

UNITED STATES DEPARTMENT OF DEFENSE

# SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION REPORT

## FISCAL YEAR 2014



The estimated cost of report or study for the Department of Defense is approximately \$8,820 in Fiscal Years 2014 – 2015. This includes \$0 in expenses and \$8,820 in DoD labor.

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## SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION

The [Department of Defense](#) (DoD) is pleased to present this Summary of Performance and Financial Information report for fiscal year (FY) 2014. This report provides a high-level summary of the information presented in the DoD [Agency Financial Report](#) for FY 2014 and the DoD Annual Performance Report, the latter report incorporated and submitted with the Department's budget request for FY 2016.

### DEPARTMENT OVERVIEW

One of the core responsibilities of the United States government is to protect the life and liberty of the American people, or as phrased in the [Constitution of the United States](#), to provide for the common defense. The Department plays a critical role in defending and advancing the safety and security of American citizens and interests.

Today, the nation faces a rapidly changing security environment with dynamic and unpredictable threats around the world. Unrest and violence persist, creating a lack of stability and sectarian conflict, and threatening U.S. citizens. Following more than a decade of war, and with potential adversaries across the world continuing to develop significant capabilities, the Department is committed to protecting the American people, defending the national interest, and providing America's military with the resources to accomplish its mission.

Building on the [Defense Strategic Guidance](#) published in 2012, the Department delivered the [Quadrennial Defense Review \(QDR\) 2014](#) to Congress in March 2014. The QDR is a legislatively-mandated report, issued every four years, that evaluates the threats and challenges our nation will likely confront over the next 20 years. This QDR describes the tough choices the Department makes during this time of fiscal austerity to ensure our Armed Forces retain the capability to execute a wide range of missions to secure our nation's interests, now and in the future.

The Department's strategic priorities include rebalancing our focus and our forces to the Asia-Pacific region to preserve peace and stability; maintaining a strong commitment to security and stability in Europe and the Middle East; and sustaining a global approach to countering violent extremists and terrorist threats, with an emphasis on the Middle East and Africa. We will invigorate efforts to build innovative partnerships and strengthen our alliances, all while pursuing lower-cost, resourceful approaches.



*Air Force Senior Airman runs through smoke used for cover as his team crosses a field during a survival course.*

*Photo by Senior Airman Dennis Sloan*

Rebalancing to Asia-Pacific remains a key component of the defense strategy. The United States seeks to preserve peace and stability in a region that is increasingly central to U.S. political, economic, and security interests. Faced with North Korea's pursuit of long-range missiles and weapons of mass destruction, we are committed to maintaining peace and stability on the Korean Peninsula. The Department will maintain a robust footprint in Northeast Asia while enhancing our presence in Oceania and Southeast Asia.

Given our deep and abiding interests in a Europe that is free and at peace, the Department will continue to work with U.S. allies and partners to promote regional security. We are supporting Ukraine's Armed Forces in their current engagements in Eastern Ukraine, and have committed millions of dollars of non-lethal material and assistance.

More broadly, the Department is reinforcing our [North Atlantic Treaty Organization](#) (NATO) allies and upholding our commitment to collective self-defense. The Department participates in military exercises throughout the Baltic republics and Poland, with American aircraft flying Baltic air policing missions and American ships increasing patrols in the Black Sea.

The Department continues its responsible drawdown of U.S. forces in Afghanistan. With the projected end of the [International Security Assistance Force](#) combat mission, about 10,800 U.S. troops were serving in Afghanistan at the end of calendar year 2014. These troops will focus on training, advising, and assisting Afghan forces as part of the NATO Resolute Support mission, as well as conducting limited counterterrorism operations. The Department also continues to finance the sustainment and professionalization of the Afghan National Security Forces.

