

**UNITED STATES
DEPARTMENT OF DEFENSE**

SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION REPORT



Fiscal Year 2013



OFFICE OF THE UNDER SECRETARY OF DEFENSE
(COMPTROLLER) / CHIEF FINANCIAL OFFICER

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SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION

The Department of Defense is pleased to present this Summary of Performance and Financial Information report for fiscal year (FY) 2013. This report provides a high-level overview of the information in the Department of Defense [Agency Financial Report](#) for FY 2013 and the DoD Annual Performance Report, which will be incorporated in the Department's FY 2015 Congressional budget submission.

FISCAL YEAR 2013 OVERVIEW

America's national security depends on our military and civilian personnel, equipment, and defense facilities being in the right place, at the right time, with the necessary qualities and capacities. The Department of Defense (DoD) fields, sustains, and employs the military capabilities necessary to protect the American people and its allies and to advance our national interests.

The Department is made up of a civilian and military workforce, with our military tracing its roots back to pre-Revolutionary times. As such, the Department is arguably the Nation's oldest and largest government agency, though it took its present shape with the passage of the National Security Act of 1947. The Department also is one of the Nation's largest employers, with approximately 1.4 million military personnel on active duty, 790,000 civilians, and 835,000 men and women in the National Guard and Reserve forces.

The Department's priorities in FY 2013 included countering the threat of terrorism globally, defeating Al Qaida, protecting the homeland against attack, and conducting operations in and around the Middle East. These priority defense efforts occurred within a constantly evolving security environment, with both strategic opportunities and challenges presented by political developments in the Middle East and North Africa. To support these ongoing operations, as well as preserve operational readiness for future challenges, the Department maintains its capacity to operate in multiple theaters and to project power through the use of carriers, bombers, forward-staging bases, large-deck amphibious ships, and tactical airlift.

Building partnerships worldwide is important for sharing the responsibilities and cost of global leadership. The Department has pursued emerging partnerships with a growing number of nations, and the United States has helped to develop the capacity of allies and partners to support American interests and objectives across a range of security challenges. We are advancing low-cost, small-footprint approaches to achieve security objectives, relying on exercises, rotational presence, and advisory capabilities.

Throughout FY 2013, the Department remained dedicated to obtaining, investing, and effectively using its financial resources to ensure the defense of the United States and meet the needs of both the warfighter and the ever-changing battlefield. Taking care of our people, reshaping and modernizing the force in the current fiscal environment, and supporting our troops in the field remain the highest priorities for the Department.



STRATEGIC PRIORITIES

The [Quadrennial Defense Review](#) (QDR) Report, a legislatively-mandated review of DoD strategy and priorities conducted every four years, sets the long-term course for the Department. The QDR assesses the threats and challenges that the Nation faces and re-balances DoD's strategies, capabilities, and forces to address today's conflicts and tomorrow's threats. The Department's strategic priorities in FY 2013, set in the QDR issued in February 2010, were to:

- Prevail in Today's Wars;
- Prevent and Deter Conflict;
- Prepare to Defeat Adversaries and Succeed in a Wide Range of Contingencies;
- Preserve and Enhance the All-Volunteer Force; and
- Reform the Business and Support Functions of the Defense Enterprise.

PERFORMANCE MANAGEMENT

Each year, the Department develops and tracks performance measures to assess our progress in meeting our strategic plan priorities. The final results and associated trend analysis for all 75 of the Department's performance measures are addressed in the Department's Annual Performance Report, which can be viewed on Performance.gov, <http://goals.performance.gov/agency/dod>, under Agency Plans and Reports.

The sequestration provisions of the [Budget Control Act of 2011](#), which resulted in across-the-board cuts in all of the Department's FY 2013 discretionary spending areas except military personnel, significantly impacted the Department's ability to achieve its strategic goals. Despite these fiscal challenges, the Department made progress in FY 2013. The following table summarizes the results for 17 performance measures that best align with the Department's financial management themes of acting as good stewards of public funds; implementing and deepening program alignment to the new defense strategy; creating a force that is ready across a spectrum of missions, and keeping people central to our plans.

