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

INDEPENDENT AUDITOR'S REPORT
AUD-FM-19-03

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of State (Department), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2018 and 2017, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Combining Statement of Budgetary Resources, Condition of Heritage Assets, and Deferred Maintenance and Repairs (hereinafter referred to as "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, "Financial Reporting Requirements," and the Federal Accounting Standards Advisory Board, which consider the information to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of making inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, we have also issued reports, dated November 15, 2018, on our consideration of the Department's internal control over financial reporting and on our tests of the Department's compliance with provisions of applicable laws, regulations, contracts, and grant agreements for the year ended September 30, 2018. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 15, 2018

KEARNEY& COMPANY

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2018, and have issued our report thereon dated November 15, 2018. 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. 19-01, "Audit Requirements for Federal Financial Statements."

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was also not designed to identify deficiencies in internal control that might be significant. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Department's internal control to be significant deficiencies.

Significant Deficiencies

I. Property and Equipment

The Department reported more than $24 billion in net property and equipment on its FY 2018 balance sheet. Real and leased property consisted primarily of facilities used for U.S. diplomatic missions abroad and capital improvements to these facilities. Personal property consisted of several asset categories, including aircraft, vehicles, security equipment, communication equipment, and software. Weaknesses in property and equipment were initially reported in the audit of the Department's FY 2005 consolidated financial statements and subsequent audits. In FY 2018, the Department's internal control structure continued to exhibit several deficiencies that negatively affected the Department's ability to account for real and personal property in a complete, accurate, and timely manner. We concluded that the combination of property-related control deficiencies was a significant deficiency. The individual deficiencies we identified are summarized as follows:

- Accounting for Personal Property – The Department uses several non-integrated systems to track, manage, and record personal property transactions, which are periodically merged or reconciled with the financial management system to centrally account for the acquisition, disposal, and transfer of personal property. We noted a significant number of personal property transactions from prior years that were not recorded until the current year. In addition, we noted that the acquisition value for a number of selected items could not be supported and that the gain or loss on personal property disposals was not recorded properly for numerous items. We also tested the accuracy of the Department's capital inventory records and identified assets with inaccurate physical locations, assets that could not be physically located, and assets that were physically observed but not recorded by the Department. The Department's control structure did not ensure that personal property acquisitions, disposals, and transfers were recorded in a complete, timely, and accurate manner. In addition, the Department's monitoring activities were not always effective to ensure proper financial reporting for personal property. The errors resulted in misstatements to the Department's consolidated financial statements. The lack of effective control may result in the loss of accountability for asset custodianship, which could lead to undetected theft or waste.

- Accounting for Overseas Real Property – The Department operates at more than 270 posts in more than 180 countries around the world and is primarily responsible for acquiring and managing real property in foreign countries on behalf of the U.S. Government. We found several real property disposals that were not recorded by the Department in a timely manner. In addition, we tested real property acquisitions and identified deposits (that is, payments made prior to closing on the purchase of real property) in prior years that were not recorded as prepaid assets. Although the Department has implemented a periodic real property data call and project codes to identify prepayments, the controls did not ensure that all real property transactions were recorded in the proper fiscal year. The untimely processing of property disposals and the unrecorded acquisition prepayments resulted in misstatements in the Department's asset balances.

- Accounting for Leases – The Department manages approximately 17,500 real property leases throughout the world. The majority of the Department's leases are short-term operating leases. The Department must disclose the future minimum lease payments (FMLP) related to the Department's operating lease obligations in the footnotes to the consolidated financial statements. We found numerous recorded lease terms that did not agree with supporting documentation as well as leases that were recorded in the system twice. We also found errors in the Department's FMLP calculations. The Department's processes to record lease information and to ensure the accuracy of FMLP calculations were not always effective. As a result of errors identified by our audit, the Department adjusted its financial statement footnote disclosure.

- Reporting of Software – Federal agencies use various types of software applications, called internal use software, to conduct business. Applications in the development phase are considered software in development (SID). Agencies are required to report software as general property in their financial statements. We identified numerous instances in which the data recorded for SID were inaccurate and additional instances in which software applications were inappropriately classified as SID. Although the Department performs a quarterly data call to obtain software costs from bureau project managers, this process was not sufficient because it relied on the responsiveness and understanding of individual project managers, not all of whom understand the accounting requirements for reporting SID. Additionally, the Department did not have an effective process to confirm that information provided by project managers was complete or accurate. Without an effective process to obtain information pertaining to software applications, the Department may continue to understate its property balances and overstate its expenses.