The U.S. and our allies and partners seek to degrade and ultimately destroy the threat posed by the Islamic State of Iraq and the Levant (ISIL). In the last few months, the world has seen ISIL's barbarity up close, as its fighters advanced across western and northern Iraq and Syria and slaughtered thousands of innocent civilians. The DoD personnel in Iraq remain committed to building the capacity of Iraqi Security Forces to defend their homeland. The DoD's "Advise and Assist" role will help the Iraqis take territory back from ISIL.

## ORGANIZATION

The Department of Defense maintains and uses armed forces to support and defend the Constitution and ensure the security of the United States, its possessions, and areas vital to its interests. The mission depends on our military and civilian personnel and equipment being in the right place, at the right time, with the right capabilities, and in the right quantities to protect our national interests. These capabilities have never been more important, as America fights terrorists who plan and carry out attacks outside of the traditional boundaries of the battlefield.

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 and 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.

The Department is one of the nation's largest employers, with approximately 1.3 million personnel on Active Duty, 756,000 civilians, and 824,000 men and women in the Selected Reserve of [National Guard](#) and [Reserve](#) forces. Our military Service Members and civilians operate in every time zone and climate.

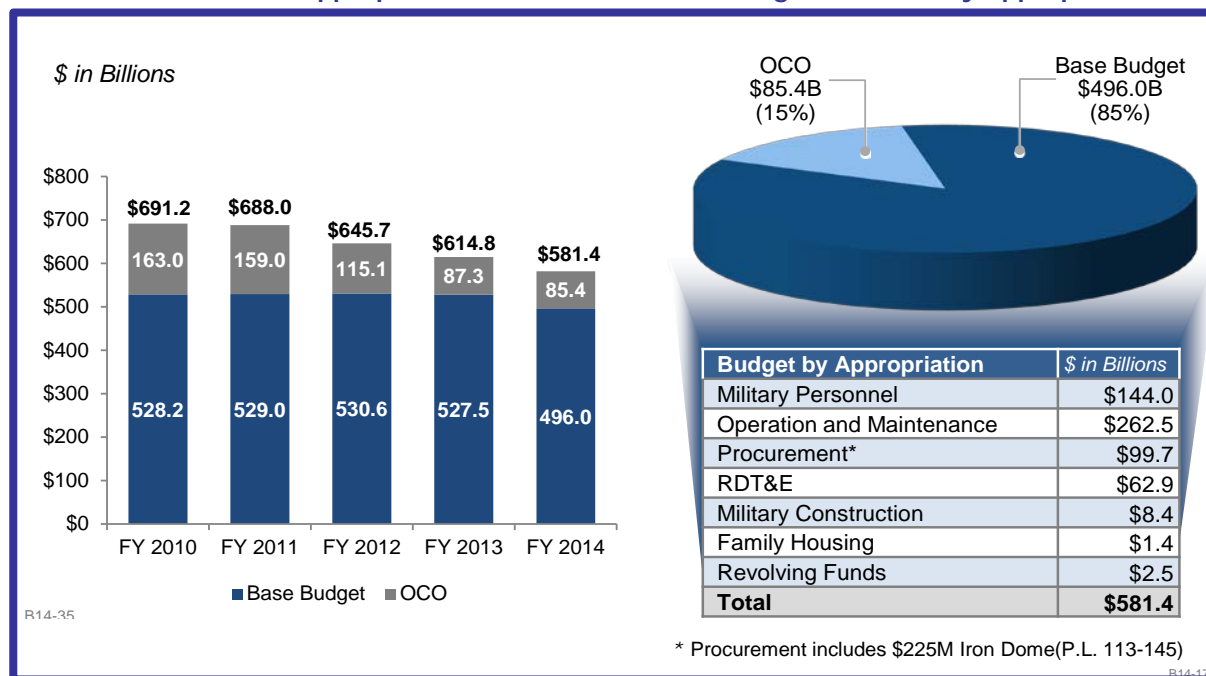
The Department's real property infrastructure includes over 526,000 facilities (buildings and structures) located on 4,800 sites worldwide. These sites represent over 24.7 million acres that individually range in size from approximately 3 million acres, such as Range No. 1 at Nellis Air Force Base, to single weather towers or navigational aids that are isolated on sites of less than one one-hundredth (0.01) of an acre. To protect the security of the United States, the Department operates approximately 17,580 aircraft and 630 ships.