Strategic Goal 1: Prevail in Today's Wars			
Performance Measure	FY 2012 Results	FY 2013 Goals	FY 2013 Results
Percent of the Combatant Commanders Current Operations which they report ready to execute.	100%	100%	■ 100%
Results: Despite sequestration and a challenging fiscal environment, the Department remained committed to ensuring that our nation's military remains ready to execute all current operations and prevail in today's wars. The Combatant Commands maintained 100 percent mission readiness to execute current operations, ensuring that the Nation's warfighters in Afghanistan and around the globe were trained and prepared to accomplish their mission.			
Strategic Goal 2: Prevent and Deter Conflict			
Performance Measure	FY 2012 Results	FY 2013 Goals	FY 2013 Results
Cumulative percent of Army Brigade Combat Teams converted to a modular design and available to meet military operational demands.	69%	99%	■ 100%
Cumulative number of Army Multi-functional and Functional Support brigades converted to a modular design and available to meet military operational demands.	228	229	■ 229
Results: The Army completed its strategy to "right size" its force structure by successfully converting 100 percent of its Brigade Combat Teams (BCTs) and Multi-Functional and Functional Support Brigades (MFFs) to a modular design. The conversion of Army BCTs and MFFs to a modular design provides the Nation with a more flexible, versatile force more capable of meeting operational demands.			

■ Met or Exceeded Target ■ Did Not Meet Target

Strategic Goal 3: Prepare to Defeat Adversaries and Succeed in a Wide Range of Contingencies			
Performance Measure	FY 2012 Results	FY 2013 Goals	FY 2013 Results
Number of Homeland Response Forces trained, equipped, evaluated, and validated at a reduced response time of 6-12 hours.	10	10	■ 10
Number of Chemical, Biological, Radiological, and Nuclear Enhanced Response Force Packages trained, equipped, evaluated, and validated at a response time of 6-12 hours.	17	17	■ 17
Number of Defense CBRN Response Forces trained, equipped, evaluated, and certified at a response time of 24-48 hours.	1	1	■ 1
Number of Command and Control CBRN Response Elements trained, equipped, and evaluated as well as certified or validated as applicable, at a response time of 96 hours.	2	2	■ 2
Results: The Department met all four performance goals. Detailed chemical, biological, radiological, and nuclear consequence management operational planning at the state and regional levels will, when completed, result in a better understanding of the anticipated needs of civil authorities on the National Guard and Federal military forces.			
Strategic Goal 4: Preserve and Enhance the All-Volunteer Force			
Performance Measure	FY 2012 Results	FY 2013 Goals	FY 2013 Results
Average percent variance in Defense Health Program (DHP) annual cost per equivalent life increase compared to average civilian sector increase.	-6.4%	0%	■ -2.6%
Percentage of Armed Forces who meet individual medical readiness requirements.	84%	82%	■ 85%
Percent of Service members who are processed through Integrated Disability Evaluation System (IDES) within 295 days (Active) and 305 days (Reserve)	24%	70%	■ 32%
Percent of the active duty Army who meet the planning objectives for time deployed in support of combat operations versus time at home	91%	85%	■ 96%
Number of days for external civilian hiring (end-to-end timeframe)	83 days	80 days	■ 94 days
Results: The average percent variance in medical cost per member has remained within goal for the second consecutive year. We exceeded the 82% goal for percentage of armed forces who meet individual medical readiness requirements. Although the overall 295/305 per day target for IDES was not met, the time to complete DoD-specific IDES activities did improve from an average of 188 days to 147 days against the DoD-specific goal of 105 days. However, dependency on Veterans Administration (VA) processes and practices has impacted the Department's ability to achieve better results against this goal (i.e., 295/305 days). The Department will continue to work with the VA in FY 2014 to improve the processes, practices, and interfaces that support our shared desire to ensure relevant, timely, and quality care for our warriors as they transition to veterans. The Department fell short of its goal for the number of days for external civilian hiring, but continues to work on improving this performance measure.			
Strategic Goal 5: Reform the Business and Support Functions of the Defense Enterprise			
Performance Measure	FY 2012 Results	FY 2013 Goals	FY 2013 Results
Percentage of DoD General Funds, Funds Balance With Treasury, validated as audit ready.	9%	30%	■ 9%
Percentage of DoD General Funds, Statement of Budgetary Resources for material Components, validated as audit ready.	14%	20%	■ 19%
Percentage of SBR for Appropriations Received validated as audit ready.	88%	100%	■ 100%
Percentage of contract obligations competitively awarded	57.5%	60%	■ 56.9%
Average rate of acquisition cost growth from the previous year for Major Defense Acquisition Programs (MDAPs) starting in FY 2002	-0.27%	3%	■ 1.42%
Results: The Department achieved its goal of validating 100 percent of the Statement of Budgetary Resources for appropriations received and also exceeded its goal of keeping average MDAP cost growth from the previous year to below 3%. The Department did not meet the FY 2013 audit goals for Funds Balance with Treasury or the Percent of general fund SBR for material Components validated as audit-ready because of additional time needed by the Navy for discovery and corrective action implementation. The Department's percentage of contract obligations competitively awarded continued to reflect challenges associated with dependency on noncompetitive procurements for legacy systems and statutory requirements, which resulted in a lower rate of competition obligations in FY 2013 as well as prior years.			