II. Budgetary Accounting

The Department lacked sufficient reliable funds control over its accounting and business processes to ensure budgetary transactions were properly recorded, monitored, and reported. Beginning in our report on the Department's FY 2010 consolidated financial statements, we identified budgetary accounting as a significant deficiency. During FY 2018, the audit continued to identify control limitations and we concluded that the combination of control deficiencies remained a significant deficiency. The individual deficiencies we identified are summarized as follows:

- Support of Obligations – Obligations are definite commitments that create a legal liability of the Government for payment. The Department should record only legitimate obligations, which include a reasonable estimate of potential future outlays. We identified a large number of low-value obligations (that is, obligations that are $5 or less) for which the Department could not provide evidence of a binding agreement. The Department's financial system was designed to reject payments for invoices without established obligations. Because allotment holders did not always record valid and accurate obligations prior to the receipt of goods and services, the Department established low-value obligations, which allowed invoices to be paid in compliance with the Prompt Payment Act; however, this effectively bypassed the controls in the financial system. The continued use of this practice could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

- Timeliness of Obligations – The Department should record an obligation in its financial management system when it enters into an agreement, such as a contract or a purchase order, to purchase goods and services. During our testing, we identified numerous obligations that were not recorded within the requisite 15 days of execution of the obligating document and obligations that were posted after the receipt of goods and services. We also identified obligations that were recorded in the financial management system prior to the formal execution of a contract. The Department did not have processes to ensure the accurate and timely creation and recording of obligations. Without an effective obligation process, controls to monitor funds and make timely payments may be compromised, which may lead to violations of the Antideficiency Act and the Prompt Payment Act.

- Capital Lease Obligations – The Department must obligate funds to cover the net present value of the Government's total estimated legal obligation over the life of a capital lease contract. However, the Department annually obligates funds equal to 1 year of the capital lease cost rather than the entire amount of the lease agreement. The Department obligates leases on an annual basis rather than for the entire lease agreement period because that is the manner in which funds are budgeted and appropriated. Because of the unrecorded obligation, the Department's consolidated financial statements were misstated.

- Effectiveness of Allotment Controls – Federal agencies use allotments to allocate funds in accordance with statutory authority. Allotments provide authority to agency officials to incur obligations as long as those obligations are within the scope and terms of the allotment authority. We identified systemic issues in the Department's use of allotment overrides that allowed officials to exceed allotments. The Department did not have an automated control to prevent users from recording obligations that exceeded allotment amounts. Department management stated that such an automated control is not reasonable because of instances in which an allotment may need to be exceeded; however, the Department has not formally identified, documented, and communicated the circumstances under which an allotment override is acceptable. Overriding allotment controls could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

III. Validity and Accuracy of Unliquidated Obligations

Unliquidated obligations (ULO) represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services that were ordered have not been received or the goods and services have been received but for which payment has not yet been made. The Department's policies and procedures provide guidance that requires allotment holders to perform at least monthly reviews, analyses, and validation of ULOs. Weaknesses in controls over ULOs were initially reported in the audit of the Department's FY 1997 consolidated financial statements. During FY 2018, we continued to identify a significant number of invalid ULOs based on expired periods of performance, inactivity, lack of supporting documentation, or inability to support bona fide need. Although the Department took steps to improve its ULO validation efforts in FY 2018, for example it identified high-risk bureaus and expanded its reviews by obtaining and scrutinizing supporting documents to corroborate the responses provided by bureau officials, the internal control structure did not always ensure that invalid ULOs were identified and deobligated in a timely manner. As a result of invalid ULOs identified by our audit, the Department adjusted its financial statements. In addition, funds that could have been used for other purposes may have remained in unneeded obligations and the risk of duplicate or fraudulent payments because of the large number of invalid ULOs is increased.

