed by the Secretary's landmark speech in Krakow on July 3, 2010. The Secretary's call upon the UN Human Rights Council to do more to protect freedom of association led to the creation of the first Special Rapporteur on Freedom of Association.
- Our advocacy helped to obtain a one-year renewal of the UN Human Rights Council mandate for the Independent Expert on human rights in Sudan.
- In May 2010, we held the first round of the U.S.-China Human Rights dialogue under the Obama Administration. In addition to handing over information about specific political prisoner cases, the Chinese agreed to resume a legal experts dialogue and initiate a working group on religious freedom. Our engagement also laid the groundwork for future cooperation on labor issues.
- In August 2010, our efforts to combat anti-Semitism resulted in an historic condemnation of Holocaust denial and all forms of anti-Semitism by leading American imams.

Summary and Analysis of Performance Trends

Improvement in corruption perceptions index ratings is an illustrative indicator for this Strategic Goal. Corruption in the public sector hinders democratic governance. Measuring the perception of public sector corruption and its changes in given countries over time can help us to understand whether and where our efforts are effective. For FY 2009, the corruption perceptions index reported improvements in combating corruption in 43 countries, or 42 percent of 102 countries monitored under this indicator. For FY 2010, there were reported improvements in 47 percent of the 103 countries monitored, exceeding the target of 45 percent.

Percent of Priority Countries with Improved Corruption Perceptions Index Ratings[1,2]

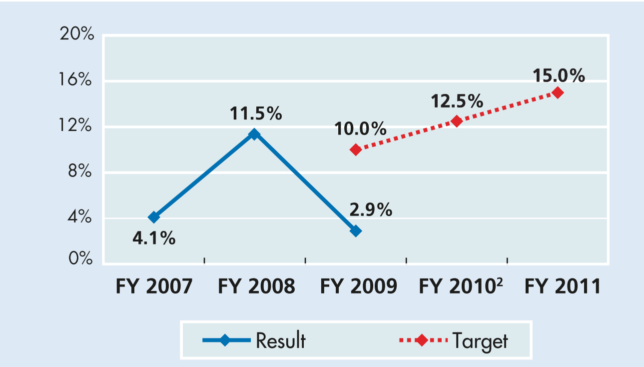


Source: Transparency International's Corruption Perceptions Index.

[1]Priority Countries include non-democratic countries and countries undergoing democratic transition.

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

Percent of Countries with Improved Civil Liberties Ratings[1]



Source: Civil Liberties Section of Freedom House's Freedom in the World survey.

[1] Indicator new in FY 2007, targets established beginning in FY 2008.

[2] FY 2010 results data expected to be available early 2011.

Another illustrative indicator for Strategic Goal 2 is the percent of countries with improved civil liberties ratings. In assessing four dimensions of civil liberties — freedom of expression and belief, associational and organizational rights, rule of law, and personal autonomy and individual rights — the percentage of countries with improved civil liberties ratings of at least one point declined. Freedom House, the independent organization that monitors global democracy and human rights, attributes this decline, which is a four-year trend, to increased pressure on civil society activists and suppression of free speech and expression. Though there have been improvements in press freedoms, Freedom House's analysis illustrates a decline in global political rights. Despite global improvement in the conduct of elections, there has been an erosion of political rights in Russia, Central Asia, and the Caucases. The Department is enhancing our efforts to help protect the right of civil society to organize and counter restrictive and repressive measures.

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.

U.S. Government programs strengthen local capacity in disease outbreak detection and response, delivery of health services and essential drugs and commodities as well as support advances in health technology. The President's Emergency Plan for AIDS Relief (PEPFAR) is an essential component of the Department's Smart Power approach. 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

Secretary Clinton greets children at the Ngoc Lam Pagoda orphanage that assists AIDS-affected children in Hanoi, Vietnam, July 22, 2010.

©AP Image

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.

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. The Global Fund utilizes an innovative model that finances country-owned programs according to principles of performance-based funding. 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

- Advanced prevention, care and treatment of HIV/AIDS through PEPFAR by establishing Partnership Frameworks in ten countries in FY 2010, bringing the total to 16 countries. Partnership Frameworks advance the progress and leadership of partner countries in the fight against HIV/AIDS. They align with the national HIV/AIDS plan of the partner country, and continue to emphasize sustainable programs with increased country ownership (including decision-making authority and leadership).

Number of People Receiving HIV/AIDS Treatment[1]

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

[1] FY 2010 results data expected to be available in December 2010. FY 2011 target to be set upon establishment of FY 2010 result.

- Through PEPFAR's network of Public-Private Partnerships (PPPs), the Department is working with businesses to bring their expertise and enhanced sustainability to HIV/AIDS programming. In FY 2010, the Department announced its support for two new PPPs, including a partnership with Together for Girls, the global partnership to end sexual violence against girls.

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. Because of the rapid scale-up of the programs together with the partner nations, the United States directly supported treatment to some 2.5 million men, women, and children living with HIV in 2009. Results for FY 2010 will be available in December 2010.

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 promotes U.S. business opportunities and negotiates to create favorable climates for U.S. business activities overseas. The Department leads efforts to open markets and promotes global economic partnerships which will lead to economic growth for the United States, its trading partners, and developing countries.

The new global economic landscape presents a number of challenges. The world economy has become more multi-polar, including the "BRIC" economies of Brazil, Russia, India and China that seek greater influence in the international system. At the same time, however, these big economies and others suffer from significant poverty, food shortages, malnutrition, and gaping inequalities, all of which threaten social and political stability. The financial crisis has produced high levels of unemployment in many countries and has destroyed savings. Skepticism has grown about the benefits of globalization, open trade policies, and trade liberalization.

To meet these challenges, the Department is both devising and implementing policies to serve the economic, security, and foreign policy interests of the United States. The first priority of United States international economic policy is to address the concerns and aspirations of the American people. The President established the National Export Initiative (NEI) which sets the goal of doubling exports over the next five years — an increase that will support two million additional jobs in the United States. In support of this priority initiative, the Department advocates on behalf of American companies with other governments for fair treatment, transparency, and maximum opportunity in competitive global markets. Further, it helps U.S. companies pursuing foreign government procurement opportunities, such as the recently completed U.S.-Canada Agreement on Government Procurement guaranteeing U.S. firms access to markets worth tens of billions of dollars, and works with them in cases of commercial and investment disputes. The September 2010 report to the President on the NEI noted that U.S. exports during the first six months of this year were 18 percent higher than the same period in 2009.

The Department actively encourages open and market-oriented environments for U.S. exports and investment abroad through a wide range of bilateral and multilateral initiatives, outreach to advanced and emerging economies, and joint efforts with the U.S. Trade Representative (USTR) to conclude bilateral investment treaties that protect U.S. investors and create new investment opportunities. Currently, the Department is negotiating investment treaties with such key economies as China and India. Also, the Department increased its engagement with Turkey, Georgia, Indonesia, Russia, and Central Asia through new economic dialogues and in Trans-Pacific Partnership negotiations, with the goal of establishing a large free trade area in Asia.

The Department is also advancing energy security by encouraging the diversification of energy supplies, taking measures against supply disruptions, and promoting clean energy technology. In addition, the Department strongly encourages transparent data on oil demand and elimination of economically-distorting fossil fuel subsidies.

Secretary of State Clinton at the opening of high-level U.S.-China talks at the Great Hall of the People in Beijing, May 2010. ©AP Image

Supporting the growth and development aspirations of people in developing nations is another key priority of U.S. international economic policy. The ability of developing countries to achieve their goals will have an enormous impact on prospects for the future growth and openness of the global economy and the potential for American workers and companies to find expanding markets for their products. It will also profoundly affect global social and political stability and the depth and content of American friendships and alliances in key regions.

An important developmental effort is the Administration's new Global Hunger and Food Security Initiative. With one-sixth of the world's population — over one billion people — suffering from chronic hunger, the United States has committed itself to working as part of a collaborative global effort to improve food security. This effort focuses on availability, accessibility, utilization, and stability of food.

U.S. diplomatic efforts and foreign assistance remain important factors in helping sub-Saharan countries achieve their development goals. Sub-Saharan Africa needs increased private sector investment, both foreign and domestic, to achieve the sustained rates of economic growth necessary to reduce poverty on the continent. The region must significantly increase its ties to the global marketplace and the benefits that arise from trade. The Department is working with sub-Saharan countries on policies that promote growth in trade and foster Africa's integration into the global marketplace.

Through the Highly Indebted Poor Countries Initiative (HIPC), the United States continues to foster economic reform through debt relief. The most recent success, Liberia, is in the final stages of the HIPC process. In addition, the Department worked with major creditors to secure 100 percent debt cancellations for Haiti and Afghanistan.

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 (NSC) and the U.S. Department of Treasury in the G-20 process. Further, the Department leads the U.S. delegation on debt restructuring negotiations at the Paris Club of creditor nations and is the United States liaison with the International Monetary Fund. Secretary Clinton, in her role as Chair of the Board of the Millennium Challenge Corporation (MCC), is the Department's voice on Multilateral Development Bank (MDB) lending and policies.

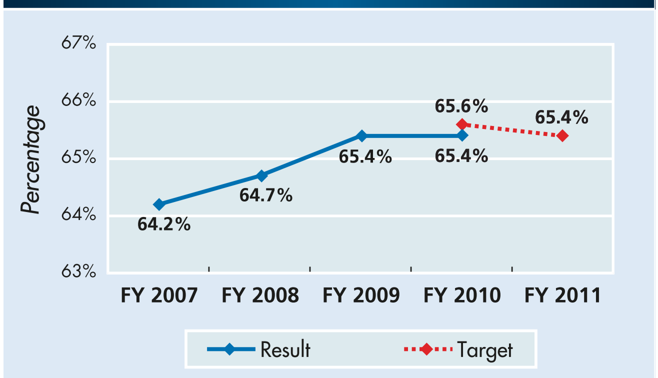
Key Achievements

- Implemented key UN Security Council and U.S. sanctions aimed at curtailing financial activities harmful to global peace and prosperity, including efforts to detect and reduce illicit money flows which would otherwise finance terrorists, counterfeit goods, drug and weapons smugglers, and the proliferation of nuclear materials.
- In the area of Food Security, eleven countries have completed Technical Reviews (TRs) of their agricultural and nutrition investment plans that will track progress toward the countries' Millennial Development Goal (MDG1) to halve poverty and hunger by 2015.
- 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.
- Launched new initiatives under the Energy and Climate Partnership of the Americas (ECPA) to expand energy and climate cooperation in the Americas, including programs aimed at expanding sustainable energy in the Caribbean, strengthening Central American energy and environmental security, and advancing sustainable biomass and shale gas energy.
- The Office of the Special Envoy for Eurasian Energy led the launch of the U.S.-EU Energy Council in November 2009, formalizing our engagement with the EU and member States on energy issues.
- Launched the Global Entrepreneurship Program (GEP) as a follow-up to the President's Summit on Entrepreneurship in April 2010. In partnership with private businesses, non-governmental organizations, universities, and foundations, the GEP will train business leaders, connect them with potential markets, and assist them to find financing.

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. An illustrative indicator for this Strategic Goal is the percent of world energy supplies from non-oil sources. Results that indicated increased use of non-petroleum energy sources around the globe from FY 2007 to FY 2009 have since leveled off. In FY 2010, the percentage of world energy supplies from non-oil sources remained at the same level as the FY 2009 rate, likely reflecting a decrease in near-term

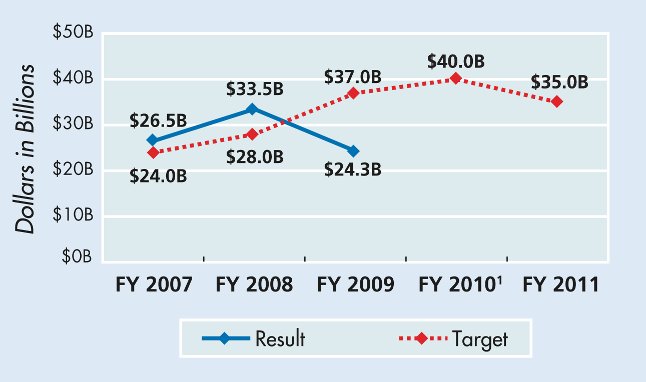
Percentage of World Energy Supplies from Non-Oil Sources[1]



Source: U.S. Department of Energy.

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

Level of Two-Way Trade Between the United States and Sub-Saharan Africa (Excluding U.S. Energy-Related Imports)



Source: United States International Trade Commission.

[1] FY 2010 results data expected to be available in early 2011.

demand and financing difficulties as a result of the global economic downturn. In the long term, the figures suggest a steady trend towards broader diversification of energy sources.

In the area of Trade and Investment, data reflects declining economic trends in Africa consistent with the global recession. The level of two-way trade between the United States and sub-Saharan Africa, another illustrative indicator for this goal, decreased in FY 2009. While data for FY 2010 is not yet available, trade is expected to rebound as part of the recovery from the recession. Recovery is vital for Africa to build on recent gains in economic growth, living standards, and poverty reduction.

STRATEGIC GOAL 5: PROVIDING HUMANITARIAN ASSISTANCE

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

Public Benefit. The U. S. commitment to humanitarian response demonstrates America's compassion for victims of natural disasters, armed conflict, forced migration, 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 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 provides substantial efforts and guidance, through international and nongovernmental organizations for worldwide humanitarian programs, to save lives and minimize suffering in the midst of crises, increase access to protection, promote shared responsibility, and coordinate funding and implementation strategies. 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.

Populations of concern to the State Department's Bureau of Population, Refugees and Migration (PRM) exceeded 40 million worldwide in 2009[1], including over 15 million refugees and more than six million stateless persons as well as millions of conflict victims and vulnerable migrants. A range of factors suggest that future humanitarian needs will be dire: increases in the incidence of natural disasters (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. These factors 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 burden-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. Though the need for refugee resettlement remains great, new arrivals are facing initial integration challenges with the amount of the Reception and Placement per capita grant not keeping pace with inflation. Recognizing these challenges in FY 2010, PRM doubled the amount of the grant to enable refugees to better address the challenges they face in their first 30-90 days in the United States. This increase benefits refugees and the network

[1] 2010 data not yet available.

Pakistani volunteers unload relief supplies from a U.S. Chinook helicopter in Pakistan's Swat Valley, September 29, 2010. ©AP Image

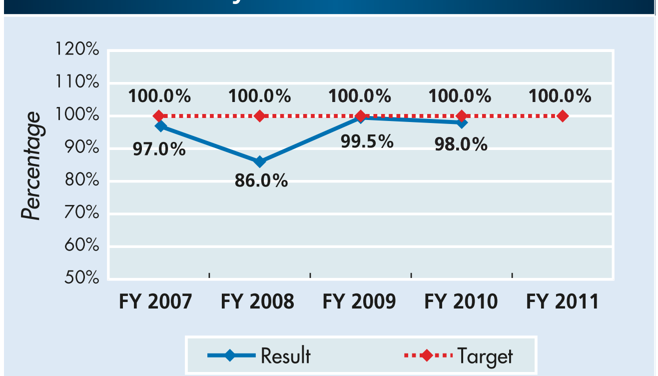
of nonprofit agencies and local affiliates that serve them so that in the first several weeks after their arrival, refugees have a roof over their heads, a clean bed in which to sleep, and other basic assistance.

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. Further, it supports international efforts to protect the human rights of migrants and promote humane and responsible migration policies; and supports capacity-building activities to help governments manage migration, especially in areas where vulnerable migrants travel among broader populations of migrants (including economic migrants), such as in the Gulf of Aden and the Caribbean. In FY 2010, with Department support for regional migration dialogues that aim to advance the aforementioned goals, 85 percent of initiatives agreed to at such dialogues were implemented, exceeding the Department's target of 82 percent.

Key Achievements

- The 73,311 refugees resettled in the United States represent 98 percent of the allocated regional ceilings established by the President. This number included the arrival of 18,016 Iraqi refugees and reflected an increase of 38 percent over FY 2009 in arrivals from Africa.
- Resolved one of Africa's longest-running refugee situations by assisting the Government of Tanzania to complete the naturalization of approximately 162,000 Burundi refugees who fled to Tanzania in 1972.
- More than 100,000 refugees had returned to Afghanistan by August 2010, almost double the number of voluntary returns in 2009. While the increase is partially due to conditions in Pakistan, returned refugees cite economic opportunity and improvements in security as the reasons they have returned to Afghanistan.
- In July 2010, encouraged by the U.S. Government, Vietnam took groundbreaking steps to end statelessness for 2,357 former refugees from Cambodia by granting citizenship to 287 members of this group. The remaining 2,070 are expected to receive their citizenship by the end of this year. Many of them have lived in Vietnam since 1975 and are fully integrated. They now acquire all rights of citizenship. In Vietnam, this means an all-important family registration book that governs all citizens' interactions with the government, as well as a government identification card. With these two documents, the new citizens can buy houses, attend university, and get health and pension insurance — actions which were not possible before.

Percentage of Refugees Admitted to the U.S. as a Percentage of the Allocated Regional Ceilings Established by Presidential Determination



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

Summary and Analysis of Performance Trends

The number of refugees admitted to the United States, as reflected in the graph, is an illustrative indicator for this Strategic Goal. In FY 2010, the United States admitted 73,311 refugees, which represents 98 percent of the allocated regional ceilings established by Presidential Determination. This achievement included the arrival of 18,016 Iraqi refugees and reflected an increase of 38 percent over FY 2009 arrivals from Africa. Refugee arrivals from the Near East and South and East Asia exceeded the regional ceilings established by the President, utilizing the unallocated reserve.

Afghan President Karzai, left, and Secretary of State Clinton, center right, tour a crafts bazaar in Kabul, July 20, 2010. ©AP Image

STRATEGIC GOAL 6: PROMOTING INTERNATIONAL UNDERSTANDING

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 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 and creating partnerships aimed at solving common problems.

We continue to face a changing global landscape of engagement. Global challenges require the Department to identify and implement complex, multi-dimensional public engagement strategies that forge partnerships, mobilize broad coalitions, and galvanize public opinion across all sectors of society. The Department developed the first detailed global strategy for public diplomacy in over a decade — a strategic framework for 21st Century public diplomacy that ensures its alignment with foreign policy objectives and focuses on how public diplomacy programs, efforts, and structures support those objectives.

Under the new strategic framework, the Department is developing proactive outreach strategies to inform, inspire, and persuade. This requires the Department to rapidly respond to inaccurate information and expand and strengthen its capability to proactively and nimbly engage with international media to shape stories. Polling shows that interaction with Americans and familiarity with our values improves understanding and perceptions of the United States abroad. Public diplomacy programs provide insight into American society to a broader international public, including youth and women as well as opinion makers. By improving respect and understanding of American society and values, we can set a positive narrative and framework for policy discussions.

Global exchanges are also a strategic element of America's foreign policy. President Obama, speaking at a student roundtable in Turkey, noted that "…exchanges can break down walls between us…that's where progress begins." Educational, professional, cultural, and youth programs play central roles in the President's New Beginning initiative. In April 2010, the Department entered into a partnership with Partners for a New Beginning (PNB) to bring together a dozen eminent Americans to engage Muslim communities globally on the basis of mutual interest, respect, and responsibility. A key part of the program will be people-to-people exchanges between business leaders, foundation staff and social entrepreneurs in U.S. and Muslim communities. This is just one of the many ways the Department is strengthening its people-to-people relationships.

The Department is also continuing to better inform policy-making by integrating public diplomacy into foreign policy formulation and ensuring that an understanding of attitudes and opinions of foreign publics is part of the public diplomacy strategy.

Our public diplomacy efforts help discredit and delegitimize Al Qaeda, counter violent extremist voices, 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 by building mutual trust and respect through expanded public diplomacy programs and platforms. Nevertheless, there are many challenges to building this trust, such as security concerns that have closed venues, preventing direct engagement.

The challenges and strategies above require the use of new media and other connective technologies. We are working to use new tools to deal effectively with the 24/7 reality of new media. For example, a December 2009 redesign of the Department's website, *www.state.gov*, provided improved navigation, a fresh design, and seamless integration with social media including the DipNote blog. In support of the President's Open Government initiative, the site hosts *www.state.gov/open* as a tool for citizen engagement. We also developed CO.NX, a multimedia web chat platform that brings together Americans and overseas audiences for two-way conversations. We used CO.NX to stream live Secretary Clinton's January speech at the Newseum on Internet Freedom and invited audiences to submit questions for a panel discussion following the speech. Almost 40,000 people from over 90 countries logged onto the CO.NX channel to participate in the major foreign policy address.

We continue to develop new tools to support new media. In May 2010, we launched a mobile version of *www.state.gov* at *http://m.state.gov*, providing top stories, the daily briefing, country information, and Secretary Clinton's press releases in an easy-to-read format available for hand-held devices.

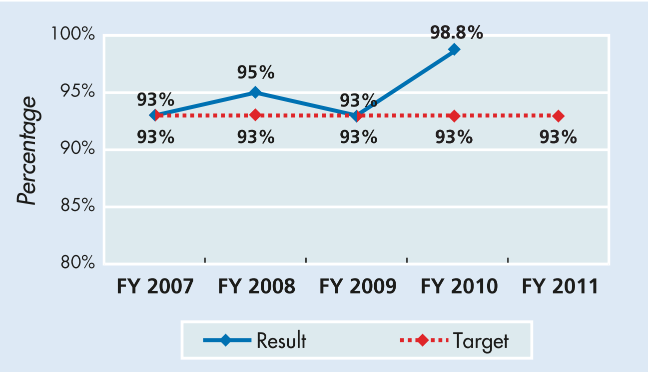
Key Achievements

- In 2010, the Department produced and coordinated the live production of over 21 webcasts. Roughly one-third of these webcasts originated outside the continental United States. The Department also created and delivered over 4,000 hours of on-demand video to *www.state.gov*, Dipnote, YouTube, iTMS, Facebook, and broadcast aggregators and placement services such as PRNewsWire and Pathfire.
- Through the *Democracy Is…Video Challenge,* a public-private partnership initiated by the Department, over six million democracy advocates, filmmakers, and citizens engaged in ongoing dialogue on democracy in the past year using new media platforms and traditional public diplomacy events around the world.
- In the past year, the DipNote blog marked its third anniversary and passed 30 million total page views. This past year also ushered in a blog redesign and expanded coverage of key foreign policy topics including Secretary Clinton's overseas travel, Afghanistan, Pakistan, Sudan, and global women's issues. Two online organizations named DipNote one of the top 10 government blogs this past year. DipNote was also made available across multiple mobile-phone platforms.
- The Department developed a Fund for Innovation, which funded 19 public diplomacy projects across all regions, focused on generating creative approaches to reach new audiences.
- In FY 2010, the Department covered over 250 of the Secretary's press events; over 300 State Daily Foreign Press Center and Special Press Briefings; and over 200 domestic and foreign interviews. It also produced over 2,600 media clips for internet-based news clip service providers and more than 2,000 hours of programming for worldwide distribution via satellite and web-based platforms.
- This year, the Department launched new initiatives to emphasize foreign policy priorities. Examples include the mobile version, *mWomen@state*, in support of the commitment to increase opportunities for women, and the Presidential Policy Directive on global development.

Summary and Analysis of Performance Trends

The percentage of exchange program participants with increased understanding of the United States is an illustrative indicator for this Strategic Goal to assess the correlation between participating in U.S.-sponsored exchange programs and increased understanding and more favorable views of the United States. This underscores the importance of maintaining and leveraging an active alumni network of

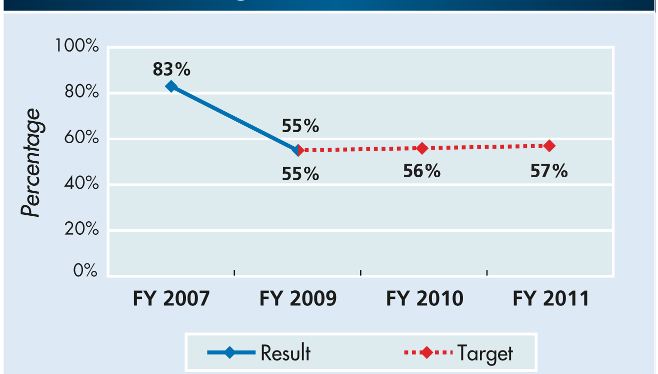
Percentage of Exchange Program Participants with Increased Understanding of the U.S.



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

exchange participants who have benefited from a positive experience with the United States. The Department assesses the percentage of participants in Department-sponsored exchange programs who increased or changed their understanding of the United States immediately following their program. The Department exceeded its FY 2010 target with nearly 99 percent of respondents surveyed responding favorably, thus demonstrating that cultural exchange programs are positively reshaping foreign opinions of the United States.

Percent of foreign audiences surveyed who expressed a better understanding of U.S. policy, society and values after exposed to International Information Programs, Products and Activities[1]



Source: Public Diplomacy Impact (PDI) study.

[1] Indicator new in FY 2007 and then rebaselined in FY 2008. As a result, FY 2008 results data not collected. This graph shows FY 2007 results under the original data collection methodology, then FY 2009 results under the new baseline. FY 2010 results data is expected to be available in early 2011.