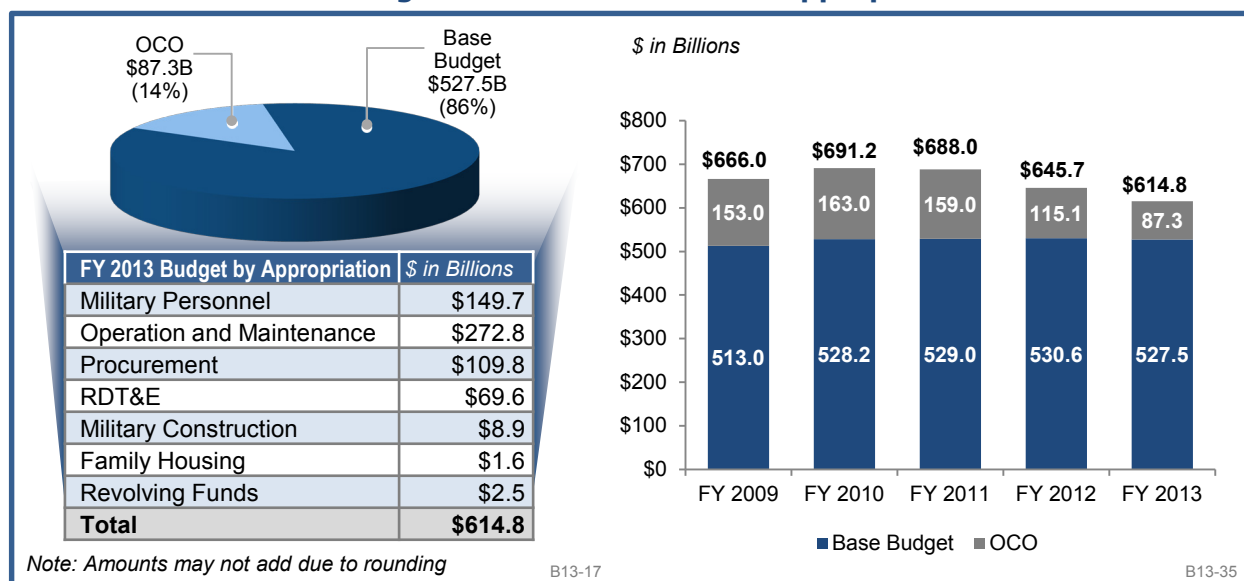
■ Met or Exceeded Target ■ Did Not Meet Target

FINANCIAL MANAGEMENT OVERVIEW

In FY 2013, the Department carried out its mission in the face of unprecedented budgetary challenges. Through continuing resolutions, sequestration, and furloughs, our financial management workforce remained committed to focusing on every element of our mission to support America's warfighters.