## FINANCIAL RESOURCES

The [FY 2014 Defense budget](#) balanced capacity, capability, and readiness to protect the security interests of the United States within the funding constraints of the [Bipartisan Budget Agreement of 2013](#). The key themes in the FY 2014 budget were designed to achieve a deeper alignment of our future force structure with available resources, to maintain a mission-ready force, to emphasize institutional reforms by being even better stewards of taxpayer dollars, and to take care of our people and their families.

The Department's FY 2014 budget authority of \$581.4 billion was comprised of two parts: \$496 billion in base operating funds, and \$85.4 billion to support Overseas Contingency Operations (OCO). The reduction in FY 2014 budget authority from the prior year, FY 2013, largely was attributable to sequestration actions required by the [Budget Control Act of 2011](#) and the Bipartisan Budget Agreement of 2013.

**DoD Trend in Enacted Appropriations and DoD FY 2014 Budget Breakout by Appropriation**



In FY 2014, the Department invested in emerging military capabilities, such as new and expanded cyber capabilities, nuclear deterrence, space, precision strike, and operationally responsive and persistent intelligence, surveillance, and reconnaissance assets. The Department also continued its modernization efforts by funding three variants of the Joint Strike Fighter; a shipbuilding program that included two Virginia-class submarines, one

Aegis destroyer, and four littoral combat ships; various unmanned aerial systems, such as the Reaper; development of the KC-46A tanker and procurement of P-8A aircraft; and a multi-faceted missile defense program.

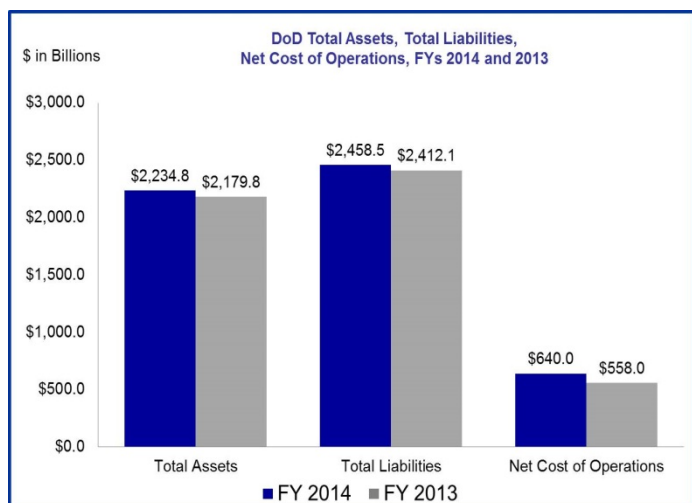
The force structure reductions that began with the FY 2013 budget continued. In accordance with the revisions to the January 2012 [Defense Strategic Guidance](#), the FY 2014 budget reflected the choices made to achieve a modern, ready, and balanced force to meet the full range of potential military requirements. In FY 2014, the Army and Marine Corps, in particular, made progress toward achieving their targeted active end states of 440,000 - 450,000 and 182,100 respectively.

Reserve Components are an important element of the Total Force, and the Department is focused on optimizing the active/reserve force mix, sustaining their readiness at appropriate levels. The reserves are trained, ready, and cost-effective forces that can be employed on a periodic operational basis while ensuring strategic surge capabilities for large-scale contingencies or other unanticipated national crises.