Another indicator the Department uses is the percent of foreign audiences who expressed a better understanding of the United States after exposure to International Information Programs (IIP), Products and Activities. This indicator measures the impact on intended target audiences who consume these products. The Department transforms U.S. policies into information products tailored to engage and persuade critically important international audiences. In FY 2009, 55 percent of IIP audiences surveyed responded that they have a better understanding of U.S. policy, society, and values. FY 2010 data on the effectiveness of international programs will be available in FY 2011.

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 four million Americans reside abroad and Americans make about 60 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 780,000 Americans used last year. 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.

During times of crisis, the Department adapts quickly to fluctuations in demand for our services. For example, we responded to the earthquake that devastated Haiti in January 2010 with a major effort involving over a thousand volunteers in Washington, D.C. and Port-au-Prince. 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.

To strengthen management capabilities, the Department is pursuing an unprecedented multi-year plan to provide the talented, diverse human resources we need to handle the transnational challenges of our time. To prepare and ensure a well-rounded workforce, the Department is providing rigorous training programs to further professional development, including critically needed foreign language training.

Our embassies overseas provide the diplomatic platform for all civilian agencies of the U.S. Government. To protect the diplomatic component of Smart Power, we provide and maintain secure, safe, and functional facilities in the United States and overseas for Department employees and those of other agencies. Our diplomatic security programs protect people and national security information.

To better equip employees and better serve the public, we are investing American Recovery and Reinvestment Act (ARRA) funds in various areas: acquiring the most efficient and energy-saving technology which increases computing efficiency and reliability and improves our environmental impact domestically and abroad; enhancing new buildings to provide safe and secure classrooms at the Foreign Service Institute; and expanding services at two existing passport agencies and initiating construction of five more domestic agencies to make passport services more convenient to Americans at home. More information on ARRA can be found on page 54 of this report and at *www.state.gov/recovery*.

Key Achievements

- In FY 2010, the Office of Overseas Buildings Operations (OBO) completed six major capital construction projects relocating more than 1,500 personnel into more secure, safer, and functional facilities. In addition, OBO completed nine major compound security upgrade projects and issued the first edition of the Long-Range Overseas Maintenance Plan (LROMP) accompanying OBO's FY 2011 budget request for overseas facilities maintenance to Congress.

- The Bureau of Information Resources Management (IRM) used ARRA funds to consolidate nearly 20 percent of domestic data centers into four Enterprise Service Operations Centers (ESOCs), increasing computing efficiency and reliability and reducing electricity demand.

New Embassy compound in Antananarivo, Madagascar, completed in March 2010. Department of State/OBO

IRM plans to consolidate nearly 30 percent more data centers to the ESOCs by the end of FY 2011. The flagship ESOC is certified as a "green" building by the U.S. Green Building Council Leadership in Energy and Environmental Design (LEED) rating system.

- During FY 2010, the Office of Children's Issues in the Bureau of Consular Affairs assisted with the successful return of or access to more than 451 children wrongfully taken to or kept in another country.

- Building on increases of 43 percent in FY 2009 and 37 percent in FY 2008, the Foreign Service Institute continued to expand long distance learning to its global audience in FY 2010 by 20 percent, reaching more Department employees with greater resource efficiency and timeliness.

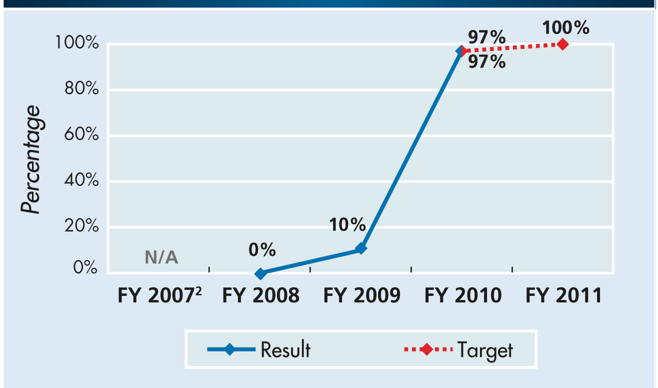
- The Visa Office (VO) and interagency partners intensively reviewed and updated the U.S. Government's guidance on managing watch lists in FY 2010, completing a thorough overhaul of instructions and procedures for nominating visa applicants to be included on the Visas Viper terrorist watch list. Additionally, VO established a new Visa Revocation and Vetting Unit to ensure consular officers take swift action upon receiving threat information to revoke visas. The Unit completed more than 800 revocations in FY 2010.

Summary and Analysis of Performance Trends

The percentage of non-immigrant visa applications submitted electronically is an illustrative indicator for Strategic Goal 7. With 97 percent of non-immigrant visa applications submitted electronically in FY 2010, the Department has made significant progress toward conversion to a fully electronic visa application process. Electronically available data enables the advanced screening of applicants who may be ineligible for a visa for national security reasons by using a variety of automated research tools and databases.

Another illustrative indicator for this Strategic Goal is the number of U.S. Government (USG) personnel moved into safer and more secure and functional facilities. Our embassies overseas provide the diplomatic platform for all U.S. civilian agencies, and the Department is responsible for providing and maintaining secure, safe, and functional facilities for personnel staffed at overseas posts. In FY 2010, the total cumulative number of U.S. Government personnel moved into safer and more secure and functional facilities was 21,548, a number slightly above the FY 2010 target.

Percentage of Non-Immigrant Visa Applications Submitted Electronically.[1]

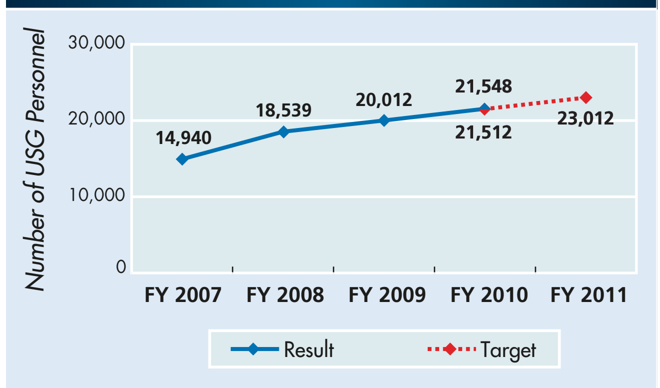


Source: U.S. Department of State, Bureau of Consular Affairs.

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

[2] Electronic visa application program new in FY 2008. Therefore, FY 2007 results data not available.

Total Cumulative Number of USG Personnel Moved into More Safe, Secure, and Functional Facilities Since 2001[1]



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

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

Finishing touches and flag raising at our newest embassy, Bandar Seri Begawan, Brunei. The Brunei Government uses its oil wealth to provide the population with one of Asia's finest health care systems. Malaria has been eradicated, and cholera is virtually nonexistent.

Images: Department of State

U.S. Embassy, Bandar Seri Begawan, Brunei

Summary Analysis of Financial Condition

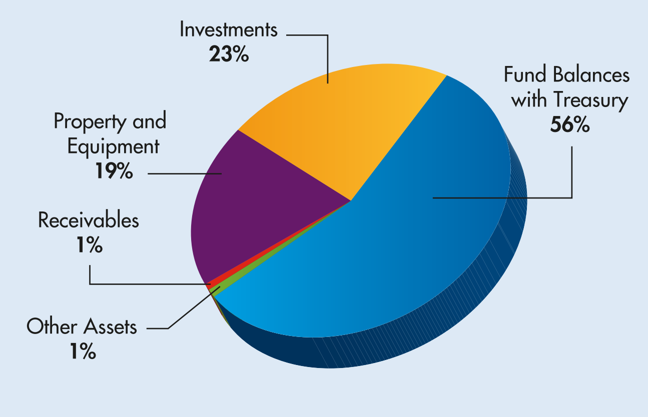
Overview of Financial Position

Assets. The Department's total assets were $68.2 billion at September 30, 2010, an increase of $8.6 billion, 14 percent, over the 2009 total. Fund balances with Treasury were up $6 billion due to unexpended funds carried over from multi-year appropriations. Investments were up $529 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. Property and equipment increased $1.5 billion due to continued emphasis on the construction of new embassies and necessary security upgrades at existing embassies.

Fund Balances, Investments and Property and Equipment comprise 98 percent of total assets for 2010 and 2009. 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.

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 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.

Assets by Type

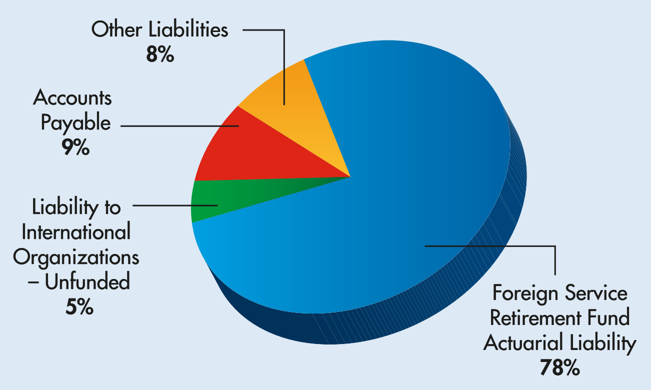


Assets as of September 30, 2010 and 2009

(dollars in millions)	2010	2009 (Restated)
Fund Balances with Treasury	$ 37,819	$ 31,738
Investments, Net	15,901	15,372
Property and Equipment, Net	12,880	11,374
Receivables, Net	452	687
Other Assets	1,113	382
Total Assets	$ 68,165	$ 59,553

Liabilities. The Department's total liabilities were down $34 million, .2 percent, between 2009 and 2010. The liability for future benefits payments to retired foreign service officers shown as the Foreign Service Retirement Actuarial Liability, 78 percent of total liabilities, was up $521 million, 3 percent, due to increasing participation in the benefit plan and changes in cost assumptions. Other liabilities decreased by $285 million, 14 percent, primarily due to a decrease in deferred revenue on International Narcotics and Law Enforcement (INL) reimbursable agreements.

Liabilities by Type



Liabilities as of September 30, 2010 and 2009

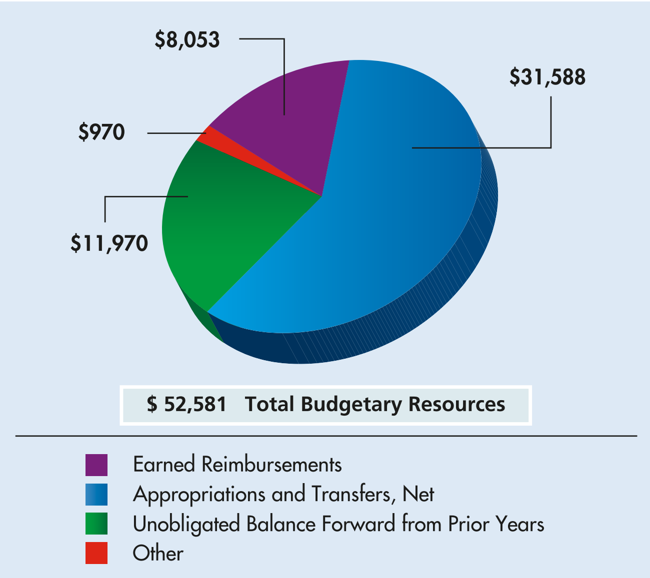
(dollars in millions)	2010	2009 (Restated)
Foreign Service Retirement Actuarial Liability	$ 17,504	$ 16,983
Liability to International Organizations	1,249	1,451
Accounts Payable	2,008	2,076
Other Liabilities	1,741	2,026
Total Liabilities	$ 22,502	$ 22,536

Ending Net Position. The Department's net position, comprised of both unexpended appropriations and the cumulative results of operations, increased 23 percent between 2009 and 2010. Unexpended appropriations was up by 24 percent, $5.7 billion, primarily due to increases in appropriations still available in the Global Health and Child Survival fund, up $3 billion, and the International Narcotics and Law Enforcement Fund, up $2 billion. Cumulative Results of Operations was up $2.8 billion, primarily due to resources used to purchase property and equipment, $2.1 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 2010 and the results of operations by net program costs reported on the Statement of Net Cost.

Sources of Funds
(dollars in millions)

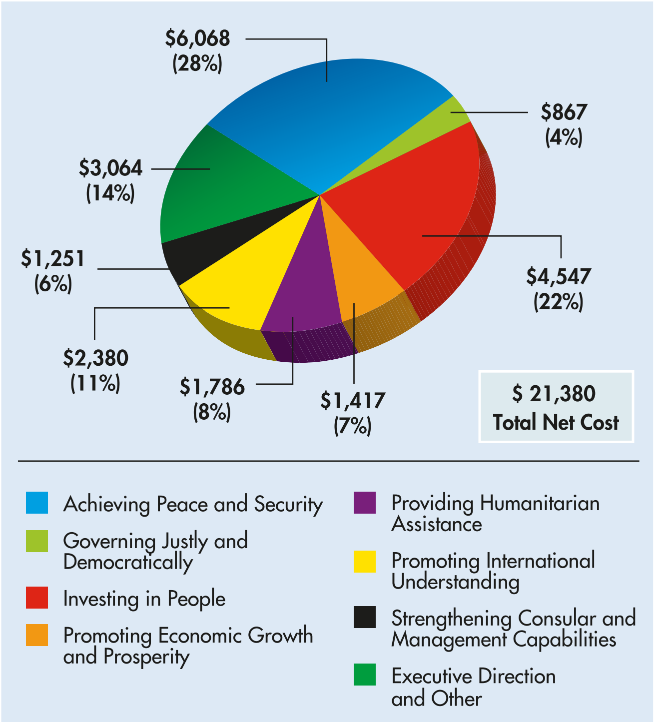


The Combined Statement of Budgetary Resources details what budgetary resources were available to the Department for the year and the status of those resources at year-end. Total Budgetary Resources were up $2.5 billion, 5 percent, in 2010 over 2009. Most of that increase, $2.2 billion, came from increased budget authority from appropriations granted by Congress. Appropriations and offsetting collections comprised 76 percent of year-end resources. The remainder was transfers, recoveries of prior-year unpaid obligations, and unobligated balances brought forward. The Department obligated $39.2 billion of the $52.6 billion total resources in 2010, an increase of $1.1 billion, 3 percent, over 2009. Percent of total resources obligated remained stable at 75 percent in 2010 versus 76 percent in 2009.

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 $21.4 billion is a decrease of 1 percent or $233 million from 2009. The goals of Achieving Peace and Security, Investing in People, and Executive Direction and Other costs 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 2010 net costs. Our International Organizations (IO) costs increased by $1 billion and are distributed to most strategic goals with 51% to Achieving Peace and Security. IO costs include annual assessments for peacekeeping missions and assessments from the United Nations. Our second largest goal, Investing in People, decreased by $543 million primarily due to decreased cost in the Global Health and Child Survival Fund. Support costs for Diplomatic & Consular Programs and Diplomatic Security functions are distributed to all strategic goals and accounted for $1.1 billion of the increase in total costs. Cost increases in Executive Direction and Other costs were offset by a decrease of $1.4 billion from 2009 in the actuarial loss from experience and assumption changes in the FSRDF. In 2009, we performed an experience study to determine if the assumptions used still reflect actual experience within the retiree population. The results reflected that the population of FSRDF retirees is living longer. The Department and our actuaries agreed it was necessary to depart from using the assumptions of OPM's Board of Actuaries. The assumption revisions, both demographic and economic, resulted in a pension cost of $2.7 billion in the FSRDF for 2009.

Net Cost by Strategic Goal
(dollars in millions)



Budgetary Position

The FY 2010 estimated budget for the Department of State operations totaled $16.6 billion, including appropriations for Administration of Foreign Affairs ($12.4 billion), contributions to international organizations and international peacekeeping activities ($3.9 billion), international commissions ($143 million), and related programs ($162 million). These amounts do not include foreign assistance funding, which was provided through the Foreign Operations appropriations.

The Department's FY 2010 budget was funded by the Consolidated Appropriations Act, 2010, under Division F – The Department of State, Foreign Operations, and Related Programs Appropriation Act, 2010. The budget also included supplemental funding from the FY 2010 Supplemental Appropriations Act. Supplemental funding supported Haiti disaster efforts and Afghanistan, Pakistan and Iraq programs.

In addition to appropriated funds, the Department continued 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 supported program requirements to protect American citizens and safeguard the nation's borders. FY 2010 requirements included consular workloads in connection with renewals of Border Crossing Cards and passport demand associated with implementation of the Western Hemisphere Travel Initiative.

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,

THE U.S. AND THE LOWER MEKONG: BUILDING CAPACITY TO MANAGE NATURAL RESOURCES

The Lower Mekong region — comprising Cambodia, Laos, Thailand and Vietnam — is united by a common natural heritage of forests, floodplains, and inland waterways. The Mekong River and its tributaries provide water, food, energy, and transportation to over 60 million inhabitants and sustain one of the most bio-diverse ecosystems on earth. In July 2009, the United States joined these countries to launch the Lower Mekong Initiative to promote cooperation on issues of regional importance. Since then, the United States has launched or expanded a number of projects to promote better management of these natural resources, a key to the sustainable development of the region.

Strengthening Water Management: The Mississippi River Commission and the Mekong River Commission launched a "sister-river partnership" in 2010 to promote cooperation and share best practices in areas such as integrated floodplain management, climate change adaptation, and sustainable basin development.

Cleaning up waterways: In 2010, the United States joined with the Mekong River Commission and local communities to improve regional coordination in managing pollution from agricultural and mining runoff, sewage, and waste-water as well as industrial pollution.

Protecting Forests: National Park Service staff developed a dynamic, field-level exchange program to provide land management, stewardship, and law enforcement training for rangers in Cambodia's Samlaut Protected Area, part of a sister-park relationship to build local capacity to protect this ecosystem from deforestation, wildlife trafficking, and other illicit activities.

Building Science Partnerships: In December 2009, the U.S. Geological Survey and Vietnam's Can Tho University brought together scientists and experts from throughout the region to share information on the impact of climate change and human activities on the ecology and food security of the Mekong basin.

Advancing Clean Energy: Through the Methane-to-Markets Partnership initiative, the U.S. Environmental Protection Agency is working with the livestock and food processing industries in Thailand and Vietnam to capture methane release from swine farms and convert it into electricity, thus reducing greenhouse gas emissions.

and economic interests at more than 260 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 2010, the Department's principal operating appropriation – Diplomatic and Consular Programs (D&CP) – was funded at $9.6 billion. Total D&CP funding included $2.2 billion to support operations of the U.S. Mission in Iraq, $686 million for Department activities in Afghanistan, $1.6 billion for the Worldwide Security Protection program to strengthen security for diplomatic personnel and facilities under threat from terrorism, and $520 million for vigorous 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 IT Central Fund for FY 2010 investments in information technology totaled $259 million. The Fund total included $139 million from the Capital Investment Fund (CIF) appropriation and $120 million in revenue from Expedited Passport fees. Investment priorities included modernization of the Department's global IT infrastructure to assure reliable access to foreign affairs applications and information and projects to facilitate collaboration and data sharing internally and with other agencies. The Embassy Security, Construction, and Maintenance (ESCM) appropriation was funded at $1.8 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 $14 billion in value and includes over 15,000 properties. The ESCM funding included $847 million to support capital security construction and compound security projects. Other agencies with overseas staff under Chief of Mission authority also contributed $454 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 $635 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 $359 million for academic programs of proven value, such as the J. William Fulbright Scholarship Program and English language teaching. It also included $210 million for professional and cultural exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program.

For FY 2011, the President's request for the Department's budget (at this date still pending before the Congress) totals $16.4 billion. It includes resources to address ongoing national security and foreign policy priorities. The request for D&CP is $9.5 billion, including $1.6 billion for Worldwide Security Protection to meet new demands in all regions. The centerpiece of the FY 2011 budget is the request for a 430-position increase in the Foreign Service, part of an ongoing long-range request to increase Foreign Service staff by 25 percent. The request provides $144 million for CIF for further investments in IT infrastructure and collaborative tools. The request for ESCM totals $1.7 billion, including $857 million for design and/or construction of secure facilities, additional site acquisitions, and compound security projects. Further, the request provides $633 million for ECE

THE NATIONAL EXPORT INITIATIVE

The National Export Initiative (NEI) is a government-wide effort to double U.S. exports over the next five years and support two million U.S. jobs, coordinated by the newly created Export Promotion Cabinet that reports to the President. American firms need to find new markets as part of our economic recovery. The United States exported $1.57 trillion in goods and services in 2009, which made up 11 percent of our economic output and supported over 10 million jobs. NEI components are:

Expanding Trade Advocacy — U.S. Government agencies will inform U.S. companies about export opportunities, connecting them with new customers and partners and advocating for their interests.

Access to Credit — Export-Import Bank financing programs will be expanded by $10 billion over the next two years with a special focus on small- and medium-sized enterprises.

Removing Trade Barriers — U.S. Government agencies will enforce international trade laws to level the playing field for American companies, pursuing balanced trade agreements that improve market access for U.S. workers, firms, farmers and ranchers.

The NEI will expand U.S. Government assistance to small- and medium-sized firms by assisting first-time exporters and working with established exporters to broaden their markets. U.S. agencies will ensure that companies use Federal resources available for export support including credits, technical assistance, commercial and political risk insurance,

Deputy U.S. Trade Representative Marantis at an event coordinated by the U.S. Export Assistance Center in Middletown, Connecticut, June 16, 2010.

trade missions, and advocacy by U.S. officials. The United States will work through the G-20 to promote balanced growth in the global economy, ensure that trade agreements are enforced, and work to shape a Doha trade agreement that opens markets. U.S. Embassies and Consulates are key advocates for U.S. businesses overseas and can offer U.S. exporters critical country-specific insight on markets, assist in commercial and investment disputes, and offer expertise on local judicial systems. The Department also facilitates visas for companies doing business overseas — see *http://travel.state.gov/visa/temp/types/types_2664.html*.

to strengthen the exchanges component of public diplomacy, expand the National Security Language Initiative, and bring influential individuals to America.

Effective global engagement is achieved only through continuous presence and requires a level of resources commensurate with unrelenting vigilance. Therefore, the leading objective of the FY 2011 Department of State Operations request is to build the capacity to advance diplomatic solutions for the most challenging issues of our time.

The Department is focused on positioning the right people – with the appropriate training and resources – in the right locations. These diplomats will concentrate on the critical national security efforts of our day, combating terrorism, and promoting freedom. The timing and location of these efforts will often not be of our choosing. Therefore it is critical that the Department be able to conduct diplomacy and deliver assistance in a flexible and dynamic manner. This requires a concerted and long-term focus on recruiting, hiring, training, and retaining the most capable and motivated personnel while providing those stationed overseas the critical equipment and resources necessary.

Diplomatic activities must also be seamlessly coordinated with other U.S. Government agencies, particularly those with foreign policy roles, and with U.S. allies and international

AMERICAN CITIZENS' SERVICES

The Department of State provides routine and emergency services to American citizens through two offices directly in touch with consular officers all over the world who are involved daily in assisting American citizens.

The Office of American Citizen Services and Crisis Management (CA/OCS/ACS) has five geographical divisions with case officers who assist in all matters involving protective services for Americans abroad, including arrests, deaths, financial or medical emergencies, and welfare and whereabouts inquiries. The office also issues Travel Warnings, Travel Alerts, and Country-Specific Information and provides guidance on nationality and citizenship determination, document issuance, judicial and notarial services, estates and property claims, third-country representation, and disaster assistance. For more information, go to *http://www.travel.state.gov/travel/about/about_1245.html.*

The Office of Children's Issues (CA/OCS/CI) serves as the U.S. Central Authority for two multilateral treaties: the 1988 Hague Convention on International Child Abduction and the 1993 Hague Convention on Protection of Children and Cooperation in Respect of Intercountry Adoption.

Abductions: CA/OCS/CI assists in cases of international parental child abduction, a tragedy which abruptly and brutally breaks the relationship between a child and his or her left-behind parent. A signatory to the Hague Convention on International Child Abduction since 1988, the United States works with 68 partner countries to obtain the return of children who are wrongfully held from their parents overseas and in the United States. International child abduction is a growing problem. The number of reported cases of children abducted from the United States to a foreign country in FY 2010 was 1,175 (involving 1,696 children). For more information, go to *http://www.travel.state.gov/abduction/*.

A man and an infant await a departing flight at Haiti's international airport. State Magazine March 2010

Adoptions: CA/OCS/CI also plays an active role in the intercountry adoption process, assisting parents as they seek to provide a home to orphans abroad. For more information, go to *http://www.adoption.state.gov/*.

partners. Leveraging multi-agency, bilateral and multilateral organizational efforts is the most effective way of achieving the results that serve U.S. national interest.

The FY 2011 budget requests the resources necessary to increase diplomatic capacity; providing the tools and funding our diplomats require to pursue the most challenging national security issues, now and in the future.

The FY 2011 budget request will enable the Department to meet the following critical goals: Strengthen Capacity to Pursue Diplomatic Solutions to National Security Issues; Coordinate Stabilization and Reconstruction Efforts; Further Assist Transition to Iraqi Responsibility; Strengthen Public Diplomacy and Exchanges; and Support Multilateral Engagement.