Meeting our defense goals requires financial resources. The Department's FY 2013 enacted budget of \$614.8 billion consisted of two parts: \$527.5 billion in base operating funds, and \$87.3 billion to support Overseas Contingency Operations (OCO).

DoD FY 2013 Enacted Budget and Trend in Enacted Appropriations



The FY 2013 budget incorporated reductions in future Defense spending of \$228 billion from FY 2012 to FY 2016, and \$487 billion from FY 2012 to FY 2021. However, the FY 2013 enacted budget did not incorporate the devastating impact that resulted from sequestration. Triggered in March 2013, sequestration reduced the Department's budget by \$37 billion in the last 6 months of the fiscal year. The Department endured major cuts in training and maintenance, seriously damaging military readiness. The Air Force shut down flying at 13 combat-coded fighter and bomber squadrons and curtailed exercises. The Army cancelled seven combat training center rotations and five brigade-level exercises that are essential in preparation for deploying units. The Navy delayed deployment of the USS TRUMAN carrier strike group to the Persian Gulf, curtailed the sailing of the USNS COMFORT to Latin America, and cancelled other ship deployments. In addition, the Department was forced to impose unpaid furloughs on civilian employees, with approximately 650,000 civilian employees affected for 6 days.

In March 2013, in an effort to begin to plan for a highly uncertain future, Secretary Hagel directed the Deputy Secretary to conduct a Strategic Choices and Management Review (SCMR), with the support of the Chairman of the Joint Chiefs of Staff and the Department's civilian and military leadership. The SCMR focused on both strategic and managerial choices, ranging from options for future force structure needs to institutional reform, efficiencies, and compensation changes. The SCMR helped guide the Services and defense agencies in developing budgets for FY 2015 through FY 2019 and will serve as an input to the 2014 QDR, which will determine the Department's strategic course in the years ahead.

Financial Management Initiatives

At present, the Department cannot produce auditable financial statements, and management cannot provide unqualified assurance as to the effectiveness of the internal controls over financial reporting. We are confident that we know where taxpayer funds are obligated and that we effectively use financial information to regularly pay employees and vendors on a timely basis, adequately track payments made, and successfully manage overall operations. However, the Department lacks the ability to prove that it has reliable and well-controlled business processes, and we cannot consistently provide supporting documentation to auditors in a timely manner.

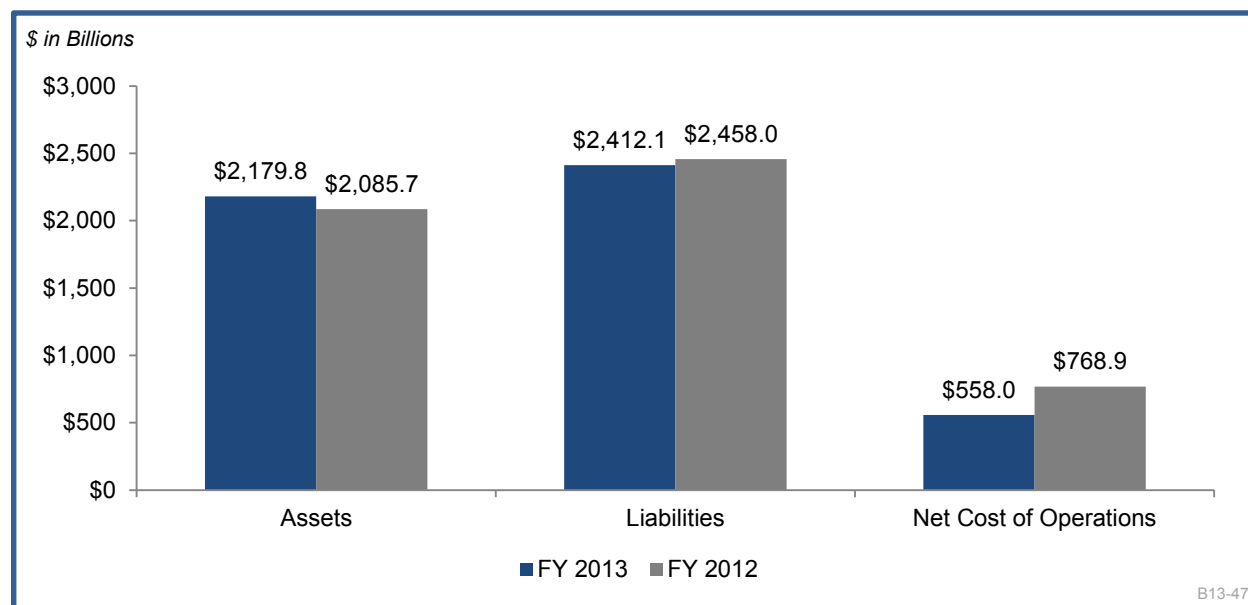
In spite of the changing economic landscape, we continue to focus our attention on providing the Department's leaders and managers with timely and accurate financial information for decision making, cost management, and audit readiness. The following initiatives reflect our continuing focus toward improving financial management.