IV. Information Technology

The Department's information systems and electronic data depend on the confidentiality, integrity, and availability of the Department's comprehensive and interconnected IT infrastructure using various technologies around the globe. Therefore, it is critical that the Department manage information security risks effectively throughout the organization. The Department uses several financial management systems to compile information for financial reporting purposes. The Department's general support system, a component of its information security program, is the gateway for all the Department's systems, including its financial management systems. Generally, control deficiencies noted in the information security program are inherited by the systems that reside in it.

In accordance with the Federal Information Security Modernization Act of 2014 (FISMA),[1] the Office of Inspector General (OIG) is responsible for the audit of the Department's information security program. In the FY 2018 FISMA report,[2] OIG reported security weaknesses that significantly impacted the Department's information security program. Specifically, OIG reported weaknesses in all eight FY 2018 Inspector General FISMA metric domains: risk management, configuration management, identity and access management, data protection and privacy, security training, information security continuous monitoring, incident response, and contingency planning. OIG reported:

> The deficiencies identified within the information security program occurred for several reasons. For example, the CIO does not have proper authority to manage IT activities, as provided for in law. In addition, the Department has not completed the development and implementation of an information security risk management strategy or identified resources to support the implementation of a Department-wide information security risk management strategy. Furthermore, the Department has not maintained a complete and accurate organization-wide information system inventory.

Without an effective information security program, the Department remains vulnerable to IT-centered attacks and threats to its critical mission-related functions. Information security program weaknesses can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial

[1] Federal Information Security Modernization Act of 2014, Public L. No. 113-283, 128 STAT. 3079-3080 (December 18, 2014).
[2] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-19-08, October 2018).

transactions could be altered, either accidentally or intentionally. Information security program weaknesses increase the risk that the Department will be unable to report financial data accurately.

The weaknesses reported by OIG as a result of the FISMA audit are considered to be a significant deficiency within the scope of our financial statement audit. We have reported weaknesses in IT security controls as a significant deficiency in each audit since our audit of the Department's FY 2009 financial statements.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to Department management in a separate letter.

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control Over Financial Reporting included in the audit report on the Department's FY 2017 financial statements,[3] we noted several issues that were related to internal control over financial reporting. The status of the FY 2017 internal control findings is summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2017 Status	FY 2018 Status
Property and Equipment	Significant Deficiency	Significant Deficiency
Budgetary Accounting	Significant Deficiency	Significant Deficiency
Validity and Accuracy of Unliquidated Obligations	Significant Deficiency	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

Department's Response to Findings

Department management has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management's response, and accordingly, we express no opinion on it.

[3] OIG, *Independent Auditor's Report on the U.S. Department of State 2017 and 2016 Financial Statements* (AUD-FM-18-05, November 2017).

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of the Department's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 19-01 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2018

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

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

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2018, and have issued our report thereon dated November 15, 2018. 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. 19-01, "Audit Requirements for Federal Financial Statements."

Compliance

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we performed tests of the Department's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material impact on the financial statement amounts, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA)[1] that we determined were applicable. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests, exclusive of those related to FFMIA, disclosed instances of noncompliance or potential noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-01 and which are summarized as follows:

- *Antideficiency Act.*[2] 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, or (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 account fund symbols with negative balances that were potentially in violation of the Antideficiency Act. We also identified systemic issues in the Department's use of allotment overrides to

[1] Federal Financial Management Improvement Act of 1996, Public L. No. 104-208, 110 STAT. 3009 (September 30, 1996).
[2] Antideficiency Act, Public L. No. 97-258, 96 STAT. 923 (September 13, 1982).

exceed available allotment authority. Establishing obligations that exceed available allotment authority increases the risk of noncompliance with the Antideficiency Act. Conditions impacting the Department's compliance with the Antideficiency Act have been reported annually since our FY 2009 audit.

- *Prompt Payment Act*.[3] 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. We found that the Department did not consistently calculate or pay interest penalties for overdue payments to overseas vendors or international organizations. The Department was unable to provide legal justification exempting the Department from paying interest penalties for payments to these types of entities. Conditions impacting the Department's compliance with the Prompt Payment Act have been reported annually since our FY 2009 audit.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Although we did not identify any instances of substantial noncompliance with Federal accounting standards, we did identify instances, when combined, in which the Department's financial management systems and related controls did not comply substantially with certain Federal financial management system requirements and the USSGL at the transaction level.