Budgetary Position for Foreign Assistance

The Department of State FY 2010 foreign assistance budget totaled $12 billion. Foreign assistance programs enable the United States Government to promote stability in key countries and regions, confront security challenges, advance economic transformation, respond to humanitarian crises, and encourage better governance, policies, and institutions. The appropriation authority was provided through the Consolidated Appropriations Act, 2010, under Division F—Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010 (Public Law 111-117). The budget also included supplemental funding provided through the Supplemental Appropriations Act, 2010 (Public Law 111-212).

Foreign Assistance programs under the purview of the Department of State included International Narcotics Control and Law Enforcement, which includes the Andean Counterdrug Program from FY 2010 forward; Nonproliferation, Antiterrorism, Demining, and Related Programs; Peacekeeping Operations; International Military Education and Training; Foreign Military Financing; Migration and Refugee Assistance; Emergency Refugee and Migration Assistance; International Organizations and Programs; and Democracy Fund. The Department also implements funds from the Economic Support Fund (ESF) and Assistance for Europe, Eurasia, and Central Asia (AEECA) accounts.

The International Narcotics Control and Law Enforcement (INCLE) appropriation for FY 2010 totaled $2.8 billion. INCLE supported 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-supported programs strengthen law enforcement jurisdictions and institutions. 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, Iraq, Mexico, and Haiti. 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 Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) appropriation was funded at $754 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 FY 2010 Peacekeeping Operations (PKO) appropriation totaled $332 million 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 was 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 2010, the PKO program supported ongoing funding requirements for the Global Peace Operations Initiative, the Trans-Sahara Counterterrorism Partnership (a new counterterrorism program in East Africa), multilateral peacekeeping and regional stability operations, and security sector reform programs in Somalia.

The FY 2010 International Military Education and Training (IMET) appropriation totaled $108 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 received valuable training and education on U.S. military practices and standards. This training included 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 FY 2010 Foreign Military Financing (FMF) appropriation totaled $5.5 billion. FMF furthers U.S. interests around the world by equipping and training 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

U.S. HELPS TO COMBAT ILLICIT TRAFFICKING IN ARMS IN THE WESTERN HEMISPHERE

President Obama and Secretary Clinton continued their commitment to combating threats to the citizens of the Americas. As narco-trafficking and associated crime and violence continue to rise throughout the region, the United States has implemented programs to strengthen partnerships with the States of the Western Hemisphere to combat illicit trafficking in arms.

The U.S. has offered technical assistance to all States in the hemisphere, outlining available U.S. small arms and light weapons-related assistance programs to combat illicit trafficking. Programs are being designed to address the specific needs of individual States. Some highlights of our efforts to combat illicit trafficking include:

- As part of the Caribbean Basin Security Initiative, the United States is partnering with Caribbean States to develop programs that address requests for technical assistance to help tackle trafficking in firearms throughout the region.
- The United States signed eTrace agreements with all seven Central American States and 14 of the 15 Caribbean States. ETrace is a web-based firearm trace request submission system that provides for the electronic exchange of criminal gun data in a secure environment. Expanding eTrace participation throughout the hemisphere was a priority for 2010, including the introduction of a Spanish version of the eTrace software.

Colombia's President Uribe stands with Secretary of State Clinton who shakes hands with a demobilized former member of one of Colombia's armed groups at the Presidential Palace in Bogota, June 9, 2010. ©AP Image

- The United States provided the Organization of American States (OAS) a grant to supply marking equipment to States in the region in order to increase hemispheric capability to trace firearms and identify illicit trafficking routes and suppliers.
- The United States has assessed and offered stockpile management and destruction assistance to a number of States in Latin America and the Caribbean. Through the destruction of aging and unsafe stockpiles, States are avoiding the potential disaster of an explosion, ensuring an increased level of safety for their citizens.

threats including terrorism and trafficking in narcotics, weapons, and persons. FMF was allocated strategically within regions; the vast majority of funds were directed to U.S. sustaining partners, and a significant proportion of funding was directed to developing countries to support their advancement to transforming status.

In FY 2010, the Migration and Refugee Assistance (MRA) appropriation was funded at $1.8 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 2010, 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 2010 Emergency Refugee and Migration Assistance (ERMA) appropriation totaled $45 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 2010 ensured that the United States was able to respond quickly to urgent and unexpected refugee and migration needs.

The International Organizations and Programs (IO&P) appropriation was funded at $394 million in FY 2010. 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 FY 2010 Democracy Fund appropriation was funded at $120 million. The resources promoted democracy in priority

Women and children fleeing the war in Somalia in line to register at Dadaab, the refugee camp in northern Kenya, September 9, 2010.

©AP Image

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 Department of State's FY 2011 budget request for foreign assistance is $12 billion, and is currently still under Congressional consideration. The request provides $10 billion for international security assistance programs, such as INCLE ($2.1 billion), NADR ($758 million), PKO ($286 million), IMET ($110 million), FMF ($5.5 billion), and a new account called the Pakistan Counterinsurgency Capability Fund ($1.2 billion). The requests for MRA ($1.6 billion) and ERMA ($45 million) will support overseas humanitarian assistance, and programs to admit refugees into the United States. Further, the request provides another $350.5 million for voluntary contributions to international organizations.

Challenges in Foreign Assistance

The United States confronts threats more diffuse and complex than at any time in our history: Iraq and Afghanistan, terrorism, climate change, pandemic disease, extreme poverty, weapons proliferation, and global criminal networks all represent the transnational and sub-national challenges we face. 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, 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.

The Office of the Director of U.S. Foreign Assistance (F) was established in 2006 with the mission of coordinating foreign assistance. To better coordinate U.S. foreign assistance programs within a country, F changed the budget formulation process to require a budget developed jointly from the Department of State and the U.S. Agency for International Development (USAID). The joint foreign assistance budget is submitted to the Office of Management and Budget by F on the Secretary's behalf. Each annual budget submission is controlled by a series of budget formulation database tables providing an overarching view of the budget formulation process. Once funding is appropriated, F requires each mission and Washington-based bureau that receives foreign assistance funding to submit an operational plan. The operational plan is a joint State and USAID document describing how appropriated foreign assistance funds will be spent. Because functional bureaus participate in this process by preparing operational plans, programs are much better understood by the missions in which they are implemented. State and USAID also develop and submit an annual joint Performance Plan and Report that describes their results and reports on standardized foreign assistance indicators developed by F. Many missions use this as an opportunity jointly to review the programs and make adjustments to improve effectiveness.

Measuring the results of foreign assistance programs remains paramount to achieving key national priorities while building the foundation for lasting global progress. However, attributing specific results to U.S. funding can be very difficult. Foreign assistance results can take years to accomplish, and U.S. assistance funds are often only a small part of the resources being directed at a problem. Other donors may also be contributing funds, as well as the host government and other partners. Finding indicators that describe assistance results effectively, and that can be collected at minimal cost and in a timely manner, can pose significant challenges. Both State and USAID continue to enhance their capacity to measure results. Both agencies continue reinvigorated monitoring and evaluation capacities, including adding staff to these functions and putting training and technical resources in place to help with performance management.

The future challenge is better integrating the development of scarce foreign assistance program resources with personnel and other administrative requirements. The focus will be towards making targeted investments in a few key areas of convergence – food security, health, climate change, and global engagement. Under the leadership of the Department of State's Deputy Secretary for Management and Resources, efforts are underway to integrate the foreign assistance and State Department operations budgeting processes better, so that personnel and administrative resources are optimally positioned for the effective management of foreign assistance.

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*, 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.

U.S ROLE IN HAITI, CHILE, AND PAKISTAN RELIEF

Secretary Clinton and Haitian President Preval discuss conditions in the country following the earthquake in Port-au-Prince, January 16, 2010.
©AP Image

Haiti

On January 12, 2010, a 7.0 magnitude earthquake struck Haiti, with its epicenter near Port-au-Prince. The earthquake was the worst in Haiti in the last 200 years and resulted in an estimated 230,000 deaths, approximately 1.2 million displaced people within the Port-au-Prince metropolitan area, and between 500,000 and 600,000 people who initially migrated from affected areas to other locations in Haiti. The earthquake also caused an estimated $11.5 billion in damages and reconstruction costs.

U.S. Government humanitarian relief efforts in Haiti totaled more than $1.1 billion in FY 2010. Now, as Haiti works to build back better, the United States is working with the Interim Haiti Recovery Commission (IHRC). The IHRC allows for Haitian-led planning, sequencing, and prioritization of projects; for example, it will help ensure that a hospital is not built without a road that can reach it. The IHRC will also provide greater efficiency in the reconstruction phase as donors coordinate and harmonize their investments with Haiti's plan, identifying gaps and limiting duplication of effort. For more information, see *http://www.state.gov/p/wha/ci/ha/earthquake/index.htm.*

Chile

On February 27, 2010, an earthquake with a magnitude of 8.8 was recorded off the central Chilean coast and caused considerable damage in the two regions nearest the epicenter (200 miles southwest of Santiago). The Chilean government estimates the cost of the earthquake will be almost $30 billion.

Secretary Clinton visited Chile soon after the quake to extend the American people's sympathy and solidarity. She also brought with her the first of the supplies and assistance sent by the U.S. Government in support of Chile's relief efforts. USAID provided nearly $10 million in assistance in the weeks and months following the earthquake, including the provision of temporary shelter materials, water, sanitation and hygiene supplies, mobile water treatment units, generators, and large tents to expand a medical unit. In addition, USAID provided $1 million to the International Federation of the Red Cross for the local purchase and distribution of emergency relief supplies and also supported the deployment to Chile of the U.S. Air Force Expeditionary Medical Support field hospital. For more information, see *http://www.state.gov/p/wha/ci/ci/earthquake/index.htm.*

Pakistan

Floods of unprecedented and tragic proportions began in Pakistan on July 29, 2010. The United States responded immediately to Pakistan's call for assistance, by late August providing approximately $250 million to support relief and early recovery efforts. U.S. military and civilian aircraft evacuated 9,433 people and delivered more than 2,752,413 pounds of relief supplies. U.S. water treatment units have supplied millions of liters of safe drinking water. The U.S. military delivered over 440,000 meals to Pakistan.

Secretary Clinton called upon the international community, at a United Nations General Assembly Special Session on August 19, to donate to Pakistan relief. The Secretary also announced the Pakistan Relief Fund, created by the U.S. Government through the Department of State, as a mechanism for the public to contribute to the ongoing relief effort. For more information, see *http://www.state.gov/p/sca/ci/pk/flood/index.htm.*

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 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, 2010.

In addition, management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The Department conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123. Based on the results of this assessment, the Department can provide reasonable assurance that its internal control over financial reporting as of June 30, 2010 was operating effectively and the Department found no material weaknesses in the design or operation of the internal control over financial reporting.

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

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, 2010

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.

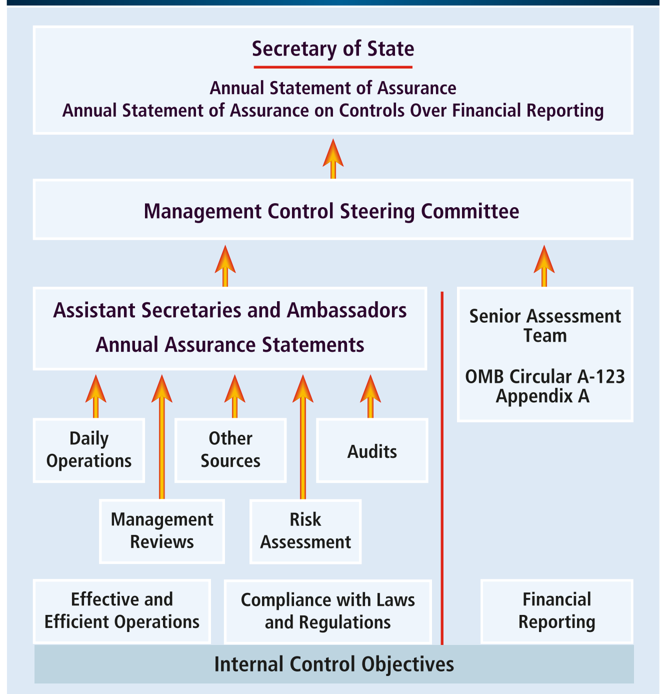
It also requires that the head of the agency, based on an evaluation, provide an annual Statement of Assurance on whether the agency has met this requirement. OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the FMFIA and defines management's responsibility for internal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

In 2004, 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 2010 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 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 and the Government Accountability Office conduct reviews, audits, inspections, and investigations that are considered by management. At the close of FY 2010, the Department reported three program-related significant deficiencies. On the following page is a summary of the FY 2010 results.

The Senior Assessment Team (SAT) provided oversight during 2010 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

Program Issue	Significant Deficiency Description	Beginning	New	Resolved	Ending
Federal financial assistance systems	Lack of comprehensive and reliable information on Federal financial assistance available due to the Department's use of disparate information systems.	1	0	0	1
PIERS	Unauthorized access to the Passport Information Electronic Records System.	1	0	0	1
ECA Visitor Program Oversight	Insufficient oversight to ensure these programs (which bring foreign nationals to the U.S.) are operated in accordance with regulatory requirements.	1	0	1	0
ECA Youth Program Oversight	Insufficient oversight to ensure these programs (which bring foreign nationals to the U.S.) are operated in accordance with regulatory requirements.	1	0	0	1
Total Program Significant Deficiencies		4	0	1	3

Financial Reporting Issue	Significant Deficiency Description	Beginning	New	Resolved	Ending
Unliquidated obligations (ULOs)	ULOs were not consistently and systematically evaluated for validity during the year, as routine reviews were not conducted by all offices throughout the Department.	1	0	0	1
Personal Property	Various conditions existed including insufficient supporting documentation, delays in recording acquisitions and dispositions of assets, and inaccurate contractor held property inventories.	1	0	1	0
Intragovernmental financial reporting	Various conditions existed including transactions not accurately classified as Federal versus Public, inaccurate trading partner classification, accruals lacked a formal validation methodology, and variances between our amounts compared to those recorded by our trading partners.	1	0	0	1
Budgetary financial reporting – Statement of Budgetary Resources (SBR)	The Department compiles its financial statements through a combination of manual and automated procedures. Significant manual adjustments are required to prepare the quarterly SF-133s and SBR, that increase the risk of the likelihood of errors.	1	0	0	1
Liabilities to International Organizations	Liabilities were not supported by adequate documentation and are calculated and reviewed in a manual process that is susceptible to error.	0	1	0	1
Real Property	Various conditions existed including transactions not capitalized accurately for domestic construction-in-process projects, incomplete lease analysis documentation, and reconciliation discrepancies.	0	1	0	1
Total Financial Reporting Significant Deficiencies		4	2	1	5

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 2010 Appendix A assessment included several significant deficiencies in internal control financial reporting. At the close of FY 2010, the Department reported five financial reporting-related significant deficiencies. Above is a summary of the FY 2010 results.

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 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 significant relative to substantial compliance with the requirements of the FFMIA. The Department will work with the Independent Auditor in FY 2011 and beyond to resolve these issues.

Federal Information Security Management Act

The Department of State's 2010 Federal Information Security Management Act (FISMA) and Privacy Management Report effectively and efficiently responded to the Administration's call for new outcome-focused metrics for information security performance. Through incorporating multiple proactive cyber defensive measures, the Department has further enhanced its comprehensive risk-based information security program.

The Department's comprehensive risk-based information program includes a robust cyber response activity, a cutting edge threat analysis capability and a forward leaning revamped certification and accreditation (C&A) process.

During FY 2010, based upon the tireless efforts of officials from across the Department, the Site Risk Scoring (SRS) program reached new levels of positive maturity and provided

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), the Department received and has obligated $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 Projects – Funding ($15 million) will construct five new start-up passport facility sites and renovate and expand two existing sites. Construction was substantially completed at the Arkansas, Kentucky, and Buffalo passport centers. Various planning and construction phases are underway for passport centers in Vermont, El Paso, Atlanta, and San Diego. The National Foreign Affairs Training Center ($5 million) is expanding existing training capacity to ensure personnel assigned overseas have the necessary language training and information technology training. New classrooms at the Training Center are fully operational. Funding ($120 million) for an enterprise Data Center is being established in the western U.S. as part of an initiative that will consolidate all eleven domestic data centers into four Enterprise Service Operations Centers (ESOCs) to increase computing efficiency and reliability, reduce electricity demand, and substantially reduce the Department's risk and provide for future information technology (IT) growth. In FY 2010, the Department completed 90% of the consolidation of the workload of two data centers, and plans to consolidate three additional data centers to the ESOCs. The flagship ESOC is a Leadership in Energy and Environmental Design Silver certified green building. The Foreign Affairs Security Training Center ($70 million) for Diplomatic Security will provide a centralized location that supports all security-related training that is currently conducted at 19 locations throughout the United States.

Information Technology Platform and Cyber Security – Funding ($132 million) will provide for new telephone systems, IT equipment, mobile communications for emergency situations, and projects to guard against and track cyber attacks, improve hardware security and testing, safeguard U.S. citizens' cyber security, and expand cyber education. Equipment deployed during FY 2010 increased the integrity and resiliency of the Department's network and its ability to counter emerging threats.

The National Foreign Affairs Training Center is expanding capacity to ensure personnel assigned overseas have the necessary language and information technology training. Department of State

International Boundary and Water Commission (IBWC) – Funding ($213 million) will repair a major portion of the aging flood control system of the Rio Grande River in New Mexico and Texas, protecting about 3 million U.S. citizens. Improvements to 237 miles of the levees are reported at over 40% complete with one segment done. Funding ($7 million) will rehabilitate contaminated soil and groundwater and other related projects.

Office of Inspector General – Funding ($2 million) to provide oversight of use of ARRA funds and ARRA projects by the Department. The OIG contracted with three independent public auditing firms to conduct audits of most of the Department initiatives funded by the Recovery Act. OIG initiated 14 projects to assess Department and IBWC activities and issued eight reports and other work products assessing Department compliance with new reporting requirements to promote transparency in the award and use of Recovery Act funds.

tangible results. In April 2009, when multiple public and private systems were targeted, commonly referred to as the Google attacks, the Department was able to patch systems in 84 percent of its 260 embassies and 140 other organizations worldwide in just seven days. When Microsoft Security Bulletin MS10-042 was released, 93 percent of the offices installed the patch within 30 days. In short, the SRS program evaluates every embassy and office on how well they are able to resolve security risks overall. Each office is assigned a letter grade, from A through F, and those results are shared with not only IT staff but with each manager. Making the grades public motivates one to do better and promotes collaboration.

The proactive capabilities empower the Department with the ability to pivot and adjust to the rapidly changing cyber threat dynamic and thereby ensuring the appropriate amount of resources are utilized in a prioritized manner to respond accordingly.

In FY 2011, the Department plans to speed data collection for the SRS program to every 36 to 72 hours. The Department is also starting work to expand near-real-time monitoring to the rest of the IT infrastructure, including wireless, mobile devices, software applications, firewalls and routers.

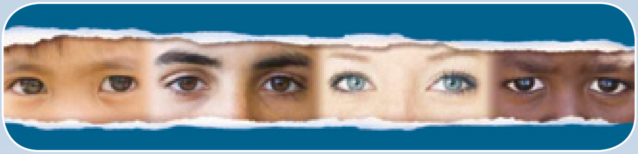
INTERNET FREEDOM IN THE 21ST CENTURY

In January 2010, Secretary Clinton delivered a major foreign policy address on Internet freedom which emphasized a commitment to defending the freedom of expression and the free flow of information in the 21st Century. The free flow of information and ideas over digital technologies is in our national and global interests: it is important for economic growth and U.S. diplomatic relationships; for building sustainable democratic societies; and for meeting global challenges in the years and decades ahead.

The State Department is working with a wide range of partners outside of government to support these principles. Together, they are pursuing an active agenda to promote Internet freedom, to boost online access across the developing world, and to train civil society activists in online organizing.

Many U.S. Government development and public diplomacy programs emphasize to our partners the communication benefits of new technologies. In addition, the State Department began planning and implementing the following initiatives in FY 2010:

- The Bureau of Democracy, Human Rights and Labor worked on a series of projects that assist users in using mobile communications safely, increase access to uncensored content on the Internet, or assist organizations in protecting their data and communications systems.
- The Middle East Partnership Initiative supported a series of pilot projects that will use new media to connect people — particularly young people — to expand civic participation and increase the capabilities of civil society in the Middle East and North Africa.
- The Department began working in partnership with industry, academia, and non-governmental organizations to harness the power of connection technologies to advance the United States' foreign policy agenda. This effort will leverage tools such as mobile phone applications and social media to help strengthen civil society, promote good governance, and encourage people-to-people contacts.



U.S. GOVERNMENT ACTIVITIES TO COMBAT TRAFFICKING IN PERSONS

The 2010 Trafficking in Persons (TIP) Report, compiled by the U.S. Department of State, marks the 10th anniversary of progress and challenge in the fight against modern slavery. In 2000, the United States enacted the Trafficking Victims Protection Act (TVPA), and the United Nations adopted the Protocol to Prevent, Suppress, and Punish Trafficking in Persons, Especially Women and Children — also known as the Palermo Protocol. Over 10 years, governments worldwide have made appreciable progress in understanding some basic realities about human trafficking. But 10 years of focused effort to combat trafficking only represents the infancy of this modern movement. It is not enough to prosecute traffickers if governments do not provide assistance to the survivors and work to ensure that no one else is victimized. For more information, go to *http://www.state.gov/g/tip/about/index.htm.*

Key Facts from the 2010 TIP Report

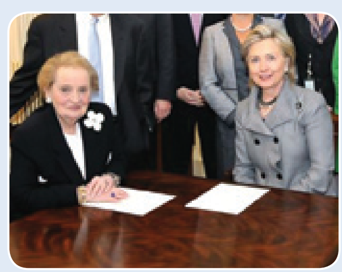
- Estimates on the numbers of trafficked persons range from 12 to 27 million.
- 12.3 million adults and children are subjected to forced labor, bonded labor, and forced prostitution around the world — 56 percent of these victims are women and girls.
- 49,105 victims have been identified worldwide, a 59 percent increase over the last reporting year (2008).
- 4,166 successful trafficking prosecutions took place in 2009, a 40 percent increase over 2008.
- The 2010 TIP Report, for the first time, includes a ranking of the United States based on the same standards to which we hold other countries.

PARTNERS FOR A NEW BEGINNING

In April 2010, the Department of State entered into a partnership with Partners for a New Beginning (PNB) — a group of eminent Americans from a variety of sectors who will reach out systematically to private sector entities at the highest level to harness private sector resources and capabilities to advance New Beginning programs and goals. This will be a flagship partnership in advancing the New Beginning effort.

Led by Former Secretary of State Madeleine Albright and Vice-Chairs Walter Isaacson (CEO, Aspen Institute) and Muhtar Kent (Chairman and CEO, Coca-Cola Company), PNB seeks to engage Muslim communities globally on the basis of mutual interest, respect, and responsibility. The PNB Secretariat operates in close partnership with the Department, facilitated by the Office of Policy Planning, the Special Representative to Muslim Communities, and the Special Representative for Global Partnerships.

PNB inaugurated its full Steering Committee in September 2010 at the Clinton Global Initiative's Annual Meeting. PNB announced commitments to improve the lives of up to 500,000 people by providing increased access to finance, improved business capacity and development services, greater educational opportunities for students and teachers, enhanced physical and virtual exchange programs, and new science and technology solutions across the priority geographical areas of Egypt, Indonesia, Turkey, Pakistan and West Bank/Gaza. In the coming months, PNB will reach out to U.S. companies, universities, laboratories, research centers, NGOs, foundations, philanthropists, and others to harness their resources, capabilities and expertise to complement New Beginning programs and partnerships. As such, PNB will be a vital catalyst for a new beginning in forging ties between people and institutions in the United States and in Muslim communities around the world.



Secretary Clinton announces Partners for a New Beginning with Former Secretary of State Albright at the U.S. Department of State, Washington, D.C., April 2010. Department of State

Milestones of American Diplomacy

1778 — Treaty of Alliance with France: Benjamin Franklin, the first U.S. diplomat, negotiated the first U.S. treaty with French Foreign Minister, the Comte de Vergennes, enabling the fledgling republic to continue its struggle for independence.

1783 — Treaty of Paris: John Jay, Benjamin Franklin, and John Adams negotiated a treaty of peace with Great Britain, obtaining British recognition of U.S. independence and U.S. possession of trans-Appalachian lands to the Mississippi River.

1803 — Louisiana Purchase: U.S. Minister James Monroe negotiated the purchase of the trans-Mississippi territory from Napoleon of France.

1823 — Monroe Doctrine: Responding to Latin America's wars for independence and Russia's expansion in northwest North America, President James Monroe declared the United States opposed to European intervention in Latin America's independence struggles and new European colonization in Western Hemisphere.

1848 — Treaty of Guadalupe-Hidalgo: Diplomat Nicholas Trist negotiated the treaty ending the 1846-1848 war with Mexico and cession of Texas and the Southwest to the United States.