We recognize the demands that continue to be placed on members of the all-volunteer force and their families, who give so much in service to the nation. Their dedication reminds us that preserving America's liberties often comes with a heavy cost. We provide support through a variety of Military Family Assistance programs that are designed to improve military life, such as child care, non-medical counseling, and Morale, Welfare and Recreation programs. The military healthcare system provides services to 9.6 million beneficiaries, including military retirees and their families, dependent survivors, and certain eligible Reserve Component members and their families. We seek to control healthcare costs and reasonable health care benefit reform as part of a balanced approach to cost containment, which is essential to fund the warfighting capabilities needed to maintain the Joint Force and to send our personnel into combat with the best possible training and equipment.

## FINANCIAL MANAGEMENT OVERVIEW

The Department's principal financial statements include the Statement of Budgetary Resources, Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. The DoD Balance Sheet reflects the Department's financial position as of September 30, 2014, and reports amounts available to provide future economic benefits (Assets) owned or managed by the Department, amounts owed (Liabilities) requiring use of available assets, and the difference between assets and liabilities (Net Position). As of September 30, 2014, the Department reported \$2.2 trillion in total assets that primarily are comprised of Investments; Fund Balance with Treasury; and General Property, Plant, and Equipment, which includes military equipment and buildings, structures, and facilities used to support the Department's mission requirements. The Department reported \$2.4 trillion in total liabilities, mainly military retirement and employment benefits.



The Statement of Net Cost reported \$727.1 billion in gross costs, increased by \$6.9 billion in reported losses from changes in actuarial assumptions for military retirement benefits, and offset by \$93.9 billion in earned revenue, for a total of \$640 billion in FY 2014 net cost. The \$727.1 billion in gross costs largely relates to operations, readiness, and support activities; military personnel and retirement programs; and procurement.

## **FINANCIAL MANAGEMENT IMPROVEMENT INITIATIVES**

The Department currently lacks the ability to prove that it has reliable and well-controlled business processes and it cannot consistently provide supporting documentation to auditors in a timely manner. Consequently, the Department cannot produce auditable financial statements, and management cannot provide unqualified assurance as to the effectiveness of the internal controls over financial reporting.

The Department continues to make strides in its Financial Improvement and Audit Readiness (FIAR) efforts toward producing auditable financial statements, with progress shown by the inception of audits of the Army, Navy, and Air Force Schedules of Budgetary Activity (SBA) and the planned audit readiness assertion on the SBA by some of the Department's other Defense agencies. Enterprise-wide, we continue to replace, update, and consolidate outdated and redundant information technology (IT) systems, with plans to reduce the number of financial management systems from 327 to 120 by FY 2019. With fewer systems and improved business processes, the Department can more readily achieve and sustain the reliability of reported financial information that meets the timeliness, reliability, and accuracy standards of an independent auditor.

The DoD Financial Management (FM) Certification Program, an enterprise-wide framework to ensure the Department has a well-trained workforce to solve constant budget challenges and enable achievement of auditable financial statements, hit full stride in FY 2014. Approximately 98 percent of Active-Duty Military and civilian FM personnel transitioned into the FM Certification Program, and over 725 members achieved their required FM certifications. Over 38,000 FM web-based course completions were recorded in FY 2014, and over 6,000 of these course completions were FIAR focused.

We also remain dedicated to performing our mission while operating efficiently, reducing costs, and effectively managing taxpayer dollars. Continuing the agency reforms advanced in previous budgets, the Department proposed approximately \$37 billion in cost reductions over the period FY 2014 through FY 2018 (Future Years Defense Program) from the amount of funds requested in the Department's FY 2014 President's budget. These savings included \$19 billion by streamlining business practices and support services; \$14 billion saved by identifying and terminating or restructuring weapons programs, where the most important capabilities could be met by other means; and \$4 billion saved by restructuring and delaying funding for military construction projects.