Federal Financial Management Systems Requirements

- The Department has long-standing weaknesses in its financial management systems regarding its capacity to account for and record financial information. For instance, the Department has significant deficiencies relating to property and equipment, budgetary accounting, and unliquidated obligations.
- During its annual evaluation of the Department's information security program, as required by the Federal Information Security Modernization Act (FISMA), the Department's Office of Inspector General reported control weaknesses in all eight FY 2018 Inspector General FISMA metric domains.[4]
- The Department did not maintain effective administrative control of funds. Specifically, obligations were not created in a timely manner or were recorded in advance of an executed obligating document. We identified systemic issues in the Department's use of allotment overrides that allowed officials to exceed allotments.
- The Department did not always minimize waste, loss, unauthorized use, or misappropriation of Federal funds. For example, the Office of Inspector General reported a significant amount of questioned costs and funds that could be put to better use during FY 2018.

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[3] 31 United States Code Chapter 39, "Prompt Payment."
[4] OIG, *Audit of the Department of State Information Security Program* (AUD-IT-19-08, October 2018).

- In addition, the previously reported matters related to the Antideficiency Act and the Prompt Payment Act impact the Department's compliance with FFMIA.

Standard General Ledger at the Transaction Level

- The Department's financial management systems did not consistently post transactions to USSGL-compliant accounts or track proprietary and budgetary account attributes consistent with the USSGL.
- General ledger account balances could not always be traced to discrete transactions. Further, discrete transactions could not always be traced to source documents.

The Department had not implemented and enforced systematic financial management controls to ensure substantial compliance with FFMIA. The Department had not developed and executed remediation plans to address instances of noncompliance or validate compliance against criteria. The Department's ability to meet Federal financial management system requirements and fully process transaction-level data in accordance with the USSGL was hindered by limitations in systems and processes. Since our FY 2009 audit, we have reported annually that the Department did not substantially comply with FFMIA.

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

Department's Response to Findings

Department management has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management's response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 19-01 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2018

United States Department of State

Comptroller

Washington, D.C. 20520

November 14, 2018

UNCLASSIFIED

MEMORANDUM

TO: OIG - Steve A. Linick

Christopher H Flaggs

FROM: CGFS – Christopher H. Flaggs

SUBJECT: Draft Report on the Department of State's Fiscal Years 2018 and 2017 Financial Statements.

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

The Department operates in over 180 countries and 135 currencies in some of the most challenging environments. The scale and complexity of Department activities and corresponding financial management operations and requirements are immense. We take this dynamic into account as we pursue an efficient, accountable, and transparent financial management platform that supports the Department's and broader U.S. Government's foreign affairs mission. An important element of our accountability is the fundamental discipline of the annual external financial statement audit process and the issuance of the Department's audited financial statements. Few outside the financial community likely realize or appreciate the time and effort that go into producing the audit and the Agency Financial Report. It is a rigorous and exhaustive process, and this year was no exception. It has been a concerted and dedicated effort by all stakeholders.

We appreciate and extend our sincere thanks for the professionalism and commitment by all parties, including the Office of the Inspector General (OIG) and Kearney & Company, the independent external auditor. While we may not agree on every aspect of the process and findings, we acknowledge the importance of the process and the real benefits derived from the improvements that have been made over the last ten years, working together with the OIG and Kearney & Company throughout the annual audit cycles. We know that there will always be new challenges and concerns given our complex global operating environment and scope of compliance requirements. Even so, we believe the overall results of the audit reflect the continuous improvement we strive to achieve in the Bureau of the Comptroller and Global Financial Services and across the Department's financial management community.

As expressed in the Independent Auditor's Report, we are pleased that the Department has received an unmodified ("clean") audit opinion on its FY 2018 and FY 2017 principal financial statements and with no material weaknesses in internal controls over financial reporting. We remain committed to strong corporate governance and internal controls as demonstrated by our dedicated system of internal controls overseen by our Management Control Steering Committee (MCSC), Senior Assessment Team (SAT), and supported by senior leadership. We appreciate the OIG's participation and contributions in both the MCSC and SAT. We fully recognize that there is more to be done and that the items identified in the Draft Report will require our continued attention and improvement. We look forward to working with you and all stakeholders on addressing these issues.