1853 — Perry and Japan: Commodore Matthew Perry sailed into Edo (Tokyo) Bay in 1853, and later signed a treaty establishing the first diplomatic relations with Japan after Japan's 200 years of self-imposed isolation.

1893 — First U.S. Ambassador: President Grover Cleveland appoints the first U.S. Ambassador, Thomas F. Bayard to the Court of St. James (United Kingdom). Previously, the highest rank of a U.S. diplomat was Minister.

1898 — Treaty of Paris: The treaty ended the War of 1898 between Spain and United States, resulted in Cuban independence, and ceded Puerto Rico, the Philippines, and Guam to the United States. The treaty signified the emergence of the United States as a world power.

1906 — Secretary of State's First Official Trip: Secretary of State Elihu Root travelled to Río de Janeiro to attend the Third International Conference of American States. It was the first official overseas trip by a Secretary of State.

1918 — 14 Points: President Woodrow Wilson issued the 14 Points, and they were accepted by the European powers as the basis for peace negotiations to end World War I. Wilson travelled to Europe to conduct peace negotiations, leading to the 1919 Treaty of Versailles.

1941 — The Atlantic Charter: President Franklin Roosevelt and British Prime Minister Winston Churchill drafted the declaration of principles that served as the basis of the Allies' objectives during World War II. The principles included national self-determination, free trade, international cooperation, and freedom from fear and want.

1944 — Bretton Woods Agreement: Delegates from 44 nations created the post-WWII international monetary system. In addition to promoting free trade, the agreement created the International Monetary Fund (IMF) to fund national economic development projects and the International Bank of Reconstruction and Development (IBRD) to fund reconstruction of war-devastated nations. The IBRD is now known as the World Bank.

1947 — Truman Doctrine: President Harry Truman declared that the United States must provide economic and military aid to nations threatened by "armed minorities" and "outside pressure," namely Communism. The Truman Doctrine set containment as the basis of U.S. Cold War foreign policy.

1947 — Marshall Plan: Secretary of State George C. Marshall called for an extensive program to rebuild war-torn Europe. Funded by Congress, the reconstruction program for Western and Central Europe ultimately cost $12 billion.

1948 — North Atlantic Treaty: The United States, Canada and ten Western European nations signed the North Atlantic Treaty, a defensive alliance against Soviet military power. NATO, the treaty's organization, encouraged military cooperation, technical exchange, and standardization among the twelve allies.

1962 — Cuban Missile Crisis: President John F. Kennedy and Soviet Premier Nikita Khrushchev negotiate removal of Soviet missiles from Cuba over Fidel Castro's protests. Kennedy's diplomacy resolved the crisis that was the closest the two superpowers came to nuclear war.

1968 — Nuclear Nonproliferation Treaty: Signed by or acceded to by over 189 nations, the treaty bans the proliferation of nuclear weapons, urges nuclear disarmament, and allows for the transfer of nuclear technology for peaceful uses only.

1978 — Camp David Accords: Negotiated by President Jimmy Carter, the accords (two treaties) ended 30 years of conflict, led to normalization of relations between the two countries, and provided a framework for comprehensive peace in the Middle East.

1989 — Cold War Ends: In a May 1989 speech on U.S. policy at Texas A & M University, President George H.W. Bush acknowledged that the Cold War had ended.

1991 — Operation Desert Storm: In response to Iraq's invasion of Kuwait, the United States, under President George H.W. Bush, built an international coalition and, after United Nations approval, militarily pushed Iraq out of Kuwait.

1994 — The North American Free Trade Agreement (NAFTA): The agreement between the United States, Canada, and Mexico formed a free trade area to reduce barriers to trade and investment.

2001 — 9/11 Terrorism and Afghanistan: In the wake of al-Qaeda's attacks on the World Trade Center, the United States formed a global coalition against terrorism. Three weeks later, the coalition began Operation Enduring Freedom in Afghanistan to capture Osama bin Laden and al-Qaeda leaders and to remove the Taliban regime that gave safe harbor to al-Qaeda.

2003 — Invasion of Iraq: After Iraq's repeated refusals to comply with UN resolutions, the United States led a coalition to depose the regime of Saddam Hussein.

2004 — AIDS Relief: The United States budgets $2.5 billion to combat AIDS, tuberculosis, and malaria in the world. President George W. Bush's Emergency Plan against AIDS is the largest international health initiative ever against a single disease. Funding continued into 2009.

2004 — Indian Ocean Tsunami Disaster Relief: A seaquake off the coast of Sumatra generated large tsunamis that devastated coastal areas around the Indian Ocean. The United States led one of the largest public-private cooperative efforts — totaling more that $2.6 billion — to provide disaster relief and reconstruction assistance to the nations of the region.

2005 — Liberian Elections: After two civil wars, Liberia held elections, choosing Ellen Johnson-Sirleaf as President, the first woman head of state in Africa. The United States encouraged peace talks and landed a task force in Monrovia to protect the city until an accord was reached.

2006 — Central American Free Trade Agreement (CAFTA): The United States and the nations of Central America and the Caribbean joined to form CAFTA, which went into effect in March 2006. Like NAFTA, the agreement sought to reduce barriers to trade and investment.

2006 — Restoration of U.S-Libyan Relations: Secretary of State Condoleezza Rice announced the restoration of U.S.-Libyan relations after Libyan leader Muammar al-Gaddafi agreed to relinquish his weapons of mass destruction.

2007 — U.S.-Indian Nuclear Agreement: The United States and India signed an agreement for cooperation in nuclear energy technology.

2009 — Turkey-Armenia Accord: Secretary of State Hillary Clinton brokered an agreement between Turkey and Armenia, establishing diplomatic relations between them, opening their common border, and easing tensions that date back to World War I.

Financial Section

Message from the Chief Financial Officer

The Agency Financial Report (AFR) remains the cornerstone of our efforts to disclose the Department's financial status and provide transparency and accountability to the American people; both our successes and challenges. It is 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 carry out U.S. foreign policy and advance U.S. interests abroad. It is also a snapshot in time of the immense financial work that occurs behind the scenes every day by Department financial personnel as we operate in more than 270 locations, 172 countries, and in over 150 currencies and foreign languages, often in the most challenging environments.


James L. Millette

This is my second opportunity to provide perspective on the AFR and annual audit results as the Department's Acting Chief Financial Officer. It is a long and exacting march to reach the annual financial statements as part of the AFR by November 15. We have worked smarter and with unity of purpose this year to meet the demands and paces of the external audit process in order to demonstrate the strong financial management work that is conducted on a daily basis in the Department. I would like to express my sincere thanks and appreciation to the Department's financial professionals, whose consistent efforts to plan, execute, and account for the Department's global resources is the foundation of any success and our stewardship of public dollars. It has been a concerted and dedicated effort by all stakeholders involved.

The scale and complexity of the Department's activities and corresponding financial management requirements have grown significantly in the face of a wide range of global and regional issues. Secretary Clinton has challenged the Department to increase its capacity to utilize "Smart Power" by intelligently leveraging our diplomatic and development tools to reinvigorate our leadership around the world and amplify all facets of Civilian Power. The upcoming results of the first ever Quadrennial Diplomatic and Development Review (QDDR) will help further define and shape how we accomplish this goal.

Fundamentally, we understand that strong financial management and internal controls provide the building blocks to support the transparency of operations and accountability to effectively manage our resources and support these efforts. In today's fiscal climate, this financial role will have added significance and an even brighter spotlight as we work to squeeze the most value from our limited resources and execute investment decisions that support our most critical needs. We continue to work diligently to embrace the broadening landscape of financial compliance and reporting requirements and proactively incorporate them into our ongoing budgetary and financial operations. We recognize that the Annual Financial Reporting process is an essential discipline that has provided valuable benefit in the past and will continue in the future. At the same time, we want to be cognizant to strike the right balance between data driven compliance and reasoned practice tied to outcomes. The ultimate goal of course is to support a strong 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.

We were extremely disappointed last year with the outcome of the independent audit, as we engaged a new audit firm to conduct our annual review. While I did not believe the end result truly reflected the status of the Department's financial program, we committed ourselves fully to address the items cited by the independent auditor and to improve the audit process for this year.

As a result, I am very pleased to report to you that the Department has received an unqualified "clean" opinion from the independent auditor for FY 2010. Material weaknesses identified during the FY 2009 audit in property and financial reporting were downgraded to significant deficiencies this year, based on the considerable work conducted in collaboration with the independent auditor and the Department's Office of Inspector General to address their concerns in these areas throughout the 2010 fiscal year. The Department also maintains a robust system of internal controls overseen and validated by senior leadership and administered by the Bureau of Resource Management.

For FY 2010, the Secretary was able to provide an overall unqualified statement of assurance about the Department's internal controls in accordance with the Federal Managers' Financial Integrity Act, as well as an unqualified statement of assurance for internal controls over financial reporting.

While we are pleased with these improvements, we recognize that there are a number of significant items identified in the audit that require our continued attention and diligence. And, it will take focused resolve to both maintain our position and address these items in the coming years. Given the global and complex nature of our operations, there will always be areas of concern and opportunities for improvement. But, we are committed to meeting these challenges. I have confidence in the Department's dedicated financial professionals as we plan for and garner vitally needed resources; budget, manage and account for the Department's funds on behalf of America's taxpayers in support our nation's diplomatic affairs.

James L. Millette
Chief Financial Officer, Acting
November 15, 2010

United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

November 15, 2010

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG/DIG – Harold W. Geisel

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

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, 2010 and 2009, 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, P.C., found

- the consolidated balance sheets as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position for the years then ended, and the related combined statement of budgetary resources for the year ended September 30, 2010, present fairly, in all material respects, the financial position of the Department as of September 30, 2010 and 2009, and its net cost of operations and changes in net position for the years then ended, and its changes in budgetary resources for the year ended September 30, 2010, in conformity with accounting principles generally accepted in the United States of America. Kearney & Company, P.C., was unable to obtain sufficient evidential support for the amounts presented in the 2009

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combined statement of budgetary resources and therefore was unable to express an opinion on the 2009 combined statement of budgetary resources;

- no 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, P.C., 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 and Other Matters, dated November 14, 2010, 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, P.C., 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

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, 2010 and 2009, 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.

The Department was unable to provide timely and complete competent evidential matter to enable us to perform audit procedures to satisfy ourselves that the combined statement of budgetary resources for the year ended September 30, 2009, was free of material misstatements. Our audit work identified issues related to the systems, processes, and internal controls supporting financial reporting, as well as key account balances. As a result of these limitations, we were unable to obtain sufficient evidential support for the amounts presented in the 2009 combined statement of budgetary resources.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the combined statement of budgetary resources for the year ended September 30, 2009.

In our report dated December 14, 2009, we expressed an opinion that the scope of our work was not sufficient to express an unqualified opinion on the 2009 consolidated balance sheet and statement of changes in net position. We qualified our report based on a scope limitation related to property and equipment. The Department was unable to provide timely and complete competent evidential matter to enable us to perform audit procedures to satisfy ourselves that the property and equipment balance was free of material misstatements. Our work identified issues related to land valuation; identification and valuation of assets and liabilities under capital leases; completeness and accuracy of real property; and existence, completeness, and valuation of

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personal property. As a result of these limitations, we were unable to obtain sufficient evidential support for property and equipment amounts presented in the 2009 consolidated balance sheet and consolidated statement of net position. As described in Note 20, the Department addressed these issues and restated its 2009 financial statements. Accordingly, our present opinion on the 2009 consolidated balance sheet and consolidated statement of changes in net position, as presented herein, is different from that expressed in our previous report.

In our opinion, the consolidated balance sheets of the Department as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position for the years then ended, and the combined statement of budgetary resources for the year ended September 30 2010, including the accompanying notes, present fairly, in all material respects, the financial position of the Department as of September 30, 2010 and 2009, and its net cost of operations and changes in net position for the years then ended, and its changes in budgetary resources for the year ended September 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

The Department's Management's Discussion and Analysis, other Required Supplementary Information (including stewardship information), and other accompanying 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, 2010, 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, 2010. 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 and other matters. 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.

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November 14, 2010

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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, 2010, and have issued our report dated November 14, 2010. 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. The 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 and not to provide an opinion on the internal controls. 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 Management's Discussion and Analysis.

We limited our internal control testing to those controls necessary to achieve OMB Bulletin No. 07-04 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 (GAAP), 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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. 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

I. Financial Reporting

The Department compiles its financial statements through a multi-step process using a combination of manual and automated procedures. Neither the Department's Global Financial Management System nor the "top level" Hyperion reporting system are 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, 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. 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 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. The plan included performing an analysis of the compilation process with the objective of evaluating the processes used and establishing a plan of action for ensuring the processes were appropriate and efficient. The Department implemented manual compensating controls to reduce financial reporting risk in this area. Compensating controls can limit the severity of the deficiency but do not eliminate the deficiency. Although improvements were made, the preparation of the financial statements outside of the Department's financial systems and the lack of an integrated budgetary and financial process continue to be a significant deficiency in the Department's financial reporting process.

II. Property and Equipment

The Department reported nearly $13 billion in net property and equipment (P&E) on its 2010 balance sheet, about 19 percent of total assets. Based on the pervasiveness of the deficiencies in internal control identified and the related risk of a material misstatement in the financial

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statements, we assessed the Department's property accounting challenges as a material weakness in our report on the Department's 2009 financial statements. During FY 2010, the Department successfully executed several corrective actions, including:

- A complete reconciliation of real property assets listed in the Department's general ledger to records listed in its property management system.
- Performance of a historical cost revaluation for real properties acquired by gift, which were overstated in prior periods.
- Expansion of lease accounting procedures.

The corrective actions described above identified significant misstatements and resulted in the restatement of 2009 P&E balances. The newly implemented and expanded procedures will reduce the risk of significant misstatements in future periods. However, the Department's internal control structure exhibits several deficiencies that continue to negatively affect the Department's ability to account for real and personal property in a complete, accurate, and timely manner. For 2010, we considered this combination of control deficiencies to be less severe than a material weakness, yet important enough to merit attention by those charged with governance. The individual deficiencies we identified are discussed below.

- Accounting for Construction-in-Progress (CIP) – The Department reported approximately $2.7 billion in domestic and overseas CIP as of September 30, 2010. The Department's internal control structure did not ensure that only valid project costs were capitalized. Transaction-level reviews or other compensating controls did not prevent expenses and personal property amounts from being recorded as CIP. In addition, the internal control structure did not ensure a comprehensive analysis of domestic projects during the assignment of project codes, the accurate recording of contractor retainage, or the identification of lagging costs at the time of a project's substantial completion and transfer into service.

- Accounting for Personal Property – The Department reported over $800 million in net personal property as of September 30, 2010. 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.

- Accounting for 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 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. These adjustments were recorded as manual journal vouchers during the preparation of the financial statements.

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- Capital Leases – The Department manages approximately 7,500 real property leases. Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, requires an analysis of leases for capitalization based on four criteria. Prior to FY 2010, the Department did not apply one of the four SFFAS No. 6 capital lease evaluation criteria due to the lack of fair market value estimates for leased properties. The Department expanded procedures to perform analysis on a subset of leases identified as being potentially capital. However, the internal control structure did not ensure the accurate submission of lease terms by overseas posts, the proper exclusion of land leases from capitalization, or the accurate designation of funded versus unfunded lease liabilities. A comprehensive review of lease agreements had been initiated by the Department but was not complete as of the date of audit testing. In addition, amortization schedules and net present value calculations were manually created and susceptible to error.

III. Accounts Payable Accrual

The Department does not have adequate internal controls in place to ensure that the Federal accounts payable (AP) accrual is reasonably estimated. GAAP requires an agency to estimate the amount of goods and services received before year end for which an invoice was not recorded in the accounting records at year end. The Department designed and implemented a method to calculate the amount owed to other Federal entities. However, The Department did not complete the calculation in time to validate its methodology. The lack of a formal validation limits the Department's ability to ensure that its methodology is consistent with actual events.

Additionally, the Department designed and implemented new methods to calculate and validate the domestic and overseas AP accruals during FY 2010. However, management could not provide sufficient evidence to support the validity of the statistical concepts used.

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. The individual deficiencies we identified are discussed below.

- Effectiveness of Allotment Controls – The Department's accounting systems have automated controls to prevent posting of obligations that exceed available allotment funding authority; however, these controls were overridden by Department personnel. The audit process identified 691 instances in which the allotment funds control was overridden in a two-month period. Allotments provide authority to incur obligations to agency officials, as long as those obligations are within the scope and terms of the allotment authority. Since the Department does not possess an integrated budgetary financial reporting system, breakdowns in allotment funds controls further strain the manual, labor-intensive process to develop the statement of budgetary resources. Overriding the allotment funds control could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

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- Delegated Contracting Authority – The Department does not have a process to ensure that contracting officers adhere to the approved contracting authority delegated by the Department. Execution of binding agreements above contracting limits is a violation of procurement or appropriation law and increases the risk that invalid transactions to commit resources may be recorded. The audit process identified 29 instances in which 13 different contracting officers exceeded their delegated authority. We noted $674 million in obligations related to Department agreements that may represent unauthorized, non-binding agreements.

- Validity and Accuracy of Unliquidated Obligations – The Department's internal controls are not sufficient to ensure that unliquidated obligations (ULO) are consistently and systematically evaluated for validity and deobligation. Weaknesses in controls over ULOs were initially reported in the audit of the Department's 1997 financial statements and subsequent audits. ULOs 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 current internal control structure is not operating effectively to comply with existing policy or facilitate the accurate reporting of ULO balances recorded in the financial statements. The current process is not systematically and timely identifying open obligations that require deobligation. The audit process identified adjustments outside of the operation of the internal control structure of approximately $118 million related to ULOs that required deobligation. The Department recorded this audit adjustment in the financial statements.

- Unsupported 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 and/or services, the Department establishes low-value obligations to bypass system internal controls, allowing invoices to be paid in compliance with the Prompt Payment Act. The audit process identified 1,285 low-value obligations for which the Department could not provide evidence of a binding agreement to support these obligations. The Department should record obligations based upon a reasonable estimate of the Department's potential liability. The continued use of this practice could lead to a violation of the Antideficiency Act and increase the risk of fraud, misuse, and waste.

- Timeliness and Accuracy of Obligations – Procedures and controls are not adequate to ensure the accurate and timely creation, approval, and recording of obligations. During our testing, we noted obligations that were not recorded within 30 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. We also detected obligations that did not have adequate funds available at the time the expenditure was processed. Additionally, we noted that management did not have a sufficient process in place to ensure proper cutoff of obligations at year end.

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V. Liability to International Organizations

The Department does not have adequate internal controls in place to ensure the amount recorded as a liability to international organizations is complete and accurate. GAAP requires a liability to be recorded at year end for obligations due but not yet paid. The Department does not have policies and standardized procedures in place to track and evaluate international agreements, and determine the need to record a liability in the financial statements. The Department currently maintains a schedule of liabilities to international organizations; however, it does not represent, nor was it designed to represent, all international organizations that may result in a liability. The liabilities tracked on the Department's schedule are based on assessments received, or are expected to be received, and not yet paid. The accrual of the liability at year end is based on a manual review of that listing. The manual review is susceptible to error and increases the risk that organizations warranting accrual will not be identified, or that previously recorded liabilities that are no longer intended to be paid will not be removed.

VI. 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 design and performance, and an ability to identify and respond to changing risk profiles. The National Institute of Standards and Technology and Government Accountability Office (GAO), in its Federal Information System Controls Audit Manual, provide control objectives and evaluation techniques utilized during the course of our audit.

IT controls were reported as a significant deficiency in our report related to the Department's 2009 financial statements. In FY 2010, the Department remediated certain deficiencies, including documenting controls in multiple applications, improving definitions of user roles and responsibilities, and reducing instances of inadequate segregation of duties. However, the Department's IT control environment included design and operation weaknesses that, when combined, are considered to be a significant deficiency, as summarized below.

- The Department has not completed a segregation of duties analysis of user rights and authorizations, or appropriately assigned rights in several systems. In addition, the Department could not demonstrate that system owners annually validated user privileges in four applications. Failure to maintain risk profiles and validate user roles may result in inadequate segregation of duties, a weakening of the control environment, errors, and irregularities.

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- The Department was unable to provide current hardware and software configuration baselines for 11 significant applications that process the majority of financial transactions. The baselines are necessary to plan, approve, and implement configuration changes. The baselines facilitate assessing security risks, defining security assessments, performing vulnerability scans, and monitoring performance of control configurations. The baselines also support effective and efficient recovery of systems.

- The Department could not provide documentation and analysis of automated controls in four critical financial applications. These automated controls related to data entry validation, management approvals, segregation of duties, and edit controls. The Department could not provide documentation of data validation controls in another application. Without this information, the Department could not effectively validate controls against the original design supporting accuracy, completeness, validity, and authenticity, which could potentially result in financial reporting errors, improper payments, waste, fraud, and abuse.

- The Department does not cancel system access for separated or inactive users timely. We identified 23 separated employees who had active accounts in two critical applications, and another application contained 36 users whose accounts were inactive for over 90 days. Inactive or terminated user accounts may facilitate circumvention of internal controls, potentially resulting in erroneous and improper transactions, embezzlement, unauthorized use, and a weakening of the internal control structure.

- The Department does not require or could not provide management's approval of system software changes in two critical applications. Management's review and approval helps prevent software changes that are unnecessary, cause processing conflicts, inadequately address user needs, or weaken the internal control structure. The reviews may also help identify changes that will cause errors once placed in production.

During the audit, we noted certain other matters that we will report to Department management in a separate letter. Additionally, Department management has indicated in a separate response that it concurs with the findings presented in our report. We did not audit the Department's response, and accordingly, we express no opinion on it.

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STATUS OF PRIOR YEAR FINDINGS

In the Report on Internal Control included in the audit report on the Department's 2009 financial statements,[1] several issues were noted related to internal control over financial reporting. The table below presents a summary of our internal control findings.

Prior Year Significant Internal Control Deficiencies

Control Deficiency	2009 Status	2010 Status
Environmental Liability Restatement	Material Weakness	Management Letter
Financial Reporting	Material Weakness	Significant Deficiency
Property and Equipment	Material Weakness	Significant Deficiency
Accounts Payable Accruals	Significant Deficiency	Significant Deficiency
Validity and Accuracy of ULOs	Significant Deficiency	Combined with Budgetary Accounting
Information Technology	Significant Deficiency	Significant Deficiency

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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 the Office of Inspector General, OMB, GAO, Department of the Treasury, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Kearney & Company

November 14, 2010

[1] *Independent Auditor's Report on the U.S. Department of State 2009 and 2008 Financial Statements* (AUD/FM-10-03), Dec. 2009.

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REPORT ON COMPLIANCE AND OTHER MATTERS

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, 2010, and have issued our report dated November 14, 2010. 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. The 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. As part of our work, we performed tests of compliance with the 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 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 or other matters 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 in the following paragraphs:

- *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 potentially in violation of the Antideficiency Act.

- *Chief Financial Officers Act of 1990*. This act requires the development and maintenance of an integrated accounting and financial management system that (1) complies with applicable accounting principles, standards and requirements, and internal control

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standards; (2) complies with such policies and requirements as may be prescribed by the Director of OMB; (3) complies with any other requirements applicable to such systems; and (4) provides for (i) complete, reliable, consistent, and timely information that is prepared on a uniform basis and is responsive to the financial information needs of agency management; (ii) the development and reporting of cost information; (iii) the integration of accounting and budgeting information; and (iv) the systematic measurement of performance. However, we found that the Department's financial system does not fully integrate accounting and budgetary information.

- *OMB Circular A-127*, *Financial Management Systems.* This circular requires the Department to establish and maintain an accounting system that provides for (1) complete disclosure of the financial results of the activities of the Department; (2) adequate financial information for Department management, and for formulation and execution of the budget; and (3) effective control over revenue, expenditure, funds, property, and other assets. However, we found that the financial system did not maintain effective control over property, budgetary accounting, and financial reporting.

- *Budget and Accounting Procedures Act of 1950.* This act requires an accounting system to provide full disclosure of the results of financial operations, adequate financial information needed in the management of operations and the formulation and execution of the budget, and effective control over income, expenditures, funds, property, and other assets. 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 the statement of budgetary resources. In addition, we found that the Department's financial system does not provide effective control over property and unliquidated obligations.

- *Prompt Payment Act of 1982.* 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. 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 that were not paid in accordance with the Prompt Payment Act.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. We noted certain instances, described below, in which 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.

Federal Financial Management Systems Requirements:

- A reconciliation of budgetary and proprietary accounts was not part of the Department's routine control structure and could not be provided 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 maintained in certain financial systems.
- The audit process identified instances in which automated controls to prevent postings of obligations that exceeded available allotment funding authorities were overridden. In addition, transactions were able to be posted to invalid allotment codes.
- Interest on overdue payments was not always calculated correctly on domestic payments and not always paid on overdue overseas payments.

Applicable Federal Accounting Standards:

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

Standard General Ledger at the Transaction Level:

- The Department's statement of budgetary resources was subject to numerous adjustments that were made outside of 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.