## **PERFORMANCE MANAGEMENT**

Each year, the Department develops and tracks performance measures to assess our progress in meeting our strategic plan priorities. The Quadrennial Defense Review (QDR) 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 FY 2014 performance measures follow the Department's QDR 2010<sup>1</sup> priorities:

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

In summary, the Department's focus on mission readiness over the past year resulted in success across several of the most critical strategic objectives and identified improvement opportunities related to training the human intelligence community and assisting our veterans transition out of the Services. Most importantly, the Department has maintained its commitment to caring for Service Members and their families who have borne the burden of more than a decade of war. The DoD plans to build on the momentum of the progress to achieve success on its strategic goals and objectives.

The following tables summarize results for seven performance measures that best align with the Department's financial management themes of acting as good stewards of the public funds; implementing and deepening program alignment to the new defense strategy; creating a force that is ready across a spectrum of missions; and taking care of our personnel. The final results and associated trend analysis for all 69 of the Department's performance measures are addressed in the Annual Performance Report and can be viewed on Performance.gov, <http://goals.performance.gov/agency/dod>, under Agency Plans and Reports.

<b>Mission Readiness</b>			
<b>Performance Goals</b>	<b>FY 2013 Result</b>	<b>FY 2014 Goal</b>	<b>FY 2014 Result</b>
Average number of countries with active Defense Institution Reform Initiative programs.	17	28	23
Percentage of general purpose force deployed to support COCOM security force assistance requirements that have received focused Security Force Assistance training.	79.3%	95%	91.2%
Results: The Defense Institution Reform Initiative (DIRI) program significantly expanded its level of work to support the Administration's rebalance to Asia, and in support of the President's Security Governance Initiative for Africa. In FY 2014, the DIRI program had to re-compete contracts for administrative and subject matter experts, which disrupted some program execution, and the security cooperation community, operating out of U.S. embassies overseas and the Combatant Commands, did not have extensive training in how to identify institutional capacity shortfalls in partner countries, which led to delays in initiating DIRI projects with some partner countries.			
<b>Achieving Audit-Ready Financial Statements</b>			
<b>Performance Goals</b>	<b>FY 2013 Result</b>	<b>FY 2014 Goal</b>	<b>FY 2014 Result</b>
Percent of DoD's General Funds Statement of Budgetary Activity for material Components validated as audit-ready.	14%	82%	90%
Results: The Department has exceeded its goal for the fourth quarter. Management has approved the Military Services' and Components' assertion for current year appropriations.			

<sup>1</sup> For FY 2014, the Department continued to follow the QDR 2010 priorities. The QDR 2014 was issued in March 2014, and new performance measures associated with the most recent QDR are under development.