- **Audit Readiness:** We are committed to achieving audit readiness on all financial statements by September 30, 2017. Financial statement auditability is required by law, but it also will serve to confirm that the Department is properly and effectively managing and executing the resources entrusted to it by Congress and the public. The Department's Financial Improvement and Audit Readiness (FIAR) Plan carries out the Department's strategy to achieve audit readiness. Information regarding the status of the FIAR initiative is detailed in the [FIAR Plan Status Report](#), issued November 2013.
- **More Disciplined Use of Resources:** We remain dedicated to performing our mission while operating efficiently, reducing costs, and effectively managing taxpayer dollars. In continuation of the reform agenda advanced in previous budgets, our strategies to realize savings include achieving new efficiencies, eliminating duplication and overhead, tightening personnel costs, enhancing contract competition, and reevaluating modernization programs. As a result of these efforts, the Department proposed about \$150 billion in cost reductions from the amount of funds requested in the Department's FY 2012 budget over the period of FY 2013 through FY 2017 (Future Years Defense Program). Subsequent budgets proposed 5-year efficiency savings of \$60 billion and \$35 billion. As the military force structure draws down, the Department will continue to examine other opportunities to streamline installation support and management overhead to match capacity to the new force structure.
- **Financial Management Certification Program:** The greater the fiscal challenges, the greater the need for experienced, well-trained, and knowledgeable financial management (FM) personnel. The Department's FM Certification Program, an initiative that began in FY 2012 and is planned for full implementation at the end of 2014, promotes a well-trained, flexible FM workforce that can effectively support our mission, achieve auditable financial statements, and adapt to the changing fiscal landscape.

Financial Statement Highlights

The FY 2013 principal financial statements, along with a high-level analysis of significant changes from amounts reported in FY 2012, are provided in the Department's [Agency Financial Report](#) for FY 2013. Significant changes in DoD's reported total assets, total liabilities, and net cost of operations, depicted in the figure that appears on the following page, are discussed below.

- The Department reported \$2.2 trillion in FY 2013 total assets, which represent resources that the Department owns and manages. Total assets increased \$94.1 billion (5 percent) from the amount reported in FY 2012, largely due to a \$70 billion increase in Investments in U.S. Treasury securities and a \$38 billion increase in General Property, Plant, and Equipment, which were offset by a \$29 billion decrease in the Department's Fund Balance with Treasury.

DoD Total Assets, Total Liabilities, and Net Cost of Operations, FYs 2013 and 2012

- The Department reported \$2.4 trillion in FY 2013 total liabilities, largely comprised of Military Retirement and Employment Benefits. Total Liabilities decreased approximately \$46 billion from the amount reported in FY 2012, almost exclusively due to downward adjustments in the estimated actuarial liability for military retirement pension and health care benefits.
- The Department reported \$558 billion in Net Cost of Operations, derived by the difference between gross costs and revenues. The Department's gross costs primarily include operations, readiness, and support activities, military personnel, and procurement programs. Gross costs were offset with revenues from investment earnings, contributions to support retirement and health benefit requirements, and earnings from reimbursed activities. The Net Cost of Operations decreased \$211 billion (27 percent) largely due to the change in the actuarial assumptions used to estimate future payments for military retirement and health care benefits.