Except as noted above, our tests for 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. Additionally, Department management provided a separate response to our report. We did not audit the Department'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 the Office of Inspector General, OMB, GAO, Treasury, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Kearney & Company

November 14, 2010

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United States Department of State

Washington, D.C. 20520

UNCLASSIFIED

November 14, 2010

MEMORANDUM

TO: OIG – Harry W. Geisel

FROM: RM – James L. Millette

SUBJECT: Draft Audit Report on the Department of State's 2010 and 2009 Financial Statements

This is in response to your request for comments on the Draft Report of Independent Auditor, Report on Internal Control, and Report on Compliance and Other Matters (Report) of the U.S. Department of State's fiscal year (FY) 2010 and 2009 Financial Statements.

The Department operates in over 270 locations in 172 countries, while conducting business in 150 currencies and an even larger number of languages. Few agencies or corporations have the variety of challenges that the men and women of the Department of State (Department) face daily. Despite these complexities, the Department pursues a commitment to financial integrity, transparency, and accountability that is the equal of any large multi-national corporation. Working closely with your office and the Independent Auditor, Kearney & Company, we are pleased that we were able to achieve an unqualified opinion on our FY 2010 financial statements.

It is a long and exacting march to issue the annual financial statements by November 15. We have worked smarter and with unity of purpose this year to meet the demands and paces of the external audit process in order to demonstrate the strong financial management work that is conducted on a daily basis in the Department. It has been a concerted and dedicated effort by all stakeholders involved. It has been and continues to be a challenge for the Department to complete the audit and meet OMB's reporting deadline given the complexity of our financial operations.

The Department maintains a strong commitment to corporate governance and improving our internal controls. Therefore, we are also pleased that the Independent Auditor did not identify any deficiencies in internal control that they consider to be material weaknesses. The Report on Internal Controls cites six significant deficiencies that align themselves closely with those identified and reported by our Management Control Steering Committee. As reflected in the report, the Department has made progress in strengthening our financial processes and controls, but we also acknowledge that additional work is needed to address the reported significant deficiencies. We are committed to build on the progress made over the last year to further address these issues. We will work collaboratively and constructively with Kearney and your office on the issues identified in the Report to implement improvements and ensure their resolution.

We thank you for the opportunity to comment on the draft report. We would also like to extend our appreciation to your staff and to Kearney & Company for the professional and collaborative manner in which they conducted the audit. We believe considerable progress on a number of matters was made over the past year as a result of the collaborative manner in which the audit was conducted, and the Department remains committed to improving the management of its programs and the quality of its financial reporting.

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.* 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 2009 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	2010	2009 Restated (Note 20)
ASSETS	2		
Intragovernmental Assets:			
Fund Balances With Treasury	3	$ 37,819	$ 31,738
Investments, Net	4	15,901	15,372
Interest Receivable		186	191
Accounts Receivable, Net	5	191	458
Other Assets	8	486	—
Total Intragovernmental Assets		54,583	47,759
Accounts and Loans Receivable, Net	5	75	38
Cash and Other Monetary Assets	6	103	84
Property and Equipment, Net	7	12,880	11,374
Other Assets	8	524	298
Total Assets		$ 68,165	$ 59,553
Stewardship Property and Equipment; Heritage Assets	7		
LIABILITIES	9		
Intragovernmental Liabilities:			
Accounts Payable		$ 228	$ 157
Other Liabilities	9	755	993
Total Intragovernmental Liabilities		983	1,150
Accounts Payable		1,780	1,919
Foreign Service Retirement Actuarial Liability	10	17,504	16,983
Liability to International Organizations	11	1,249	1,451
Other Liabilities	9,12	986	1,033
Total Liabilities		22,502	22,536
Contingencies and Commitments	13		
NET POSITION			
Unexpended Appropriations—Earmarked Funds		—	—
Unexpended Appropriations—Other Funds		29,288	23,546
Cumulative Results of Operations—Earmarked Funds	14	(846)	(910)
Cumulative Results of Operations—Other Funds		17,221	14,381
Total Net Position		45,663	37,017
Total Liabilities and Net Position		$ 68,165	$ 59,553

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,	2010	2009
Achieving Peace and Security		
Total Cost	$ 7,009	$ 6,479
Earned Revenue	(941)	(740)
Net Program Costs	6,068	5,739
Governing Justly and Democratically		
Total Cost	944	794
Earned Revenue	(77)	(41)
Net Program Costs	867	753
Investing in People		
Total Cost	4,580	5,110
Earned Revenue	(33)	(20)
Net Program Costs	4,547	5,090
Promoting Economic Growth and Prosperity		
Total Cost	1,542	1,298
Earned Revenue	(125)	(66)
Net Program Costs	1,417	1,232
Providing Humanitarian Assistance		
Total Cost	1,786	1,695
Earned Revenue	—	—
Net Program Costs	1,786	1,695
Promoting International Understanding		
Total Cost	2,651	2,363
Earned Revenue	(271)	(279)
Net Program Costs	2,380	2,084
Strengthening Consular and Management Capabilities		
Total Cost	4,043	3,831
Earned Revenue	(2,792)	(2,608)
Net Program Costs	1,251	1,223
Executive Direction and Other Costs Not Assigned		
Total Cost	4,195	5,596
Earned Revenue	(1,743)	(1,799)
Net Program Costs Before Assumption Changes	2,452	3,797
Actuarial Loss on Pension Assumption Changes (Note 1, Note 10)	612	—
Net Program Costs	3,064	3,797
Total Cost and Loss on Assumption Changes	**27,362**	**27,166**
Total Revenue	**(5,982)**	**(5,553)**
Total Net Cost	**$ 21,380**	**$ 21,613**

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,	2010			2009 Restated (Note 20)
	Earmarked Funds	All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations				
Beginning Balances, as adjusted	$ (910)	$ 14,381	$ 13,471	$ 12,636
Adjustments:				
Correction of Error (Note 20)	—	—	—	(356)
Beginning Balances, as adjusted	(910)	14,381	13,471	12,280
Budgetary Financing Sources:				
Appropriations Used	—	24,765	24,765	23,176
Non-exchange Revenue	—	25	25	34
Donations	11	17	28	8
Transfers in(out) without Reimbursement	70	—	70	208
Accrued Earmarked Transfer In	—	—	—	32
Rescissions and Other Adjustments	(32)	—	(32)	—
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	—	238	238	133
Non-entity Collections	—	(810)	(810)	(787)
Total Financing Sources	49	24,235	24,284	22,804
Net Revenue from (Cost of) Operations	15	(21,395)	(21,380)	(21,613)
Net Change	64	2,840	2,904	1,191
Total Cumulative Results of Operations	**(846)**	**17,221**	**16,375**	**13,471**
Unexpended Appropriations				
Beginning Balances	—	23,546	23,546	17,979
Budgetary Financing Sources:				
Appropriations Received	—	31,043	31,043	28,939
Appropriations Transferred in(out)	—	(427)	(427)	(8)
Rescissions and Canceling Funds	—	(109)	(109)	(188)
Appropriations Used	—	(24,765)	(24,765)	(23,176)
Total Budgetary Financing Sources	—	5,742	5,742	5,567
Total Unexpended Appropriations	**—**	**29,288**	**29,288**	**23,546**
Net Position	**$ (846)**	**$ 46,509**	**$ 45,663**	**$ 37,017**

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,	2010	2009
Budgetary Resources:		
Unobligated Balance, brought forward, October 1:	$ 11,970	$ 8,163
Recoveries of Prior Year Unpaid Obligations	1,089	702
Budget Authority:		
Appropriations	32,014	29,826
Borrowing Authority	1	—
Spending authority from offsetting collections (gross):		
Earned		
Collected	8,626	10,849
Change in receivable from Federal sources	(250)	33
Change in unfilled customer orders:		
Advance received	(323)	612
Without Advance from Federal sources	—	(2)
Nonexpenditure transfers, net anticipated and actual	(427)	35
Permanently not available	(119)	(80)
Total Budgetary Resources	**$ 52,581**	**$ 50,138**
Status of Budgetary Resources:		
Obligations Incurred:		
Direct	$ 31,119	$ 26,226
Reimbursable	8,125	11,942
Unobligated balance		
Apportioned	12,418	11,396
Unobligated balance not available	919	574
Total Status of Budgetary Resources	**$ 52,581**	**$ 50,138**
Change in Obligated Balance:		
Obligated Balance, net		
Unpaid Obligations, brought forward, October 1	$ 20,362	$ 17,467
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(487)	(456)
Obligations incurred, net	39,244	38,168
Less: Gross Outlays	(33,783)	(34,571)
Less: Recoveries of prior-year unpaid obligations, actual	(1,089)	(702)
Change in uncollected customer payments from Federal sources	250	(31)
Obligated balance, net, end of period:		
Unpaid obligations	24,734	20,362
Less: Uncollected customer payments from Federal sources	(237)	(487)
Net Outlays		
Gross outlays	33,783	34,571
Less: Offsetting collections	(8,303)	(11,460)
Less: Distributed Offsetting receipts	(365)	(337)
Net Outlays	**$ 25,115**	**$ 22,774**

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, as amended.*

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). GAAP for Federal entities is the hierarchy of accounting principles prescribed in the American Institute of Certified Public Accountants' Statement of Auditing Standards No. 91, *Federal GAAP Hierarchy,* which is also incorporated in OMB Circular A-136. FASAB's Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board,* incorporates the 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. Advances are made principally to Department employees for official travel, miscellaneous prepayments and advances to other entities for future services, and salary advances to Department employees transferring to overseas assignments. 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 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. The capitalization threshold for improvements to Department real property was changed from $250,000 to $1,000,000 effective October 1, 2008. 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.

New Embassy

American Embassy Antananarivio, Madagascar was completed in March 2010. The embassy currently handles U.S. relations with both the Union of Comoros and the Republic of Madagascar. Also the U.S. provides humanitarian assistance to the people of Madagascar and small scale development initiatives in Comoros. *Department of State/OBO*

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

Art Bank work "Off Western Head #1" (2003) Mary Prince, monotype.

stop the flow of illegal drugs. To accomplish its mission, INL maintains an aircraft fleet that is one of the largest federal, nonmilitary fleets. Most of the aircraft are under direct INL air wing management. However, a number of aircraft are managed by host-countries. The Department holds title to most of the aircraft under these programs and requires congressional notification to transfer title for any aircraft to foreign governments. INL contracts with firms to provide maintenance support depending on whether the aircraft are INL air wing 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 lesser of the useful life (not to exceed 30 years) or the term of the lease. Capital leases that meet criteria (3) and (4) are depreciated over the useful life of the lease. Capital leases are amortized over the useful life of the lease; if the lease has an indefinite life the useful life 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) and Third Country Nationals (TCNs) at overseas posts who were hired prior to January 1, 1984, are covered under CSRS. FSNs and TCNs 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 a privately managed pension plan that conforms 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).

President Obama signs executive order to increase federal employment of individuals with disabilities at an event marking the 20th anniversary of the Americans with Disabilities Act in Washington D.C., July 26,2010. ©AP Image

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 $238 million and $133 million in 2010 and 2009 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 actuarial liability for which the Department is responsible totaled $72 million as of both September 30, 2010 and 2009.

Valuation of FSN Separation Liability

Separation payments are made to eligible FSN employees who voluntarily resign, retire, or lose their jobs due to a reduction in force, and are in countries that require a voluntary separation payment. The amount required to finance the current and future costs of FSN separation pay is determined annually.

Actuarial Present Value of Projected Plan Benefits for the Foreign Service Retirement and Disability Program

See Note 10 on Foreign Service Retirement Actuarial Liability for the Department's accounting policy for Foreign Service retirement-related benefits.

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. The capitalization threshold for improvements to Department real property was changed from $250,000 to $1,000,000 effective October 1, 2008.

In FY 2009, the actuarial estimates increased significantly over the previous year. The cause of this increase is the result of a change in the underlying assumptions used to calculate the values. The underlying assumption changed as a result of the Foreign Service Retirement Plans Actuarial Experience Study 2003 -2008, dated September 22, 2009. As a result of the study, the valuation for the assumed investment return, the assumed general salary scale, and the assumed rate of inflation have decreased by 0.5% from the previous valuations reported from FY 2004 through FY 2008. The decreases in these three economic indicators combined with changes in demographic assumptions such as withdrawal rates, active employee disability rates, and mortality rates has resulted in a significant increase, $1.8 billion, in the FSRDF reported Actuarial Liability between September 30, 2008 and 2009.

Change in an Accounting Principle

The Statement of Federal Financial Accounting Standard (SFFAS) 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 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

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 is not available for use in its operations. Total non-entity assets at both September 30, 2010 and 2009, were $15 million for amounts in the Chancery Development Trust Account. These items are included in Cash and Other Monetary Assets (See Note 6, *Cash and Other Monetary Assets* for further information).

3 Fund Balances with Treasury

Fund Balances with Treasury at September 30, 2010 and 2009, are summarized below *(dollars in millions)*.

Fund Balances	2010	2009
Appropriated Funds	$ 36,323	$ 30,645
Revolving Funds	1,023	669
Earmarked Funds	438	367
Special Funds	30	31
Deposit & Receipt Accounts*	5	26
Total	$ 37,819	$ 31,738

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

Status of Fund Balances	2010	2009
Unobligated Balances Available	$ 12,418	$ 11,396
Unobligated Balances Unavailable	919	574
Obligated Balances not yet Disbursed	24,477	19,742
Total Unobligated and Obligated	37,814	31,712
Deposit and Receipt Funds	5	26
Total	$ 37,819	$ 31,738

4 Investments

SUMMARY OF INVESTMENTS

Investments at September 30, 2010 and 2009, are summarized below *(dollars in millions)*. All investments are classified as Intragovernmental.

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	2011-2015	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

At September 30, 2009:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	$ 15,334	$ 15,334	2010-2024	3.125%-7%	$ 191
Subtotal	15,334	15,334			191
Non-Marketable, Market Based:					
Israeli-Arab Scholarship Fund	5	5	2009-2010	2%-3.5%	—
Eisenhower Exchange Fellowship Fund	8	8	2010-2019	1.125%-8.875%	—
Middle Eastern-Western Dialogue Fund	18	18	2009-2010	2.875%-6.5%	—
Gift Funds, Treasury Bills	7	7	2010-2019	1.972%-3.5%	—
Subtotal	38	38			—
Total Investments	$ 15,372	$ 15,372			$ 191

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, 2010 and 2009, are summarized here *(dollars in millions)*. All are entity receivables.

	2010			2009		
	Entity Receivables	Allowance for Uncollectible	Net Receivables	Entity Receivables	Allowance for Uncollectible	Net Receivables
Intragovernmental Accounts Receivable	$ 191	$ —	$ 191	$ 458	$ —	$ 458
Non-Intragovernmental Accounts and Loans Receivable	111	(36)	75	91	(53)	38
Total Receivables	$ 302	$ (36)	$ 266	$ 549	$ (53)	$ 496

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

Included in *Accounts and Loans Receivable, Net* is $1 million, in both 2010 and 2009, of repatriation loans administered by the Department. Repatriation loans enable destitute American citizens overseas to return to the United States. Repatriation loans made prior to 1992 are reported net of an allowance for uncollectible loans based upon historical experience. The Federal Credit Reform Act of 1990 (the Act), as amended, governs repatriation loan obligations made after 1991, and the resulting direct loans. The Act requires that the present value of all direct costs (i.e., interest rate differentials, estimated delinquencies and defaults) associated with a loan be recognized and funded completely in the year the loan is disbursed. This value is termed the "subsidy cost" for the year, and is expressed as a percentage of the total face amount of loans disbursed that year. Funding for subsidy costs for loans made after 1991 establishes the subsidy allowance against which future collections and future loan write-offs are netted. Per the provisions of the Act, the Department borrows from Treasury the difference between the face value of loans disbursed and the appropriated subsidy costs, currently 60 percent of face value. The administrative costs associated with loan administration are separately budgeted and funded.

6 Cash and Other Monetary Assets

The Cash and Other Monetary Assets at September 30, 2010 and 2009, are summarized below *(dollars in millions)*. There are no restrictions on entity cash. Non-Entity cash is restricted as discussed below.

	2010			2009		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Chancery Development						
Trust Account:						
Treasury Bills, at par	$ —	$ 15	$ 15	$ —	$ 15	$ 15
Unamortized Discount	—	—	—	—	—	—
Cash-Imprest and Other Funds	88	—	88	69	—	69
Total	$ 88	$ 15	$ 103	$ 69	$ 15	$ 84

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 these amounts is reflected as Funds Held in Trust and Deposit Accounts.

DEPARTMENT OF STATE RANKS AMONG TOP TEN BEST PLACES TO WORK IN 2010

The Department of State placed seventh among the 32 large Federal agencies in ranking based on the U.S. Office of Personnel Management's biannual Federal Human Capital Survey of over 263,000 executive branch employees in over 290 federal organizations.

Best Places to Work is the most comprehensive ranking of federal government organizations on overall employee engagement, as well as in ten workplace dimensions. The rankings are designed to offer job seekers insight into the best opportunities for public service and to provide managers and government leaders a roadmap for improving employee engagement and commitment.

It is worth noting that out of 32 large agencies, the Department of State ranked third on support for diversity; third on effective leadership; fourth on teamwork; fourth on training and development; fifth on performance based rewards and advancement; fifth on employee skills/mission match; and fifth on strategic management.

To view the rankings and analyses of the results, please visit *www.bestplacestowork.org*.

The *Best Places to Work in the Federal Government* ranking is conducted by The Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation.

7 Property and Equipment, Net

Property and equipment balances at September 30, 2010 and 2009, are shown in the following table *(dollars in millions)*.

	2010			2009 (Restated)		
Major Classes	**Cost**	**Accumulated Depreciation**	**Net Value**	**Cost**	**Accumulated Depreciation**	**Net Value**
Real Property:						
Overseas —						
Land and Land Improvements	$ 1,936	$ (31)	$ 1,905	$ 1,654	$ (21)	$ 1,633
Buildings and Structures	11,195	(4,360)	6,835	10,274	(3,989)	6,285
Construction-in-Progress	2,417	—	2,417	1,836	—	1,836
Assets Under Capital Lease	132	(51)	81	169	(69)	100
Leasehold Improvements	368	(217)	151	366	(195)	171
Domestic —						
Structures, Facilities and Leaseholds	645	(291)	354	591	(272)	319
Construction-in-Progress	259	—	259	244	—	244
Land and Land Improvements	81	(6)	75	81	(6)	75
Total — Real Property	17,033	(4,956)	12,077	15,215	(4,552)	10,663
Personal Property:						
Aircraft	676	(440)	236	632	(400)	232
Vehicles	637	(316)	321	554	(311)	243
Communication Equipment	27	(22)	5	29	(25)	4
ADP Equipment	82	(66)	16	78	(59)	19
Reproduction Equipment	8	(7)	1	10	(8)	2
Security	74	(48)	26	92	(60)	32
Software	339	(248)	91	337	(228)	109
Software-in-Development	40	—	40	14	—	14
Other Equipment	240	(173)	67	218	(162)	56
Total — Personal Property	2,123	(1,320)	803	1,964	(1,253)	711
Total Property and Equipment, Net	$ 19,156	$ (6,276)	$ 12,880	$ 17,179	$ (5,805)	$ 11,374

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 six separate collections of Art and furnishings: the Diplomatic Reception Rooms, the Art Bank, Art in Embassies, Cultural Heritage Collection, the Library Rare and Special Book Collection and the Secretary of State's Register of Culturally Significant Property. 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
For Year Ended September 30, 2010

	Diplomatic Reception Rooms Collection	Art Bank	Art in Embassies Program	Cultural Heritage Collection	Library Rare & Special Book Collection	Secretary of State's Register of Culturally Significant Property
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.**	**Collectibles - Rare books and other publications of historic value**	**Noncollection - Buildings of historic, cultural, or architectural significance**
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	Acquired through purchase or donation. Excess items are sold.	Acquired through purchase. Excess items are sold.
Condition	Good to excellent	Good to excellent	Good to excellent	Good to excellent	Good to excellent	Poor to excellent
Number of Items - 9/30/2008	3,445	2,248	1,176	6,416	1,033	20
Acquisitions	14	39		5,075	27	
Adjustments		40	(210)			
Disposals	16			662	1	
Number of Items - 9/30/2009	3,443	2,327	966	10,829	1,059	20
Deferred Maintenance - 9/30/2009	N/A	N/A	N/A	N/A	N/A	$3,665,000
Acquisitions	21	66	14		13	
Adjustments			(20)	2,003		
Disposals	1	19		359		
Number of Items - 9/30/2010	3,463	2,374	960	12,473	1,072	20
Deferred Maintenance - 9/30/2010	N/A	N/A	N/A	N/A	N/A	$4,977,000

8 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, 2010 and 2009, are summarized below *(dollars in millions)*.

	2010	2009
Intragovernmental Advances:		
Other Advances and Prepayments	$ 486	$ —
Non-Intragovernmental Advances:		
Salary Advances to Employees	10	10
Travel Advances to Employees	23	17
Other Advances and Prepayments	484	265
Inventory	7	6
Total Other Assets	$ 1,010	$ 298

9 Liabilities

The Department's Other Liabilities at September 30, 2010 and 2009, are summarized below *(dollars in millions)*.

	2010			2009 (Restated)		
	Current	Non-Current	Total	Current	Non-Current	Total
Intragovernmental						
Deferred Revenue	$ 669	$ —	$ 669	$ 931	$ —	$ 931
Custodial Liability	50	—	50	20	—	20
Other Liabilities	36	—	36	42	—	42
Total Intragovernmental	755	—	755	993	—	993
Federal Employees Compensation Act Benefits	72	—	72	72	—	72
Capital Lease Liability	15	90	105	16	110	126
Accrued Salaries Payable	179	—	179	157	—	157
Contingent Liability	—	10	10	—	15	15
Pension Benefits Payable	55	—	55	56	—	56
Accrued Annual Leave	—	326	326	—	299	299
Funds Held in Trust and Deposit Accounts	—	15	15	—	15	15
Other Liabilities	191	30	221	243	31	274
Deferred Revenues	3	—	3	19	—	19
Subtotal	515	471	986	563	470	1,033
Total Other Liabilities	$ 1,270	$ 471	$ 1,741	$ 1,556	$ 470	$ 2,026

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, 2010 and 2009, are summarized to the right *(dollars in millions)*.

Liabilities Not Covered by Budgetary Resources	2010	2009 (Restated)
Intragovernmental Liabilities		
Unfunded FECA Liability	$ 18	$ 18
Custodial Liability	50	20
Total Intragovernmental Liabilities	68	38
Payable to International Organizations	1,249	1,451
Foreign Service Retirement Actuarial Liability	1,507	1,513
Accrued Annual Leave	326	299
Contingent Liability	10	15
Other Liabilities	290	336
Total Liabilities Not Covered By Budgetary Resources	3,450	3,652
Total Liabilities Covered By Budgetary Resources	19,052	18,884
Total Liabilities	$ 22,502	$ 22,536

10 Foreign Service Retirement Actuarial Liability

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 retirees receive a monthly annuity benefit 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 economic and demographic assumptions used to estimate the actuarial liability changed in FY 2009 as a result of an Experience Study conducted by the Department's actuaries. Revisions made in FY 2009 included changes to the three key economic assumptions that had traditionally been set equal to the assumptions approved by the Board of Actuaries of the Civil Service Retirement and Disability Fund (CSRDF). Since the September 30, 2009 valuation, the Board of Actuaries for the CSRDF has adapted new economic assumptions that are now consistent with the FSRDF assumptions.

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

Assumption	Current Valuation (Under SFFAS No. 33)	Prior Valuation
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, 2009 and 2010. Under the previous standard, however, the actuarial liability would have been $601 million lower than the amount calculated under SFFAS No. 33.

The table below presents the normal costs for FY 2010 and FY 2009 and reflects changes resulting from the implementation of SFFAS No. 33 in FY 2010 as well as changes in the accounting estimate discussed in Note 1 during FY 2009.

Normal Cost:	FY 2010	FY 2009
FSRDS	35.89%	32.36%
FSPS	28.52%	27.56%

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, 2010 and 2009 *(dollars in millions)*.

For the Year Ended September 30,	2010	2009
Pension Actuarial Liability, Beginning of Year	$ 16,983	$ 15,139
Pension Expense:		
Normal Cost	384	326
Interest on Pension Liability	964	931
Actuarial (Gains) or Losses:	—	1,406
From Experience	(601)	—
From Assumption Changes		—
Interest Rate	1,643	—
Other Assumptions	(1,031)	—
Other	(1)	—
Total Pension Expense	1,358	2,663
Less Payments to Beneficiaries	837	819
Pension Actuarial Liability, End of Year	17,504	16,983
Less: Net Assets Available for Benefits	15,997	15,470
Actuarial Pension Liability - Unfunded	$ 1,507	$ 1,513
Actuarial Assumptions:		
Rate of Return on Investments	4.91%	5.75%
Rate of Inflation	2.37%	3.00%
Salary Increase	3.12%	3.75%

Net Assets Available for Benefits at September 30, 2010 and 2009, consist of the following *(dollars in millions)*:

At September 30,	2010	2009
Fund Balance with Treasury	$ —	$ —
Accounts and Interest Receivable	204	205
Investments in US government securities	15,862	15,334
Total Assets	16,066	15,539
Less: Liabilities Other Than Actuarial	69	69
Net Assets Available for Benefits	$ 15,997	$ 15,470

11 Liabilities to International Organizations

The United States, through the Department, maintains membership in and sends representatives to international organizations, such as the United Nations and UN Peacekeeping Missions, which promote international peace and security, economic and social development and human rights. The participation of the United States in these organizations is funded by dues paid from appropriations bills passed by Congress annually. 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. A payable exists for certain other organizations and peacekeeping efforts 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.