<b>Processing Wounded Warriors through the Integrated Disability Evaluation System (IDES)</b>			
<b>Performance Goals</b>	<b>FY 2013 Result</b>	<b>FY 2014 Goal</b>	<b>FY 2014 Result</b>
Percent of Service Members who meet DoD Core IDES Process Time and Satisfaction goals	85%	80%	79%
<p><b>Results:</b> The Department did not meet its overall IDES goal in FY 2014. Completion times for DoD-specific activities (Referral, Medical Evaluation Board, Informal Physical Evaluation Board, and Transition) averaged 96 days against a goal of 105 days, with 77 percent of cases meeting the goal. The percent of Service Members meeting DoD Core IDES process time leveled slightly in the fourth quarter and resulted in a fiscal year-end percentage of 79 percent. By March 2015, the Office of Warrior Care Policy will report the percentage of cases meeting each DoD-specific required process activity in its monthly IDES Performance Report sent to DoD senior leaders.</p>			
<b>Human Intelligence (HUMINT) Training</b>			
<b>Performance Goals</b>	<b>FY 2013 Result</b>	<b>FY 2014 Goal</b>	<b>FY 2014 Result</b>
Percent of student enrollments to funded training seats at the Human Intelligence (HUMINT) Training Joint Center of Excellence (HT-JCOE) for Military Source Operations interrogation, and HUMINT-enabling training activities	69%	90%	62%
<p><b>Results:</b> Limitations based on sequestration, the government shutdown, and an overall overstated training requirement due to the uncertainty of continued operations in Afghanistan, affected the achievement of desired HUMINT performance targets for FY 2014. To gain efficiencies and make use of unfilled training slots, the HT-JCOE cross-trained and certified its instructors in additional HUMINT disciplines so they could teach more than a single course. To gain additional efficiencies, HT-JCOE transitioned courseware to a distributed learning environment, beginning with the Joint Source Validation Course, which is the course with the highest annual throughput or demand. When fully transitioned to an on-line platform in early FY 2015, the course will be scalable to meet any demand signal.</p>			
<b>Career Readiness and Pre-Separation Training for Veterans</b>			
<b>Performance Goals</b>	<b>FY 2013 Result</b>	<b>FY 2014 Goal</b>	<b>FY 2014 Result</b>
Percent of eligible Service Members who separated and attended (a) pre-separation counseling, (b) Department of Labor Employment Workshop, and (c) Veterans Affairs (VA) Benefits briefings prior to their separation, as required by 10 USC CH58, 1142 & 1144 and Public Law 112-56 ( <a href="#">VOW Act</a> )	N/A	85%	63.3%
Percent of eligible Service Members who separated and met Career Readiness Standards (CRS) prior to their separation	N/A	85%	34.2%
<p><b>Results:</b> For FY 2014, the Department established two goals related to career readiness and pre-separation training for Veterans. In FY 2014, 63.3 percent of eligible Service Members attended pre-separation counseling, the DOL employment workshop, and VA benefits briefing, and 34.2 percent of eligible Service Members met CRS. Because these were new measures, the data gathering processes to collect and transmit the data was immature and not fully in place at the beginning in FY 2014. The Department is actively working with the Military Departments and Defense Manpower Data Center to ensure that required transition assistance program (TAP) services are being delivered, to identify the causes of data gaps, and to enable Service TAP offices to more easily and accurately report data. The Department expects reported performance to improve in FY 2015 as a result of these efforts and we will continue to monitor progress and make appropriate adjustments.</p>			



## MANAGEMENT CHALLENGES

Each year, the Inspector General, Department of Defense (DoD IG), prepares a statement that summarizes what he considers to be the most serious management and performance challenges facing the Department.

For FY 2014, the DoD IG identified challenges in the following seven categories:

- **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, identifying opportunities to reduce costs and achieve efficiencies in weapon system acquisition, and providing consistent, effective oversight in its 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:** Addressing the rapidly increasing threats in the cyber domain, and recruiting and retaining qualified cyber personnel.
- **Health Care:** Providing quality care for 9.6 million beneficiaries within fiscal constraints while facing increased user demand and legislative imperatives; eliminating health care fraud; and maintaining medical readiness of the total force.
- **Afghan National Security Forces:** Continuing to develop the Afghan National Security Forces' capability to take ultimate responsibility for Afghanistan's security.
- **The Nuclear Enterprise:** Redefining the importance of the nuclear enterprise and overcoming past neglect.

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

## PATH FORWARD

Instability around the world continues, ranging from the threat presented by ISIL in Iraq and Syria to Russia's violation of Ukraine's sovereignty and illegal occupation of Crimea, and the potential of an Ebola pandemic. As reflected in the [Quadrennial Defense Review 2014](#), the current strategic and budgetary environment compels us to think creatively and develop new ways to manage and employ the Joint Forces as we engage with the world. Force capacity, capability, and readiness decisions made today will continue to have an impact for years to come.

The Department is focused on preparing for the future by rebalancing defense efforts in a period of increasing fiscal constraint. Our strategic priorities protect and advance U.S. interests and sustain America's leadership; responsibly and realistically take steps to rebalance major elements of the Joint Force, given the changing fiscal environment; and continue our efforts to control costs and improve use of resources in a period of fiscal austerity. Our sustained attention and engagement will be important in shaping emerging global trends.

# 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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