Management Challenges

While we have made progress in managing the Department's financial resources, challenges still remain. The Department's Inspector General (IG) has identified the following serious management and performance challenges facing the Department:

- Financial Management: Achieving financial statement audit readiness, modernizing financial systems, and conducting complete and accurate improper payment reviews.
- Acquisition Processes and Contract Management: Enhancing the acquisition workforce, controlling cost growth and delays in major weapons systems acquisition programs, and exercising effective oversight of contracting efforts.
- Joint Warfighting and Readiness: Achieving a modern, ready, and balanced force with a decreasing budget; drawing down forces from Afghanistan and resetting equipment and personnel; returning to full-spectrum training; rebalancing force structure and investments.
- Cyber Security: Recruiting and retaining cyber personnel; adapting existing legacy information systems to resist new threats; updating policy and guidance to address critical information vulnerabilities.

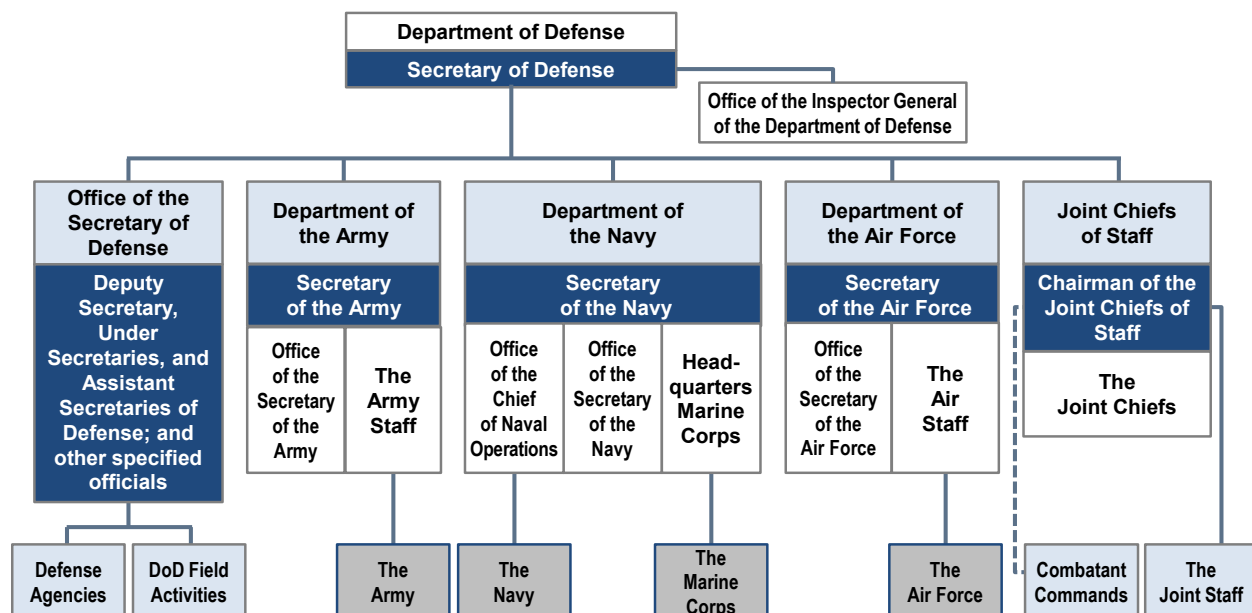
- Health Care: Maintaining individual readiness for the Reserves Component; providing quality care for 9.6 million beneficiaries within fiscal constraints; managing services in geographic markets by a joint approach; providing rehabilitation and transition care for wounded warriors.
- Equipping and Training Afghan National Security Forces: Continuing to develop the Afghan National Security Force's capability to take ultimate responsibility for Afghanistan's security.
- The Nuclear Enterprise: Developing the modernized nuclear force.