Without authorization from Congress, the Department cannot pay certain arrears in dues. The amounts assessed that will never be authorized to be paid do not appear as liabilities on the Balance Sheet of the Department.

In recent years, funding for dues assessed for certain of the international organizations has not been received until the year following assessment. These amounts payable but unfunded do appear as liabilities of the Department, since authorization for payment is expected.

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

As of September 30,	2010	2009
Regular Membership Assessments Payable to UN	$ 699	$ 772
Dues Payable to UN Peacekeeping Missions	314	441
Liabilities to Other International Organizations	1,040	1,030
	2,053	2,243
Less Amounts not Authorized to be Paid	(558)	(617)
Liabilities to International Organizations	$ 1,495	$ 1,626
Accounts Payable - Funded	$ 246	$ 175
Liabilities to International Organizations - Unfunded	1,249	1,451
Total Liabilities to International Organizations	$ 1,495	$ 1,626

12 Leases

The Department is committed to over 8,500 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 $77.8M of the lease costs.

CAPITAL LEASES

The Department has various long-term leases (more than 10 years) 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 lesser of the estimated useful life or lease term. 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, 2010 and 2009 *(dollars in millions)*. Lease liabilities are not covered by budgetary resources.

	2010	2009 (Restated)
Assets Under Capital Leases:		
Land and Buildings	$ 132	$ 169
Accumulated Depreciation	(51)	(69)
Net Assets under Capital Leases	$ 81	$ 100

Future Minimum Lease Payments:

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

2009 (Restated)

Fiscal Year	Lease Payments
2010	$ 16
2011	16
2012	15
2013	15
2014	14
2015 and thereafter	366
Total Minimum Lease Payments	442
Less: Amount Representing Interest	(316)
Obligations under Capital Leases	$ 126

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, 2010 and 2009, for each of the next 5 years and in aggregate are as follows *(dollars in millions)*:

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

Year Ended September 30, 2009 (Restated)	Operating Lease Amounts
2010	$ 321
2011	228
2012	140
2013	84
2014	55
2015 and thereafter	88
Total Minimum Future Lease Payments	$ 916

13 CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

The Department is a party in various administrative proceedings, legal actions, suits, and tort claims brought against it. We periodically review these matters pending against us. As a result of these reviews, we classify and adjust our contingencies for claims that we think it is probable that we will lose and for which we can reasonably estimate the amount of the unfavorable outcome.

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 related to embassy construction, class action suits related to fees collected, Equal Employment Opportunity Commission claims, foreign taxes, 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 $60 to $90 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 2010 and 2009 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 Advisor 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 $652 million. We have paid out $151 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 following page.

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 Earmarked Funds
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	—	—	—	—	69
Total Liabilities	**17,573**	**—**	**—**	**—**	**—**	**17,573**
Net Position:						
Unexpended Appropriations	—	—	—	—	—	—
Cumulative Results of Operations	(1,507)	200	223	121	117	(846)
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	$ —	$ 18	$ 31	$ 9	$ 5	$ 63
Less: Earned Revenues	1,364	50	—	—	22	1,436
Net Program Costs	(1,364)	(32)	31	9	(17)	(1,373)
Costs Not Attributable to Program Costs	1,358	—	—	—	—	1,358
Less Earned Revenues Not Attributable to Program Costs	—	—	—	—	—	—
Net Cost of Operations	**$ (6)**	**$ (32)**	**$ 31**	**$ 9**	**$ (17)**	**$ (15)**
Statement of Changes in Net Position for the Year Ended September 30, 2010:						
Net Position Beginning of Period	$ (1,513)	$ 168	$ 216	$ 119	$ 100	$ (910)
Budgetary Financing Sources	—	—	38	11	—	49
Other Financing Sources	—	—	—	—	—	—
Net Cost of Operations	6	32	(31)	(9)	17	15
Taxes and Other Nonexchange Revenue	—	—	—	—	—	—
Change in Net Position	6	32	7	2	17	64
Net Position End of Period	**$ (1,507)**	**$ 200**	**$ 223**	**$ 121**	**$ 117**	**$ (846)**

Condensed Financial Information for Earmarked Funds *(dollars in millions)*	FSRDF	FSNSLTF	VFDPF	GIFT	All Other Earmarked	Total Earmarked Funds
Balance Sheet As of September 30, 2009:						
Assets:						
Fund Balances with Treasury	$ —	$ 168	$ 183	$ 14	$ 2	$ 367
Investments	15,334	—	—	7	31	15,372
Taxes and Interest Receivable	190	—	—	1	—	191
Other Assets	15	—	33	97	67	212
Total Assets	**$ 15,539**	**$ 168**	**$ 216**	**$ 119**	**$ 100**	**$ 16,142**
Liabilities:						
Actuarial Liability	$ 16,983	$ —	$ —	$ —	$ —	$ 16,983
Other Liabilities	69	—	—	—	—	69
Total Liabilities	**17,052**	**—**	**—**	**—**	**—**	**17,052**
Net Position:						
Unexpended Appropriations	—	—	—	—	—	—
Cumulative Results of Operations	(1,513)	168	216	119	100	(910)
Total Liabilities and Net Position	**$ 15,539**	**$ 168**	**$ 216**	**$ 119**	**$ 100**	**$ 16,142**
Statement of Net Cost for the Year Ended September 30, 2009:						
Gross Program Costs	$ —	$ 17	$ 15	$ 8	$ 5	$ 45
Less: Earned Revenues	1,292	19	—	—	19	1,330
Net Program Costs	(1,292)	(2)	15	8	(14)	(1,285)
Costs Not Attributable to Program Costs	2,663	—	—	—	—	2,663
Less Earned Revenues Not Attributable to Program Costs	—	—	—	—	—	—
Net Cost of Operations	**$ 1,371**	**$ (2)**	**$ 15**	**$ 8**	**$ (14)**	**$ 1,378**
Statement of Changes in Net Position for the Year Ended September 30, 2009:						
Net Position Beginning of Period	$ (142)	$ 166	$ —	$ 122	$ 85	$ 231
Budgetary Financing Sources	—	—	231	5	1	237
Other Financing Sources	—	—	—	—	—	—
Net Cost of Operations	(1,371)	2	(15)	(8)	14	(1,378)
Taxes and Other Nonexchange Revenue	—	—	—	—	—	—
Change in Net Position	(1,371)	2	216	(3)	15	(1,141)
Net Position End of Period	**$ (1,513)**	**$ 168**	**$ 216**	**$ 119**	**$ 100**	**$ (910)**

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, 2010
(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	$ 476	$ 29	$ 1,981	$ 5,047	$ 2	$ —	$ (526)	$ 7,009
Earned Revenue	(135)	(7)	(561)	(764)	—	—	526	(941)
Net Program Costs	341	22	1,420	4,283	2	—	—	6,068
Governing Justly and Democratically								
Total Cost	85	5	44	902	—	—	(92)	944
Earned Revenue	(24)	(1)	(7)	(137)	—	—	92	(77)
Net Program Costs	61	4	37	765	—	—	—	867
Investing in People								
Total Cost	698	44	256	3,623	—	—	(41)	4,580
Earned Revenue	(11)	—	(3)	(60)	—	—	41	(33)
Net Program Costs	687	44	253	3,563	—	—	—	4,547
Promoting Economic Growth and Prosperity								
Total Cost	140	8	71	1,474	—	—	(151)	1,542
Earned Revenue	(39)	(2)	(12)	(223)	—	—	151	(125)
Net Program Costs	101	6	59	1,251	—	—	—	1,417
Providing Humanitarian Assistance								
Total Cost	—	—	1,784	4	—	—	(2)	1,786
Earned Revenue	—	—	(2)	—	—	—	2	—
Net Program Costs	—	—	1,782	4	—	—	—	1,786
Promoting International Understanding								
Total Cost	169	10	86	1,784	785	—	(183)	2,651
Earned Revenue	(48)	(2)	(15)	(270)	(119)	—	183	(271)
Net Program Costs	121	8	71	1,514	666	—	—	2,380
Strengthening Consular and Management Capabilities								
Total Cost	—	—	—	1,360	607	2,960	(884)	4,043
Earned Revenue	—	—	—	(329)	(149)	(3,198)	884	(2,792)
Net Program Costs	—	—	—	1,031	458	(238)	—	1,251
Executive Direction and Other Costs Not Assigned								
Total Cost	5	4	169	6,099	667	—	(2,749)	4,195
Earned Revenue	(3)	(2)	(107)	(3,926)	(441)	—	2,736	(1,743)
Net Program Costs before Assumption Changes	2	2	62	2,173	226	—	(13)	2,452
Actuarial Loss on Pension Assumption Changes	—	—	15	538	59	—	—	612
Net Program Costs	2	2	77	2,711	285	—	(13)	3,064
Total Cost & Loss on Assumption Changes	1,573	100	4,406	20,831	2,120	2,960	(4,628)	27,362
Total Revenue	(260)	(14)	(707)	(5,709)	(709)	(3,198)	4,615	(5,982)
Total Net Cost	$ 1,313	$ 86	$ 3,699	$ 15,122	$ 1,411	$ (238)	$ (13)	$ 21,380

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 year ended September 30, 2010 and 2009, these consist of costs and earned revenue summarized below *(dollars in millions)*:

	2010			2009		
Program	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**	**Total Prior to Eliminations**	**Intra-Departmental Eliminations**	**Total**
Costs:						
Executive Direction & Other	$ 4,302	$ 796	$ 3,506	$ 4,369	$ 1,460	$ 2,909
FSRDF	746	550	196	2,663	472	2,191
ICASS	1,753	1,402	351	1,576	1,198	378
International Commissions	143	1	142	119	1	118
Total Costs	6,944	2,749	4,195	8,727	3,131	5,596
Earned Revenue:						
Executive Direction & Other	1,191	796	395	1,960	1,460	500
FSRDF	1,364	537	827	1,292	457	835
ICASS	1,913	1,402	511	1,629	1,198	431
International Commissions	11	1	10	34	1	33
Total Earned Revenue	4,479	2,736	1,743	4,915	3,116	1,799
Actuarial Loss on Pension Assumption Changes	612	—	612	—	—	—
Total Net Cost for Executive Direction and Other Costs Not Assigned	$ 3,077	$ 13	$ 3,064	$ 3,812	$ 15	$ 3,797

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 2010 and 2009 under the Under Secretary for Management by the following organizations *(dollars in millions)*:

Bureau (or equivalent)	**2010**	**2009**
Bureau of Diplomatic Security	$ 2,844	$ 2,401
Office of Overseas Buildings Operations	1,262	1,111
Bureau of Administration	757	740
Bureau of Information Resource Management	503	340
Bureau of Personnel	606	558
Bureau of Resource Management	2,097	3,807
Foreign Service Institute	163	158
Medical Services and Other	158	237
Total Central Support Costs	$ 8,390	$ 9,352

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 2010 and 2009 was as follows *(dollars in millions)*:

Program Receiving Allocation	2010	2009
Achieving Peace and Security	$ 1,711	$ 1,896
Governing Justly and Democratically	302	335
Investing in People	136	151
Promoting Economic Growth and Prosperity	494	548
Providing Humanitarian Assistance	3	—
Promoting International Understanding	597	662
Strengthening Consular and Management Capabilities	2,568	3,012
Executive Direction and Other Costs Not Assigned	2,579	2,748
Total	$ 8,390	$ 9,352

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 2010 and 2009 was as follows *(dollars in millions)*:

Under Secretary	2010	2009
Political Affairs	$ 11,127	$ 13,334
Public Diplomacy	1,412	1,507
Management (Consular Affairs)	1,865	2,331
Arms Control, International Security Affairs	1,091	1,201
Global Affairs	554	395
Economic, Business and Agriculture Affairs	71	93
Total	$ 16,120	$ 18,861

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, 2010 and 2009 *(dollars in millions)*:

Inter-Entity Cost	2010	2009
Other Post-Employment Benefits:		
Civil Service Retirement Program	$ 125	$ 24
Federal Employees Health Benefits Program	112	109
Federal Employees Group Life Insurance Program	1	—
Litigation funded by Treasury Judgment Fund	—	—
Subtotal – Imputed Financing Source	238	133
Future Workers' Compensation Benefits	13	17
Total Inter-Entity Costs	$ 251	$ 150

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 year ended September 30, 2010 and 2009, consist of the following *(dollars in millions)*:

	2010			2009		
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	$ 824	$ —	$ 824	$ 712	$ —	$ 712
Machine Readable Visa	992	—	992	882	—	882
Expedited Passport	166	—	166	142	—	142
Passport, Visa and Other Surcharges	607	—	607	524	—	524
Fingerprint Processing, Diversity Lottery, and Affadavit of Support	24	—	24	22	—	22
Subtotal – Consular Fees	2,613	—	2,613	2,282	—	2,282
FSRDF	1,364	537	827	1,292	457	835
ICASS	1,913	1,402	511	1,629	1,198	431
Other Reimbursable Agreements	3,792	1,961	1,831	6,238	4,502	1,736
Working Capital Fund	806	692	114	945	789	156
Other	109	23	86	151	38	113
Total	$ 10,597	$ 4,615	$ 5,982	$ 12,537	$ 6,984	$ 5,553

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 the 2010 and 2009 were $300 million and $263 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 2010 and 2009 were $300 million and $250 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2010 and 2009 were $762 million and $778 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.

First New Embassy in FY 2010:

American Embassy Ouagadougou, Burkina Faso was completed in November 2009. The U.S. relations with Burkina Faso are being strengthened with programs to combat poverty by building roads, improving rural land governance and aiding farmers with agricultural development and irrigation projects. *Department of State/OBO*

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, 2010 and 2009. 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, 2010 and 2009, the Department received approximately $52.6 billion and $50.1 billion in budgetary resources, respectively, primarily consisting of the following:

Source of Budgetary Resources *(dollars in billions)*	**2010**	**2009**
Budget Authority:		
Direct or related appropriations	$ 31.0	$ 28.8
Authority financed from Trust Funds	1.0	1.0
Spending authority from providing goods and services	8.1	11.5
Unobligated Balances – Beginning of Year	12.0	8.2
Other	.5	0.6
Total Budgetary Resources	$ 52.6	$ 50.1

Apportionment Categories of Obligations Incurred:
(dollars in millions)

	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

	Direct Obligations	**Reimbursable Obligations**	**Total Obligations Incurred**
For the Fiscal Year Ended September 30, 2009			
Obligations Apportioned Under			
Category A	$ 17,760	$ 11,124	$ 28,884
Category B	8,466	818	9,284
Exempt from Apportionment	—	—	—
Total	$ 26,226	$ 11,942	$ 38,168

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, 2010 and 2009, was approximately $23.0 billion and $17.7 billion, respectively. This includes amounts of $771 million for September 30, 2010 and $613 million for September 30, 2009, 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 $141.5 million and $92.6 million for 2010 and 2009, 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, 2009, is presented below. The reconciliation as of September 30, 2010, is not presented, because the submission of the Budget of the United States (Budget) for FY 2012, which summarizes the execution of the FY 2010 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 2011.

For the Fiscal Year Ended September 30, 2009 *(dollars in millions)*	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources (SBR)	$ 50,138	$ 38,168	$ 337	$ 22,774
Funds not Reported in the Budget:				
Expired Funds	(440)	(25)		337
International Assistance Program	(2,584)	(1,264)		(1,357)
Other	(179)	(60)	(2)	(3)
Budget of the United States	$ 46,935	$ 36,819	$ 335	$ 21,751

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 2010 and 2009, the Department collected $25 million and $34 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)*	**2010**	**2009**
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 39,244	$ 38,168
Spending Authority from Offsetting Collections and Recoveries	(9,142)	(12,194)
Offsetting Receipts	(365)	(337)
Subtotal: Net Obligations	29,737	25,637
Imputed Financing	238	133
Other Resources	55	26
Total Resources Used to Finance Activities	**30,030**	**25,796**
Resources Used to Finance Items not Part of Net Cost:		
Resources Obligated for Future Costs - goods ordered but not yet provided	(5,259)	(2,948)
Resources that Finance the Acquisition of Assets	(2,064)	(1,685)
Resources that Fund Expenses Recognized in Prior Periods	(1,016)	(42)
Other	(96)	(39)
Subtotal: Resources Used to Finance Items not Part of Net Cost	**(8,435)**	**(4,714)**
Total Resources Used to Finance the Net Cost of Operations	**21,595**	**21,082**
Components of the Net Cost of Operations that will not require or generate Resources in the Current Period:		
Increase in Actuarial Liability	521	1,371
Passport Fees Reported as Revenue Returned to Treasury General Fund	(810)	(787)
Depreciation and Amortization	609	599
Interest Income of Trust Funds	(763)	(778)
Other	228	126
Subtotal: Components of the Net Cost of Operation that will not require or generate Resources in the Current Period	**(215)**	**531**
Net Cost of Operations	**$ 21,380**	**$ 21,613**

19 Fiduciary Activities

The Resolution of Libyan Claims deposit fund 19X6224, is presented in accordance with FASAB 31, Accounting for Fiduciary Activities, and OMB Circular A-136, Financial Reporting Requirements. This deposit fund was authorized by a claims settlement agreement between The United States of America and The Government of Libya effective August 14, 2008. The agreement authorized the Department to collect contributions from donors for the purpose of providing compensation for certain claims within the scope of the agreement, investment of contributions into Treasury securities, and disbursement of contributions received in accordance with the agreement. As specified in the document, donors could include governments, institutions, entities, corporations, associations, and individuals. The Department manages this fund 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 this footnote.

Greening of Barbados

American Embassy Bridgetown, Barbados continues energy efficiency through recycling and water and electricity conservation in the embassy operations to achieve a green environment. The House of Assembly of Barbados is the third oldest legislative body in the Western Hemisphere. *Department of State/OBO*

Schedule of Fiduciary Activity

As of September 30, *(dollars in millions)*	**2010**	**2010**	**2010**	**2009**	**2009**	**2009**
	19-X-6224	**19-X-6225**	**Total**	**19-X-6224**	**19-X-6225**	**Total**
Fiduciary net Assets, Beginning of year	$ 288	$ 1	$ 289	$ —	$ —	$ —
Contributions	—	—	—	1,500	28	1,528
Disbursements to and on behalf of beneficiaries	(278)	—	(278)	(1,212)	(27)	(1,239)
Increases/(Decrease) in Fiduciary net assets	(278)	—	(278)	288	1	289
Fiduciary Net Assets, End of Year	$ 10	$ 1	$ 11	$ 288	$ 1	$ 289

Fiduciary Net Assets

As of September 30, *(dollars in millions)*	**2010**	**2010**	**2010**	**2009**	**2009**	**2009**
Fiduciary Assets	**19-X-6224**	**19-X-6225**	**Total**	**19-X-6224**	**19-X-6225**	**Total**
Cash & Cash Equivalents	$ —	$ 1	$ 1	$ —	$ 1	$ 1
Investments	10	—	10	288	—	288
Total Fiduciary Net Assets	$ 10	$ 1	$ 11	$ 288	$ 1	$ 289

20 Restatements

The Department has restated its Balance Sheet and Statement of Changes in Net Position as of September 30, 2009. This restatement had three causes. The first and primary cause was to correct the accounting for certain real property transactions. Management discovered that the building management system included property that was not included in the Department's financial management system. As a result, the Department performed a reconciliation of the two systems to ensure the financial management system was accurate. During this reconciliation, the Department identified errors in previously reported amounts for real property and associated depreciation due to property acquisitions and disposals that had not been recorded, the inclusion of property constructed by the Department but whose ownership resides with other agencies, and valuation errors made in 1996 between the allocation of land and building. In addition, the valuation of gifts of real property to the Department from other countries was corrected. The methodology used to estimate the fair market value (FMV) of the gifts erred in that it presented FMV as of 1996 instead of as of the date of the gift. The effect of the restatement was to decrease assets on the Balance Sheet by $340 million.

The second cause was to correct the valuation of assets under capital lease. Obtaining fair market values overseas often poses a unique challenge to the Department not encountered by domestic agencies. As a result of these challenges, the Department did not gather fair value information. Management learned that because it was not obtaining a fair value for leased property it was unable to appropriately identify and account for leased property in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 6, Accounting for Property, Plant, and Equipment. Specifically, SFFAS No. 6 requires that the net present value of minimum lease payments that equals or exceeds 90 percent of the fair value of the leased property should be classified as a capital lease by the lessee. In FY 2010, the Department evaluated all leases and identified 18 leases whose fair value indicated that they should be classified as capital leases. This change in classification resulted in a restatement with the following effect on the financial statements; increase assets on the Balance Sheet by $49 million and increase liabilities on the Balance Sheet by $54 million.

The third cause was to correct the valuation of internal-use software. The Department performed an analysis of all projects and discovered project costs that did not meet the criteria for capitalization and others that were not amortized appropriately. A formal process has been designed to prevent this from reoccurring. The effect of the restatement was to decrease assets on the Balance Sheet by $11 million.

Cumulative Results of Operations at the beginning of 2009 on the Statement of Changes in Net Position has been adjusted for the effects of the restatements on prior years. The restatements had no effect on the Statement of Net Cost or the Statement of Budgetary Resources.

Consolidated Balance Sheet:

(dollars in millions)	As of September 30, 2009 As Previously Reported	Restatements	As Restated
Property and Equipment, Net	$ 11,676	$ (302)	$ 11,374
Total Assets	59,855	(302)	59,553
Other Liabilities	979	54	1,033
Total Liabilities	22,482	54	22,536
Cumulative Results of Operations - Other Funds	14,737	(356)	14,381
Total Net Position	37,373	(356)	37,017
Total Liabilities and Net Position	59,855	(302)	59,553

Consolidated Statement of Changes in Net Position:

(dollars in millions)	For the Year Ended September 30, 2009 As Previously Reported	Restatements	As Restated
Cumulative Results of Operations			
Beginning Balances	$ 12,636	$ (356)	$ 12,280
Total Cumulative Results of Operations	13,827	(356)	13,471
Net Position	37,373	(356)	37,017

Footnote 7, Property and Equipment, Net:

(dollars in millions)	As of September 30, 2009 As Previously Reported	Restatements	As Restated
Real Property - Overseas:			
Land and Land Improvements:			
Cost	$ 1,886	$ (232)	$ 1,654
Accumulated Depreciation	(21)	—	(21)
Net Value	1,865	(232)	1,633
Buildings and Structures:			
Cost	10,362	(88)	10,274
Accumulated Depreciation	(3,956)	(33)	(3,989)
Net Value	6,406	(121)	6,285
Construction-in-Progress			
Cost	1,827	9	1,836
Net Value	1,827	9	1,836
Assets Under Capital Lease			
Cost	89	80	169
Accumulated Depreciation	(38)	(31)	(69)
Net Value	51	49	100
Leasehold Improvements			
Cost	362	4	366
Accumulated Depreciation	(195)	—	(195)
Net Value	167	4	171
Total-Real Property			
Cost	15,442	(227)	15,215
Accumulated Depreciation	(4,488)	(64)	(4,552)
Net Value	10,954	(291)	10,663

(continued on next page)

Footnote 7, Property and Equipment, Net: *(continued)*

(dollars in millions)	As of September 30, 2009 As Previously Reported	Restatements	As Restated
Personal Property:			
Software			
Cost	327	10	337
Accumulated Depreciation	(225)	(3)	(228)
Net Value	102	7	109
Software-in-Development			
Cost	32	(18)	14
Net Value	32	(18)	14
Total-Personal Property			
Cost	1,972	(8)	1,964
Accumulated Depreciation	(1,250)	(3)	(1,253)
Net Value	722	(11)	711
Total Property and Equipment, Net			
Cost	17,414	(235)	17,179
Accumulated Depreciation	(5,738)	(67)	(5,805)
Net Value	11,676	(302)	11,374

Footnote 9, Liabilities:

(dollars in millions)	As of September 30, 2009 As Previously Reported	Restatements	As Restated
Capital Lease Liability - Current	$ 4	$ 12	$ 16
Capital Lease Liability - Non-Current	68	42	110
Capital Lease Liability - Total	72	54	126
Total Other Liabilities - Current	1,544	12	1,556
Total Other Liabilities - Non-Current	428	42	470
Total Other Liabilities - Total	1,972	54	2,026
Other Liabilities	190	146	336
Total Liabilities Not Covered by Budgetary Resources	3,506	146	3,652
Total Liabilities Covered by Budgetary Resources	18,976	(92)	18,884
Total Liabilities	22,482	54	22,536

Footnote 12, Leases:

(dollars in millions)	As of September 30, 2009 As Previously Reported	Restatements	As Restated
Net Assets Under Capital Leases:			
Land and Buildings	$ 89	$ 80	$ 169
Accumulated Depreciation	(38)	(31)	(69)
Net Assets Under Capital Leases	51	49	100
Future Minimum Lease Payments:			
2010	$ 4	$ 12	$ 16
2011	5	11	16
2012	4	11	15
2013	4	11	15
2014	4	10	14
2015 and Thereafter	315	51	366
Total Minimum Lease Payments	336	106	442
less: Amount Representing Interest	(264)	(52)	(316)
Obligations Under Capital Leases	72	54	126
Operating Leases:			
2010	$ 333	$ (12)	$ 321
2011	239	(11)	228
2012	151	(11)	140
2013	95	(11)	84
2014	65	(10)	55
2015 and Thereafter	139	(51)	88
Total Minimum Lease Payments	1,022	(106)	916

Required Supplementary Information

COMBINING SCHEDULE OF BUDGETARY RESOURCES

For the Year Ended September 30, 2010 *(dollars in millions)*

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
Budgetary Resources:						
Unobligated Balance, brought forward, October 1:	$ 6,115	$ 614	$ 228	$ 1,320	$ 3,693	$ 11,970
Recoveries of Prior Year Unpaid Obligations	767	36	3	26	257	1,089
Budget Authority:						
Appropriations	13,704	3,904	143	1,480	12,783	32,014
Borrowing Authority	1	—	—	—	—	1
Spending authority from offsetting collections (gross):						
Earned						
Collected	7,510	142	8	59	907	8,626
Change in receivable from Federal sources	(251)	—	—	—	1	(250)
Change in unfilled customer orders:						
Advance received	(61)	—	—	(1)	(261)	(323)
Without Advance from Federal sources	—	—	—	—	—	—
Nonexpenditure transfers, net, anticipated and actual	17	—	—	(706)	262	(427)
Permanently not available	(96)	(4)	—	(3)	(16)	(119)
Total Budgetary Resources	**$27,706**	**$ 4,692**	**$ 382**	**$ 2,175**	**$17,626**	**$52,581**
Status of Budgetary Resources:						
Obligations Incurred:						
Direct	$13,510	$ 4,525	$ 289	$ 1,579	$ 11,216	$ 31,119
Reimbursable	7,321	—	8	49	747	8,125
Unobligated balance:						
Apportioned	6,544	159	83	409	5,223	12,418
Unobligated balance not available	331	8	2	138	440	919
Total Status of Budgetary Resources	**$27,706**	**$ 4,692**	**$ 382**	**$ 2,175**	**$17,626**	**$52,581**
Change in Obligated Balance:						
Obligated Balance, net						
Unpaid Obligations, brought forward, October 1	$ 8,061	$ 181	$ 120	$ 966	$ 11,034	$ 20,362
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(485)	—	(3)	—	1	(487)
Obligations incurred, net	20,830	4,525	297	1,628	11,964	39,244
Less: Gross Outlays	(18,218)	(4,554)	(229)	(1,380)	(9,402)	(33,783)
Less: Recoveries of prior-year unpaid obligations, actual	(767)	(36)	(3)	(26)	(257)	(1,089)
Change in uncollected customer payments from Federal sources	251	—	—	—	(1)	250
Obligated balance, net, end of period:						
Unpaid obligations	9,906	116	185	1,188	13,339	24,734
Less: Uncollected customer payments from Federal sources	(234)	—	(3)	—	—	(237)
Net Outlays:						
Gross outlays	18,218	4,554	229	1,380	9,402	33,783
Less: Offsetting collections	(7,449)	(142)	(8)	(58)	(646)	(8,303)
Less: Distributed Offsetting receipts	(365)	—	—	—	—	(365)
Net Outlays	**$10,404**	**$ 4,412**	**$ 221**	**$ 1,322**	**$ 8,756**	**$25,115**

Deferred Maintenance for the Fiscal Year Ended September 30, 2010

The Department occupies more than 3,000 government-owned or long-term leased real properties at more than 260 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 $111 million and $84 million in 2010 and 2009 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.

WOMEN'S AND GIRLS ISSUES

The Department's Office of Global Women's Issues (S/GWI) works with interagency partners to ensure that women are integrated into all aspects of U.S. foreign policy. Strengthening women's political, economic and social empowerment and security are important means to achieve stability, peace and effective economic development. The office was created in 2009 to ensure key administration initiatives, such as global health, food security, and climate change are addressed in terms of how these issues impact women and families globally; and engages in strategic bilateral and multilateral dialogues with nations, including India, Pakistan, and China – to achieve U.S. objectives. The Department is working with the Asia-Pacific Economic Cooperation (APEC) countries to put a first-time focus on women as drivers of economic growth – half of the 21 APEC countries have developing economies and it is calculated that the Asia-Pacific region is shortchanged in excess of $40 billion a year in GDP because of the untapped potential of women.

The Department's efforts under GWI reach women and men to build support in key countries of concern to the United States, whether in the Middle East, South and Central Asia, Africa, Asia or Latin America. In conjunction with the 2010 AGOA Ministerial (African Growth and Opportunity Act), the Department created the African Women's Entrepreneurship Program to provide women with the tools and skills they need to more successfully implement AGOA and its benefits for building businesses and markets. The Department secured $200,000 from Exxon-Mobil to fund follow-up entrepreneurship training to support building businesses.

Secretary Clinton greets local business women in Jakarta, Indonesia. Department of State

On behalf of the Department, the GWI Ambassador-At-Large has met with leaders, government officials, and women's organizations, carrying the message that investment in women is a core pillar of U.S. foreign policy, development and security strategy. The Department manages the Iraqi Women's Democracy Initiative through U.S. NGO partners working in Iraq to build the economic capacity of their women.

The Department's GWI office builds public-private partnerships with businesses, foundations, other governments and NGOs, and leverages external resources to empower women. The Department established an International Fund for Women and Girls to fund local NGO projects to promote maximum sustainability and impact. Also, the Department's small grants initiative funds projects promoting women's political, economic, and social advancement in developing countries, funding 57 projects in 38 countries in 2010. The Department partnered with the Rockefeller Foundation to launch the Secretary's Innovation Award program to fund promising innovations to help women at the local level.

THE UNITED STATES AND AFRICA: PARTNERING FOR PROGRESS

The United States has been a strong advocate of the nations of Africa since their independence and remains determined to support its African partners in achieving the shared long-term goals of democracy, stability, and prosperity. Governments that respect the will of their peoples and govern by consent are more successful and more stable than governments that do not. The United States will work with the international community and civil society in Africa to strengthen democratic institutions, including independent elections commissions, and to preserve the democratic gains made in recent years.

Africa contains many fragile states. Somalia remains locked in a state of war while the Democratic Republic of the Congo continues to struggle to defeat rebel forces operating in the eastern part of the country. Tensions are mounting in Southern Sudan. President Obama has demonstrated his commitment to ending armed conflict on the continent by appointing a Special Envoy for Sudan and a Special Advisor for the Great Lakes. The United States is committed to supporting the African Union's vision of an African Peace and Security Architecture, including the African Standby Force.

The Obama Administration's new $3.5 billion food security initiative, Feed the Future, will assist 12 African focus countries. The African continent continues to suffer from weak health systems, which are taxed by the ravages of HIV/AIDS, malaria, tuberculosis, and other health challenges. The United States has a long tradition of investing in the health of the African continent through countless interventions, including providing treatment for millions of AIDS patients, bed nets to prevent malaria, training skilled birth attendants to decrease maternal mortality, and supporting vaccination campaigns to prevent childhood death. The President's Global Health Initiative continues these activities while focusing on the health of women and girls, integrating services to cover the complete spectrum of health needs, and strengthening health systems.

Secretary Clinton and South African Foreign Minister Maite Nkoana–Mashabane at a signing ceremony for a memorandum of understanding establishing the U.S. and South Africa strategic dialogue, Washington, D.C., April 14, 2010. ©AP Image

Many problems — including narcotics trafficking, climate change, trafficking in persons, and violent extremism — jump across national borders and defy easy solutions. The United States is working to help address transnational challenges by bolstering African maritime security and supporting the fight against violent extremism through programs like the Trans-Sahara Counterterrorism Partnership and the East Africa Regional Strategy Initiative. The United States is committed to working with Africans to find viable solutions to the severe consequences of climate change and to build a sustainable, clean energy, global economy.

Africa matters. The history and culture of the United States and Africa are inextricably linked. Our partnership with Africa is based on our mutual desire to promote democracy, good governance and respect for human rights; to achieve peace and security throughout the continent; and to promote economic growth and prosperity for all. While Africa's future is up to Africans, the United States will continue to play a major role with its African partners in shaping that future.

Other Accompanying Information

Financial Management Plans and Reports

Overview

INTRODUCTION

The Department of State's financial activities operate in approximately 270 locations in 172 countries. We conduct business transactions in over 150 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, Department Performance Plan, Agency Financial Report, Department Performance Report, A Citizen's Guide to Foreign Affairs, Joint Summary of Performance and Financial Information, 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 2010 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.

Implementing Financial Systems and Processes that Meet Federal Requirements.

In FY 2008, we stabilized the Global Financial Management System (GFMS) after its major conversion in FY 2007. Since the initial conversion to GFMS, the Bureau of Resource Management has implemented numerous software changes and enhancements across a wide array of systems including compensation, reporting and management information, and accounting and logistics. In FY 2010 alone, 53 major software releases were placed into production; a 35% increase over FY 2009. These software releases include over 1,600 software changes and enhancements; over 328 payroll changes to compensate our employees accurately and timely; 232 enhancements addressed reporting and management information priorities identified by users and product review groups; 482 addressed accounting, disbursing, and logistic enhancements resulting in process improvements and efficiencies; and 34 enhancements assured securing our employees' sensitive data in our systems and thereby ensuring compliance with Personally Identifiable Information. Ongoing system improvements continued to contribute to the Department achieving a 'Green' rating (98.45% invoices paid on time), on the closely tracked CFO Council's Performance Measure at OMB. Interest penalties were the lowest on record; $48,000 over a twelve month period. We continue to receive the high marks on the Overseas Customer Survey: Regional Financial Management System (RFMS) Direct Connect garnered a satisfaction rating of 4.3 (out of 5), its highest marks ever. Used by over 3,000 customers, both the Consolidated Overseas Accountability Support Toolbox (COAST) and RFMS have reached the highest customer satisfaction ratings ever, 94.6% and 91.2%, respectively, for a combined 10 point improvement over last year.

The new external auditor has significantly increased the volume of requests for information about Information Technology systems. In FY 2010, the audit team generated 175 audit requests, up nearly 20% from the number of requests made in FY 2009 and dramatically higher than the amount of requests made by the prior long-term external auditor.

Leveraging Best Business Practices and E Government.

The **Global e Travel** initiative achieved significant migration success in FY 2010 by expanding the use of a web-based commercially available off-the-shelf system (COTS) solution approved by GSA. As of September 2010, we migrated all domestic bureaus as well as 111 posts. These entities collectively generate over 93% of the Department's temporary duty (TDY) travel volume. In the last 12 months, we have delivered 15 customer-driven enhancements were delivered with new software releases.

The Department's effort of migrating to a **Grant Management Line of Business** solution took a major step forward in FY 2010. The Department expanded its pilot program under our State Assistance Management System (SAMS) using GrantSolutions with the Global Monitoring and Combating Trafficking in Persons organization. In addition, an interface between SAMS and GFMS went live in production in August 2010. Additional bureaus are expected to begin using SAMS in FY 2011. GrantSolutions automates the full range of assistance management activities, from solicitation through award, post-award monitoring and closeout.

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.

Much work has been accomplished in the steps leading up to implementing annuitant payments in GFACS later this calendar year. All design and development have been completed. Testing is underway and will continue to ensure the accuracy of payments to our Foreign Service retirees.

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 2011 and beyond, RM will continue to expand its centralized processing services to support additional posts and wholesale systematic consolidation of some financial processes. For Global e Travel, we anticipate reaching the goal of 95% of overseas temporary duty travel voucher volume being supported, network connections permitting. Next year will also bring focus on greater consolidation of financial and other administrative systems into RM's existing portfolio of systems, incorporating each into a disciplined and certified system development and maintenance organization.

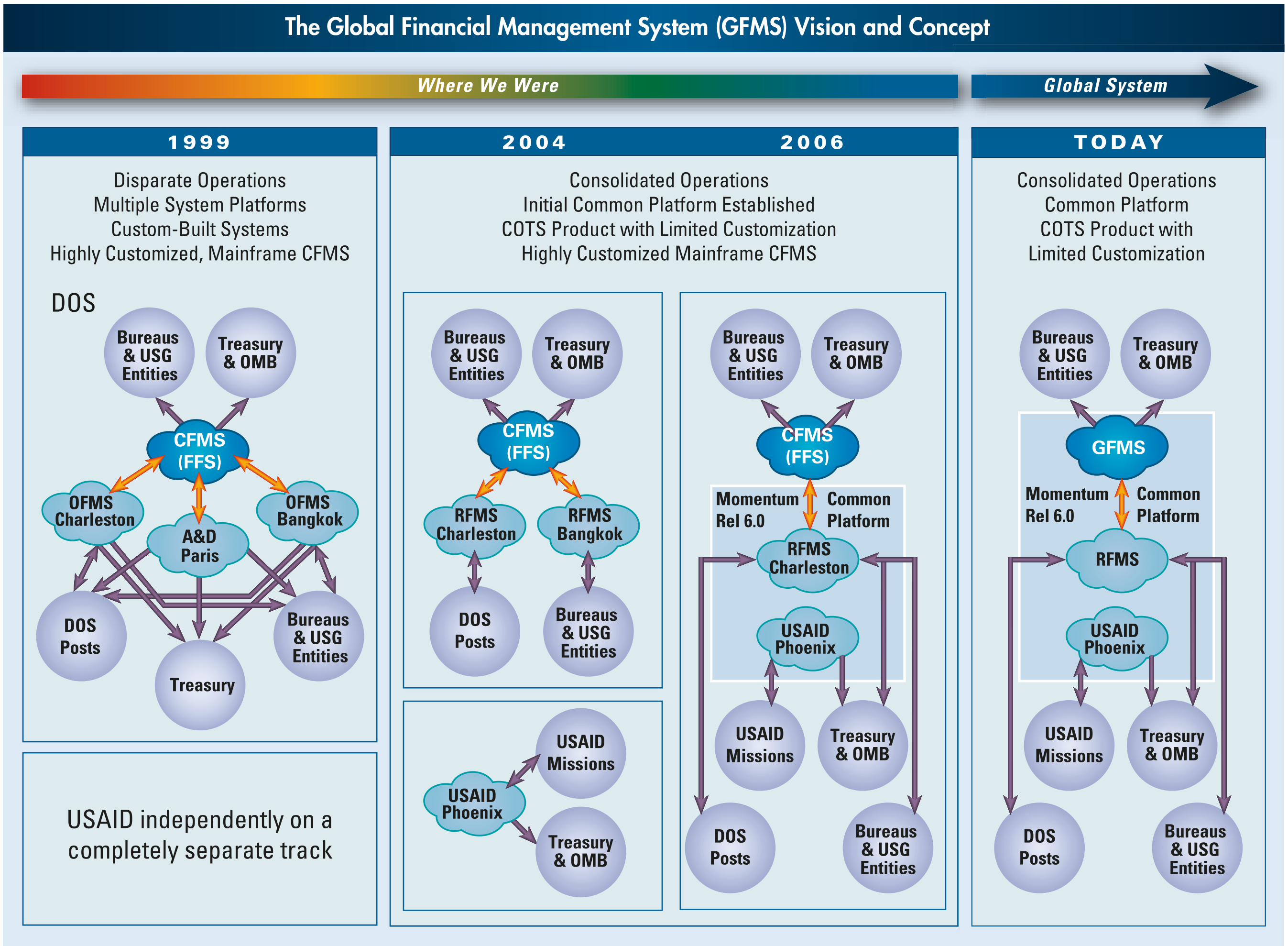
The annuitant payments to retired Foreign Service staff and qualified beneficiaries are expected to be generated through GFACS beginning in early FY 2011. Later in FY 2011, a pilot population of locally engaged staff (including staff employed by serviced agencies) will be paid using GFACS.

The remainder will shift to GFACS on a phased country-by-country basis that is expected to conclude in FY 2013. The final migration will involve the Department's American payroll (i.e., Foreign Service and Civil Service staff) and is expected to occur in FY 2014.

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.

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 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. Momentum is a certified federal financial system used widely in the federal market place. This solution uses the same software and technical platform to support the Global Financial Management System domestically, the Regional Financial Management System overseas, and USAID's Phoenix financial management system. Together with our efforts on Global Direct Connect, this enables 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, RFMS and Global Direct Connect components of State's solution are further described below.

Global Financial Management System.

The Global Financial Management System (GFMS) venture is a series of major, incremental projects to address significant weaknesses, and establish a single global financial management system that integrates the Department's overseas and domestic financial operations onto a common financial management software platform in Charleston, South Carolina. In doing so, GFMS provides a single integrated view of financial data through data standardization, common business processes, and the seamless exchange of information through the Department's financial sectors. Such integration improves operations, eliminates system redundancies, and replaces obsolete and unsupported financial systems. It will also provide the infrastructure for integrating with other activities within State.

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. The original GFMS vision has been achieved. However, our responsibility to provide quality services, make available useful information for decision making, protect our investment, and meet new and emerging

Embassy Gold LEED Certified

American Embassy Brazzaville, Republic of the Congo received the Gold LEED (Leadership in Energy and Environmental Design) certification in 2010. Approximately 90% of the Republic of the Congo's exports is petroleum. *Department of State/OBO* requirements continues. On-going activities to meet our business needs include perfective and adaptive enhancements, COTS product updates to current release levels, and integration and reporting improvements. The most important projects include:

COTS Software Update. The GFMS venture is based on CGI Federal's Momentum commercial off-the-shelf product and requires periodic updates with new vendor software releases. New releases typically contain software corrections to previous releases as well as new functionality for processing improvements, emerging requirements and regulatory changes. Installing new releases results in GFMS using the latest vendor supported software thereby ensuring uninterrupted maintenance support, avoiding premature obsolescence, and fully leveraging the vendor's investment in the product. The COTS Software Update is targeted to move GFMS from the Momentum Release 6.0 to the Momentum Release 6.6. In addition to corrections and new functionality, Momentum Release 6.6 will contain DoS-specific enhancements addressing our overseas system requirements. The Update will be deployed via three sub-projects – GFMS Update, GFMS Data Warehouse Update, and RFMS Update. Updates to Momentum Release 6.6 are scheduled to be implemented in FY 2013 and FY 2014, upon completion of the above predecessor projects.

Accounts Receivable Migration. When the 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 will eliminate the custom DARTS interface, provide a cohesive fully integrated accounts receivable capability, and retire the obsolete legacy DARTS.

Integration Improvements. The Department will take advantage of Service Oriented Architecture (SOA) and Enterprise Service Bus (ESB) features available in its existing integration platform to improve business processes and lower the total cost of ownership of the agency's financial systems. These concepts have already been used and proven effective in the integration of GFMS with the Department's logistics system (ILMS). For example, requisitions entered in ILMS undergo real time funds availability checks directly in GFMS. Additionally, when vendors or contract information changes occur in GFMS, they are automatically forwarded to ILMS via the webMethods integration platform.

The first phase of integration improvements for GFMS will enable GFMS and RFMS (both on the Momentum platform) to communicate with each other in real time, thereby eliminating several complex batch interfaces, improving business processes, and enhancing the timeliness and accuracy of accounting information in both systems. The second phase will expand the use of the enhanced integration platform to additional interfaces.

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. Plans for FY 2011 include the completion of Global Direct Connect deployments, further improvements to the COAST offering, with continued rollout of a much improved encryption capability and pilot deployment of cashiering capabilities.

Global Direct Connect.

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. As a result of our efforts through FY 2010, there are now 166 (out of a possible 180) posts using Global Direct Connect. We will convert the remaining 14 posts in FY 2011.

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 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. The GFMS Data Warehouse contains summary and detailed data for FY 1998 to FY 2010. There are currently 115 tables internal to the Data Warehouse containing a total of almost 2 billion transactions in the GFMS data warehouse. Plans for FY 2011 include expanding available content, developing security reporting, and further enhancement of management reporting capabilities, including executive-level dashboard reporting. Upgrades to more current technology platforms will also occur in FY 2011.

New Consulate

The American Consulate Jerusalem was completed in March 2010. *Department of State/OBO*

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 2010, the Department assessed $43 million of penalties against two companies, and collected $14 million of outstanding penalties from five companies. Balance outstanding at September 30, 2010, was $35 million.

Debt Management

Outstanding debt from non-federal sources (net of allowance) increased from $37.9 million in FY 2009 to $38.3 million in FY 2010 as of September 30, 2010.

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 2010. Of the current and past debts referred to Treasury, $1 million was collected in FY 2010.

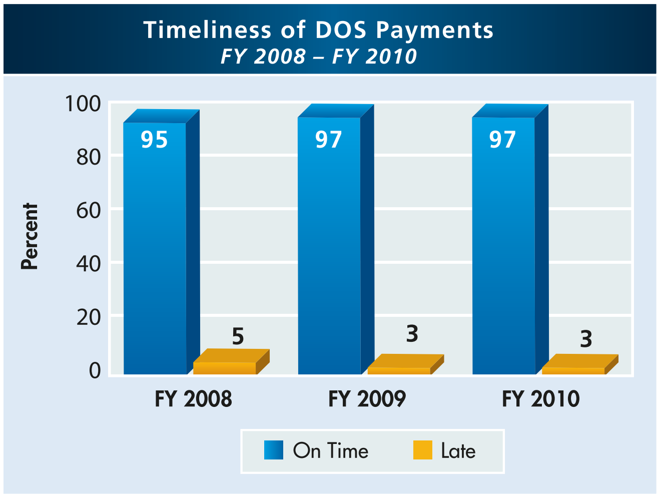
Receivables Referred to the Department of the Treasury for Cross-Servicing

	FY 2010	FY 2009	FY 2008
Number of Accounts	772	1,006	864
Amounts Referred *(dollars in millions)*	$2.0	$1.7	$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 2010, the Department paid timely 97% of the 507,760 payments subject to prompt payment act regulations. The chart below reflects the timeliness of the Department's payments from FY 2008 through FY 2010.



During FY 2010, the Department paid $526 thousand in interest penalties, compared to $1.3 million in FY 2009, a 60 percent decrease. The Bureau of Resource Management (RM) was able to reduce domestic payment delays this year caused by the transition to a new accounting system in FY 2007.

Electronic Payments

The payments made through Electronic Funds Transfer (EFT) were 94 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 million separate payments.

Improper Payments Information Act

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. 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. 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.

There has been significant emphasis on eliminating improper payments this year. In November 2009, the President issued Executive Order 13520 on Reducing Improper Payments; in March 2010, the President signed a memorandum on intensifying and expanding payment recapture audits; and in June 2010, the President issued a memorandum to enhance payment accuracy by creating a "Do Not Pay" List. Most recently, on July 22, 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, repeals the Recovery Auditing Act (Section 831 of the FY 2002 Defense Authorization Act, Public law 107-107) and 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. Final guidance on agency payment recapture audit programs, as required by IPERA, will be issued by OMB by January 2011.

IPIA 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 OMB. 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 will be done to determine if the Department continues to be at low risk for making significant improper payments at or above the threshold levels set by OMB. The Department'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 AUDIT PROGRAM RESULTS

The Bureau of Resource Management has established a two-tiered erroneous payment monitoring and review program that supplements the formal account 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. 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 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.

The GFS Office of Oversight Management and Analysis conducts a monthly query of all domestic payments, focusing on identifying potential erroneous and duplicate payments. Beginning this fiscal year, GFS expanded the sample universe beyond domestic payments to include all commercial, manual and automated travel claims, and international payments paid through GFS-Charleston. This expansion resulted in a significant increase, primarily in volume, in amounts subject to review. This change also resulted in an increase in amounts identified for recovery. In FY 2010, the GFS domestic claims debt management process identified and validated 365 actual duplicate/erroneous payments, totaling $8.1 million, out of 412,225 total payments, totaling $22.95 billion. The claims office has collected or recovered 349 of the 365 erroneous payment debts identified during FY 2010, totaling $7.47 million, in addition to recovering 123 of prior year outstanding items totaling $410 thousand (80 percent). The primary reasons for these improper payments and debts continue to be the use of wrong vendor payment records in the funding of the awards and/or authorization of payment on submitted claims.

The GFS duplicate or erroneous payment program has proven to be a cost effective tool (the program operates at an annual cost of $100 thousand) to supplement ARD's domestic commercial debt management and recovery. Identified debts not collected by the Office of Claims are transferred to ARD for follow-up collection. Since FY 2005, this GFS program has identified 1,883 duplicate/erroneous payments ($40.57 million), and collected 1,767 identified debts ($38.33 million or a collection rate of 94 percent).

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 2010 to determine if improper payments were made in association with two areas of sensitive payments: business class travel, and payments made from funding received for the American Recovery and Reinvestment Act (ARRA).

The matrix on the next page 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.

Business 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 business class travel.