Detailed information about each of these challenges, along with a brief assessment of the Department's progress in addressing these challenges, is available in [Addendum A](#) to the DoD [Agency Financial Report](#). While these challenges are significant, the Department believes that we do have the necessary resources, information, and controls to provide for a strong national security.

ORGANIZATION

Management of a large, complex enterprise like the Department requires an equally sophisticated organization. The Secretary of Defense is the principal assistant to the President in all matters relating to the Department, and exercises authority, direction, and control over the Department. The Department is composed of the Office of the Secretary of Defense; the Joint Chiefs of Staff; the Joint Staff; the DoD Office of Inspector General; the Military Departments; the Defense Agencies; the DoD Field Activities; the Combatant Commands; and such other offices, agencies, activities, organizations, and commands established or designated by law, the President, or the Secretary of Defense.

Department of Defense Organizational Structure



- The [Office of the Secretary of Defense](#) (OSD) assists the Secretary in carrying out his duties and responsibilities. The OSD is responsible for the formulation and oversight of defense strategy and policy.
- The [Joint Chiefs of Staff](#), supported through the Chairman by the Joint Staff, constitute the immediate military staff of the Secretary of Defense and function as the military advisors to the President, the National Security Council, the Homeland Security Council, and the Secretary of Defense.

- The [DoD Office of Inspector General](#) is an independent and objective unit within the Department that conducts and supervises audits and investigations relating to the Department's programs and operations.
- The Military Departments consist of the Departments of the [Army](#), the [Navy](#) (of which the [Marine Corps](#) is a component), and the [Air Force](#). Upon the declaration of war, if Congress so directs in the declaration or when the President directs, the [U.S. Coast Guard](#) becomes a special component of the Navy; otherwise, it is part of the Department of Homeland Security. The three Military Departments organize, staff, train, equip, and sustain America's military forces and are composed of the four Military Services (or five when including the U.S. Coast Guard when directed). When the President and Secretary of Defense determine whether military action is required, these trained and ready forces are assigned or allocated to a Combatant Command responsible for conducting military operations. Military Departments include Active and [Reserve Components](#). The Reserve forces and the [National Guard](#) are recognized as indispensable and integral parts of the Nation's defense and fully part of the applicable Military Department.
- [Defense Agencies and DoD Field Activities](#) are established as DoD Components by law, the President, or the Secretary of Defense to provide for the performance, on a DoD-wide basis, of a supply or service activity common to more than one Military Department when it is determined to be more effective, economical, or efficient to do so.
- The Commanders of the [Combatant Commands](#) are responsible to the President and the Secretary of Defense for accomplishing the military missions assigned to them and exercise command authority over assigned and/or allocated forces as directed by the Secretary of Defense. The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands. The Chairman of the Joint Chiefs of Staff functions within the chain of command by transmitting the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

PATH FORWARD

The United States faces a complex and growing array of national security challenges, including the need to confront violent extremism around the globe; the proliferation of lethal weapons and materials; the destabilizing behavior of nations such as Iran and North Korea; the rise of new powers in Asia; and the new security landscape in the wake of the Arab revolutions. At the same time, the U.S. must contend with the need to resolve difficult fiscal circumstances and uncertainty at home.

Amidst this confluence of changing strategic and fiscal circumstances, the Department's strategy calls for transitioning from an emphasis on today's wars to preparing for future challenges, while also advancing the Department's efforts to reform and support the national imperative of deficit reduction through a lower level of defense spending. As the United States draws down from operations in Afghanistan, the Department is planning how to structure its armed forces to operate in the future security environment.

The Department must make tough choices amid declining budgets to ensure our Armed Forces have the capabilities and readiness they need to secure our nation's interests and to operate across the range of complex missions, ranging from counterterrorism and countering weapons of mass destruction to maintaining a safe, secure, and effective nuclear deterrent and projecting power abroad. We will ensure that our Armed Forces remain capable across the full range of potential challenges we may face, and that the Department meets its responsibility to preserve a ready force to defend the country and America's vital interests around the world.

WELCOME TO THE DEPARTMENT OF DEFENSE

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regarding the content of this report.

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FINANCIAL IMPROVEMENT AND AUDIT READINESS

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