RECAPTURE AUDIT PROGRAM RESULTS

Agency Component	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PYs	Amounts Recovered PYs	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)
Number	412,225	412,225	365	472	1,518	1,295	1,883	1,767
Amount	$22.95 billion	$22.95 billion	$8.1 million	$7.88 million	$32.47 million	$30.45 million	$40.57 million	$38.33 million
CY=Current year, PYs=Prior years FY 2005 - 2009								

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 2010
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	Planned for future review
	American Recovery and Reinvestment Act payments	FY 2009 – FY 2010

Beginning with fiscal year 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 16 percent ($48,566) in FY 2010. Past error rates have been 4 percent ($10,994) in FY 2009; 1 percent ($5,385) in FY 2008; 4 percent ($17,038) in FY 2007; and 24 percent ($348,567) in FY 2006. During FY 2011, the Department will undertake efforts to correct the deficiencies noted during the FY 2010 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 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.

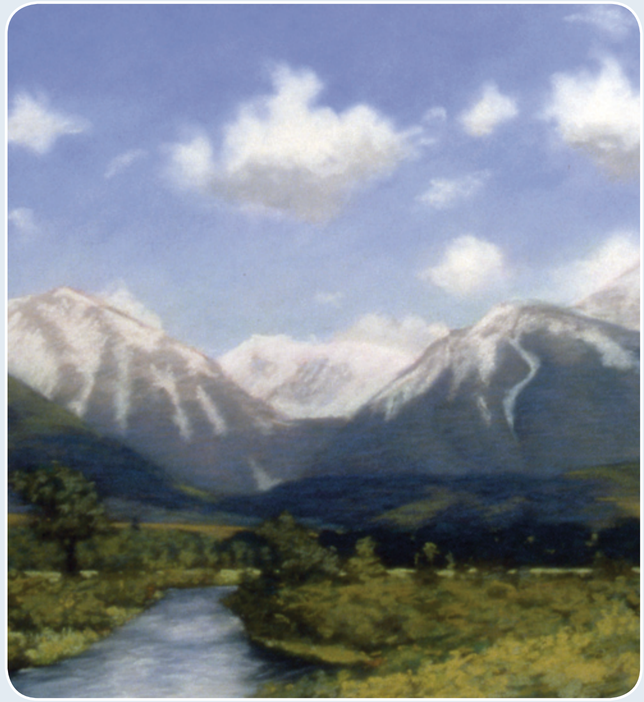
Heritage Assets

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 six categories: the Diplomatic Reception Rooms, Art Bank, Art in Embassies, Cultural Heritage Program, Library Rare & Special Book Collection, and Secretary of State's Register of Culturally Significant Property. 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

Under the management of the Curator's Office, the Diplomatic Reception Room collection is comprised of museum-caliber American furnishings from the 1750 to 1825 period. These items are used to decorate the Diplomatic Reception Rooms located on the 8th floor of the Department of State, as well as 19 offices on the 7th floor used by the Secretary of State and the Secretary's senior staff. These items have been acquired through donations or purchases funded through gifts from private citizens, foundations, and corporations. Tax dollars have not been used to acquire or maintain the collection.

Top left: The Franklin Room, Reception Scene.
Top right: Gallery.
Right: The Treaty Room — Capital, Eagle and Pediment circling room.
Department of State



Art Bank works include "Spring Water" (2009) Bruce Park, pastel (right), and "Blossom" (2009) David Kelso, 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.

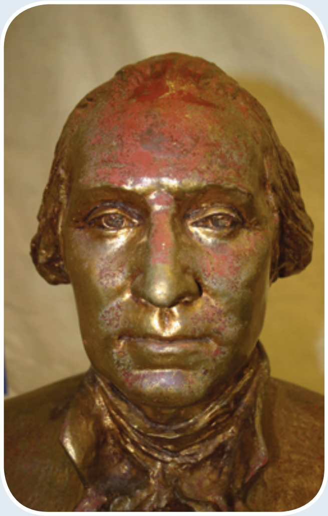
Rare & Special Book Collection

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, Interiors & Furnishings Division, Program Management Branch, 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 U.S. State Department has restored the Official State Apartment known today as the George C. Marshall Center in the Hôtel de Talleyrand in Paris, France. The State Apartment interiors have great historical and architectural significance for both France and the United States. Built in 1767 and completed in 1769 for the comte de Saint-Florentin, the building is a monument displaying 18th Century French craftsmanship.

Department of State/OBO

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. Human Resources
4. Public Diplomacy
5. Protection of People and Facilities
6. Information Security
7. Financial Management
8. Counterterrorism and Border Security
9. Iraq Transition from Military to Civilian Presence

1 Contracting and Procurement

For FY 2009, the Department spent about $6.8 billion on formal contracts and simplified acquisitions,[1] mainly on procurement activities that support overseas programs and operations. During the past decade, the Department's primary acquisition organization, the Bureau of Administration's Office of Acquisitions Management (AQM), experienced a dramatic increase in the number of procurement transactions processed and a significant rise in the dollar value of procurement actions issued, without a corresponding increase in AQM contracting office personnel to handle the heavier workload. In addition, grants actions have also increased, with $7.7 billion disbursed during FY 2009.

OIG found several examples in which contract administration and oversight were inadequate, including overpayments to contractors and insufficient internal controls for government-purchased property held by contractors. Poor property management and accountability by contractors were especially prevalent in Iraq and Afghanistan.[2] Other procurement issues the Department must focus on include ample planning and transparency in the procurement process. Failure to plan and properly administer the construction contract for the New Embassy Compound in Baghdad, Iraq, resulted in more than $100 million in construction defects that the Department was required to repair or replace.[3] With its multi-year plan to upgrade or build new overseas facilities at about $1 billion annually, the Department must ensure that contractors are properly chosen, work is properly conducted, and costs are contained.

2 Coordinating and Overseeing Foreign Assistance

According to the Office of Management and Budget (OMB) the FY 2010 foreign assistance budget for the whole government is more than $32.9 billion (not including a pending FY 2010 supplemental budget request). Foreign assistance funding and the Department's role in coordinating and managing assistance programs have grown considerably during the past several years. While the Department has made a number infrastructure changes to support these programs, it continues to face significant challenges.

[1] A simplified acquisition is a purchase made from a private commercial business source totaling $100,000 or less (or $5.5 million for commercial items).

[2] *Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan* - AUD/IQO-07-48

[3] *Audit of the Design and Construction of the New Embassy Compound in Baghdad, Iraq* - AUD/IQO-09-25

The U.S. Government delivers foreign assistance through grants, contracts, cooperative agreements, voluntary contributions, direct loans, or insurance. OIG has found insufficient numbers of contract and grant workforce personnel in the Department to handle all of its programs. Additionally, OIG continues to find that some grants officers, grant officer representatives, and contract officer representatives do not have enough training or travel funds to perform their oversight responsibilities, which result in uneven assistance oversight.

OIG has noted that some assistance programs need closer monitoring after award to ensure performance goals are met and that management controls are in place and working. This was especially true in conflict environments where security risks impeded proper performance monitoring during site visits. The absence of such oversight increases the risk of fraud.[4] Inadequate performance evaluation has also resulted in the allotment and obligation of assistance funds repeatedly during several years that produced only meager results.[5]

In its embassy inspections, OIG has found that chiefs of mission—especially those with high value assistance programs—need to provide more active leadership and coordination. They need to ensure that assistance programs complement each other, integrate with the mission and bureau's overall strategy,[6] and that the agency best suited to oversee each program is given responsibility to do so.

3 Human Resources

Workforce planning is a continuing challenge for the Department due to the high cost of assigning Department and other agency employees to secure locations overseas and the difficulty of responding quickly to changing priorities. The Department estimates that, on average, each overseas position costs the Department $500,000. While the Department has made progress through required mission rightsizing reviews, better National Security Decision Directive 38 tools, the capital security cost sharing program, and required leadership and management training, OIG has found that the Department continues to have difficulty ensuring that the right number and mix of personnel staff our embassies and domestic bureaus.

During several recent post and domestic bureau inspections,[7] OIG identified deficiencies in senior leadership indicating a failure to assign officers with strong interpersonal and team-building skills to senior positions. The deficiencies include the inability to address poor performance issues, establishing an atmosphere of intimidation, a failure to set priorities, and micromanagement. In many cases, problems have caused valuable mission employees to curtail from their assignments.

OIG has also identified training gaps at a number of overseas locations. At one mission, of the 23 locally employed staff in the political section, only four had more than a year's experience and only two had received Foreign Service Institute training. At other locations, American and local staff needed training on regional political and economic issues, political reporting and analysis, and foreign assistance program oversight.[8] Overuse of language waivers that allow officers to start assignments before obtaining the required language proficiency has also had an impact.[9]

Although the Office of Management Policy, Rightsizing, and Innovation requires that missions conduct regular

4 *Humanitarian Mine Action Programs in Iraq* - ISP/I-10-41; *Inspection of Embassy Kabul, Afghanistan* - ISP-I-10-32A; *Inspection of the Bureau of African Affairs* - ISP-I-09-63; *Compliance Follow-Up Review of the Bureau of Administration's Office of the Procurement Executive, Office of Acquisitions Management, and Office of Small and Disadvantaged Business Utilization* - ISP-C-10-23; *Inspection of Embassy Kinshasa, The Congo* - ISP/I-09-36A

5 *Inspection of Embassy Freetown, Sierra Leone* - ISP-08-18A; *Inspection of Embassy Guatemala City, Guatemala* - ISP-I-09-11A; *Inspection of Embassy Managua, Nicaragua* - ISP-I-08-54A; *Inspection of Embassy Mexico City, Mexico* - ISP-I-09-21A

6 *Inspection of the Exercise of COM Authority in Managing the PEPFAR Program Overseas* - ISP-I-10-01; *Inspection of Embassy Cairo, Egypt* - ISP-I-10-02A

7 *The Bureau of Public Affairs* - ISP-I-10-39; *The Bureau of African Affairs* - ISP-I-09-63; *Embassy Banjul, The Gambia* - ISP-I-09-15A; *Compliance Follow-Up Review of Embassy Podgorica, Montenegro* - ISP-C-10-46

8 *Embassy Belgrade, Serbia* - ISP-I-10-09A; *Embassy Kabul* - ISP-I-10-32A

9 *Embassy Islamabad and Constituent Posts, Pakistan* - ISP-I-10-64; *Embassy Rome, Italy, Its Constituent Posts, and the Republic of San Marino* - ISP-I-10-59A; *Embassy Maseru, Lesotho* - ISP-I-10-58A

rightsizing reviews, OIG has found some missions do not conduct reviews on time and that others treat the reviews as paperwork exercises rather than opportunities to reassess staffing needs based on changing mission priorities. The National Security Decision Directive (NSDD)-38 process also promotes rightsizing in that it gives chiefs of mission authority to approve or disapprove new full time overseas positions. While some missions use this process to fully consider the security, space, and administrative support ramifications, others do not. Shortcomings in rightsizing reviews and use of the NSDD-38 process have allowed haphazard growth at some missions.[10]

Additionally, more agencies and bureaus are sending staff on long-term temporary duty assignments either through year-long assignments or "rolling" temporary duty assignments. Although these assignments essentially equate to a full time presence, the staff do not fill direct hire positions and are therefore not subject to the NSDD-38 process. These assignments have left some missions with space, funding, and administrative support problems.

4 Public Diplomacy

Public perceptions of the United States directly affect our ability to achieve our foreign policy and development assistance objectives. Through engagement, assistance, and dialogue, the Department fosters a two-way flow of people, ideas, and information. Although the Department saw a significant expansion in the number of public diplomacy officers after consolidation with the United States Information Agency in 1999, many of the Department's newer officers have spent their first tours in consular or other out-of-cone assignments.[11] While their ability and enthusiasm are high, many of these officers are now serving in public diplomacy leadership positions in smaller missions without ever having had assignments in their specialties. Some bureaus have discussed the possibility of creating a formal mentoring program and at least one is considering employing retired foreign service officers to assist first time public affairs officers (PAO) by visiting the embassies. This has not yet become institutionalized and there are resource questions that need to be resolved. Mentoring and providing guidance for these officers is a challenge for the Department.[12]

The Department has made good progress in ensuring that public diplomacy is incorporated into every part of the *Mission Strategic Resource Plans* (MSRP). However, many public diplomacy sections have been less effective in developing a strategic communications plan. There is a greater need for a more careful analysis of audience, message, and media[13] that will lead to the development of a communication plan that draws on the program resources available to a PAO. Although the Office of the Undersecretary of State for Public Affairs and Public Diplomacy has been working with regional bureaus in developing tools for assisting overseas missions to develop and implement more effective strategic communication strategies, these efforts are still a work in progress.

Despite staffing and financial constraints, embassies are increasingly using social media as a public diplomacy tool to reach a younger audience, some with notable success. These efforts received useful guidance in June, 2010, when the Department issued a new sub-section of the *Foreign Affairs Manual* (FAM) dealing with social media. However, bringing the plethora of Department social media sites into conformance with the new FAM provisions and enhancing the sites' effectiveness at promoting engagement presents the next challenge.

[10] *Embassy Podgorica, Montenegro* - ISP-C-10-46; *Embassy Islamabad and Constituent Posts, Pakistan* - ISP-I-10-64; *Embassy Kuwait City, Kuwait* - ISP-I-10-33A; *Compliance Follow-Up Review of Embassy Dar es Salaam, Tanzania* - ISP-C-10-31A

[11] *Embassy Kabul* - ISP-I-10-32A; *Embassy Islamabad and Constituent Posts, Pakistan* - ISP-I-10-64; *Embassy Amman, Jordan* - ISP-I-10-35A; *Embassy Djibouti, Djibouti* - ISP-I-10-50A; *Embassy Mbabane, Swaziland* - ISP-I-10-57A

[12] *Embassy Maseru, Lesotho* - ISP-I-10-58A

[13] *Embassy Amman, Jordan* - ISP-I-10-35A, pp. 68, 75; *Embassy Kabul* - ISP-I-10-32A, p. 108; *Embassy Riyadh* - ISP-I-10-19A, pp. 22, 79; *Embassy Rome* - ISP-I-10-59A, p. 19; *Embassy Lilongwe* - ISP-I-10-60A, p. 15; *Embassy Addis Ababa* - ISP-I-10-51A, p.34; *Embassy Islamabad and Constituent Posts, Pakistan* - ISP-I-10-64, p. 34; *Embassy Abu Dhabi* - ISP-I-62A, p. 17; *Embassy Sana'a* - ISP-I-10-63A, pp. 16-17

5 Protection of People and Facilities

Protecting people, which continues to be Department's highest priority and its greatest challenge, is becoming even more challenging as an increasing number of U.S. diplomatic facilities are being established and maintained in areas of armed conflict or super-high threat, which in prior years would have been closed due to the threat to personnel and facilities. In response, the Department has instituted more high-threat training for post personnel, more rigorous security procedures at these posts, and at some facilities physical security measures far in excess of those required for other diplomatic missions worldwide. The challenge to the Department will be the establishment and maintenance of appropriate security measures in these areas, a substantively different and relatively new area in the Department's security program.

Although the Department has undertaken a vigorous program to replace those U.S. diplomatic facilities that do not meet the Department's security standards, many missions are still operating in sub-standard facilities, with projected dates for the construction of new facilities years in the offing, the highest priority being given to missions with the highest risk. Nevertheless, as the recent events in Bangkok, Thailand demonstrated, localities viewed as low risk can turn violent very quickly. At those facilities that do not meet security standards, the Department needs to continue to identify and implement necessary interim security measures to protect people, facilities, and information until such time as permanent, secure facilities can be constructed. An unfortunate trend seen at some posts has been for the Department to delay the implementation of interim measures because of the planned near-term construction of new facilities, which is then continuously postponed.

The Department needs to put more focus on the memorandum of agreement (MOA) between the chief of mission (COM) and the geographic combatant commander (COCOM), which specifies either the COM or COCOM as having security responsibility for every Department of Defense element in country. Office of Inspector General inspections conducted in FY 2010 found several missions with MOAs that were either inaccurate or out-of-date. Adequately protecting U.S. overseas personnel requires clearly defined security responsibility.

In an audit of maintenance and improvements (M&I) of overseas property, OIG found that posts' M&I needs were not met, primarily because the funding that the Department received was not sufficient to enable the Bureau of Overseas Buildings Operations (OBO) to fund all needed M&I. OBO had established processes to use its limited funds to address the most critical needs worldwide. These processes provided routine maintenance and repair (M&R) funds to posts in a more equitable manner than had been done in past years and funding for the highest priority repair and improvement (R&I) requirements. However, inconsistencies in the priority scores assigned to some R&I requirements bring into question the reliability of the prioritization process. The lack of sufficient funds to address M&I needs has resulted in deteriorating facilities at posts. In fact, OBO reported that 25 percent of its facilities were in poor condition.

6 Information Security

The Department continues working to satisfy the requirements of the Federal Information Security Management Act of 2002. During FY 2010, the Department modified its systems inventory management approach and its certification and accreditation (C&A) toolkits, while updating its contingency plan policy. However, the Department continues to face challenges in implementing a fully effective information security management program. The plans of action and milestones process must be strengthened by: working with system owners to ensure timely reporting of security weaknesses during the C&A process; testing contingency plans; developing detailed standard operating procedures for addressing each information technology security weakness and/or finding; and actively monitoring, validating, and implementing remediation steps to correct all security weaknesses within a reasonable timeframe. Security awareness also must be strengthened. Specifically, the processes to identify the number of users with access to the network and the number of users who have taken cyber security awareness training have not been fully defined.

7 Financial Management

Financial management continues to be a major challenge in the Department. In each of the past four years, the Department could not respond in a timely manner to requests for evidential material during the audit of the financial statements. As a result, for each of these years, the independent external auditor was unable to express an opinion on the overall financial statements by the mandated deadline. Specifically, for the audit of the FY 2009 financial statements,[14] the independent auditor indicated that it could not express an opinion on the Statement of Budgetary Resources; and, because of concerns related to property and equipment, the auditor issued a qualified opinion on the Balance Sheet and Statement of Net Position. The auditor also identified significant internal control deficiencies related to property and equipment, and to oversight of information obtained from an independent commission related to environmental liabilities, financial reporting, accounts payable accruals, unliquidated obligations, and information technology.

The Department continues to take steps to improve internal controls over financial management. The Department reported it is taking a number of steps to improve controls over property and equipment, including expanding its process to analyze leases, performing a reconciliation of the real property information included in the property management and financial management systems, and improving accounting for personal property. The Department is also modifying its financial reporting process. In addition, the Department is working to improve the estimation process for overseas and domestic accounts payable and establish a process for intra-governmental accounts payable. The Department is also working to address the weaknesses related to unliquidated obligations, including distributing aging reports to users.

8 Counterterrorism and Border Security

Cross-border issues including illegal immigration, alien smuggling, environmental issues, and U.S. business interests, continue to either directly or indirectly challenge the Department. With the implementation of the western Hemisphere Travel Initiative, the Department has added passport agencies and a new passport card in order to meet demand for the required documents.

The Bureau of Consular Affairs has deployed an online visa application form, mandatory for every applicant worldwide, designed to share information and prevent identity fraud in the visa application process.

9 Iraq Transition from Military to Civilian Presence

Significant challenges face the Department during the transition from military to civilian presence in Iraq, including the effects of the delays in forming a new government in Iraq; securing people and facilities; budget adequacy and long-term cost sustainability.[15]

The U.S. has not been able to complete negotiations on future posts or programs due to delays in Iraq's formation of a new government. These delays, in turn, have affected the United States' ability to complete detailed plans and budgets.

Diplomatic Security (DS) does not currently have the capacity to fully secure the facilities and movement of people for a large civilian presence, depending on security conditions and the availability of resources. As troops draw down, DS will be required to expand its security responsibilities in a dangerous environment and where, at previous diplomatic posts, State might have closed the post and evacuated all personnel.[16] DS must provide security[17]

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[14] *Independent Auditor Report on U.S. Department of State 2009 and 2008 Financial Statements* - AUD/FM-10-03

[15] *Performance Audit of Embassy Baghdad's Transition Planning for a Reduced United States Military Presence in Iraq* – MERO-A-09-10

[16] *Ibid.*

[17] *The Bureau of Diplomatic Security Baghdad Embassy Security Force* – MERO-A-10-05

for this presence, which will require DS to expand already large operations in Iraq and replace the military's protection services. The Department is requesting $1.9 billion to provide for this security. In addition, pending approval from the Government of Iraq, State and the Department of Defense (DOD) are considering options and potential funding sources for a large U.S. Office of Security Cooperation. The office could employ about 350 personnel in Baghdad and other locations and would continue DOD's mission of supporting Iraq's military development.

The Department requested $4.7 billion in the FY 2010 supplemental and FY 2011 budget to fund its plans for a large civilian presence in Iraq during and after the drawdown of U.S. forces. These budget requests may not reflect the actual costs of its future civilian presence. These requests were based on staffing estimates that continue to change and affect cost estimates for security and construction. FY 2012 costs for Iraq are likely to rise: the FY 2011 request only funds the final months of FY 2011 when State assumes responsibility for these posts and programs from DOD. For example, State only requested 3 months' worth of operations costs, $294.6 million, for police training in FY 2011, to cover the transition from DOD. Full year costs are expected to be more than $1 billion.

In the long term, the Department plans to maintain a robust presence that will include its largest embassy in the world and an extensive field presence of four branch offices with thousands of personnel.[18] Further, the Department plans to operate a costly police development program, involving more than 200 hundred police advisors and hundreds of support contractors. And, the Department may need to absorb hundreds of support roles or activities currently undertaken by the military, such as working with the Government of Iraq to ensure its aviation system is compliant with international standards.

[18] *Review of the Roles, Staffing, and Effectiveness of Regional Embassy Offices in Iraq* – MERO –IQO-09-09

PRESIDENT OBAMA ANNOUNCES EXCHANGE PROGRAMS FOCUSED ON ENTREPRENEURSHIP, INNOVATION, AND SCIENCE

Promoting education globally is a vital element of the Administration's foreign economic and development policy — an initiative that fosters economic growth, promotes civil society, and provides new economic opportunities for U.S. business and investors. The State Department's Bureau of Educational and Cultural Affairs (ECA) will highlight the importance of entrepreneurship, economic opportunity, and community development. ECA is forging partnerships with organizations such as Business for Diplomatic Action (BDA) and Entrepreneurs' Organization (EO), to offer educational seminars, mentorship, and first-hand experience in the American business place with leading entrepreneurs.

- ECA will bring 25 entrepreneurs to the United States per year over the next four years through the International Visitor Leadership Program, "New Beginning: Entrepreneurship and Business Innovation."
- ECA will work with private sector partners to send at least 100 American entrepreneurs abroad over the next four years.
- ECA's new pilot program, TechWomen, is designed to provide professional peer mentorships for approximately 25 women from eligible countries working in the field of technology with their counterparts in the United States.
- ECA's "Science and Technology Education" exchange will bring 25 science teachers from countries with significant Muslim populations to the United States to examine effective methods of teaching science at the primary and secondary school levels.
- At least 30 Fellows from eligible countries will participate in a new "Education to Employment" initiative within the Young Entrepreneurs Program (YEP). Fellows will include family-run business owners, women artisans, representatives of the disabled community, and NGO professionals. They will undergo internship and mentoring experiences for approximately 3-8 weeks in the United States. After the Fellows return to their home countries, they may receive continued support through YEP's follow-on programs.

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.

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: **Unqualified**

Restatement: **Yes**

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Accounting for Property	1	0	1	0	0	0
Financial Reporting	1	0	1	0	0	0
IBWC Restatement	1	0	1	0	0	0
Total Material Weaknesses	**3**	**0**	**3**	**0**	**0**	**0**

SUMMARY OF MANAGEMENT ASSURANCES

	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance:	**Unqualified**					
Total Material Weaknesses	0	0	0	0	0	0
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	**Unqualified**					
Total Material Weaknesses	0	0	0	0	0	0
CONFORMANCE WITH 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.

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 Agency
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
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
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
NGO	Non-governmental Organization
OBO	Overseas Buildings Operations (DoS)
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 more than 60 countries, traveling over 360,000 miles, during her first 20 months as Secretary of State.

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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Table of Contents Image Captions: Images (L) to (R): (1) Secretary of State Hillary Rodham Clinton meets with Gabonese President Ali Bongo at the Department, March 2010, ©AFP Image; (2) Secretary Clinton at Badshahi Mosque in Lahore Pakistan standing (from left to right) a tour guide, Pakistani Foreign Minister Shah Mehmood Qureshi, and Imam Syed Muhammad Abdul Khabir Azad, October 2009, Department of State; (3) Secretary Clinton and Peru's President Alan Garcia before a press conference in Lima, June 2010, ©AP Image; (4) Secretary Clinton and Colombia's President Uribe speak with demobilized former member of Colombia's different armed groups at the Colombian Presidential Place in Bogota, June 2010, ©AP Image; (5) Secretary Clinton and Afghanistan President Karzai hold discussions in the Gardens of Dumbarton Oaks in Georgetown, Washington, D.C., May 2010, ©AFP Image.

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