



UNITED STATES DEPARTMENT OF DEFENSE



# SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION

Fiscal Year 2011



# Department of Defense

## Summary of Performance and Financial Information

### Mission

- The mission of the Department of Defense is to protect the American people and advance our national interests.

### Strategic Goals

- Prevail in today's wars
- Prevent and deter future conflict
- Prepare to defeat adversaries and succeed in a wide variety of contingencies
- Preserve and enhance the All-Volunteer Force
- Reform the Business and Support Functions of the Defense Enterprise

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Preparation of this study/report cost the Department of Defense a total of approximately \$1,020 in Fiscal Year 2012.

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## MESSAGE TO THE PUBLIC

The [Department of Defense](#) (DoD) is pleased to present this Summary of Performance and Financial Information (SPFI) report for fiscal year (FY) 2011. The SPFI highlights key information from the DoD Annual Performance Report, which is incorporated in the DoD FY 2013 Congressional budget submission (at <http://comptroller.defense.gov/>), and the DoD [Agency Financial Report](#) (AFR) for FY 2011, making the information more transparent and accessible to Congress, the public, and other key constituents.

During FY 2011, the Department utilized taxpayer resources in the fight against terrorist organizations in Afghanistan and elsewhere, in the drawdown of forces in Iraq, in providing relief to the victims of natural disasters, and in support of friends and allies around the world. The men and women of the Department carried out this work in the midst of a challenging financial situation. Budgetary pressures, continuing resolutions, and possible shutdowns of the Federal government added an element of uncertainty through much of the fiscal year.

In recognition of the fiscal pressures the United States is facing, the Department made adjustments in its FY 2011 budget, investing in the capabilities needed in current conflicts, such as intelligence, surveillance, and reconnaissance (ISR) platforms, special operations forces, and cyber capabilities, including the stand-up of the new [U.S. Cyber Command](#). Enhancements also were made to prepare for future conflicts, including investments in items such as mobility aircraft and space capabilities.

In FY 2011, the Department also launched a comprehensive review of strategic needs and costs during the formulation of the [FY 2012 President's Budget](#). As part of this review, efficiency savings were realized for the civilian workforce, service support contractors, and Departmental studies. The cap on the civilian workforce retained FY 2011 to FY 2013 civilian, full-time equivalents at the same level authorized in FY 2010, with limited exceptions. The Department's reliance on service support contractors was reduced by 10 percent per year in FY 2011 to FY 2013, from the FY 2010 level, for a total 30 percent reduction. The Department's reliance on advisory studies was reduced by 25 percent below the FY 2010 actual levels, and all non-essential, lesser-value reports, including all reports generated by [DoD Issuances](#) with a commissioning date prior to January 1, 2006, were eliminated.

The Department's ongoing challenge is to preserve essential warfighting capabilities even as we look for ways to trim costs. Above all, we must avoid hollowing out the force and breaking faith with the brave men and women who are fighting for us. As a result of our



Defense Secretary Leon E. Panetta speaks at the National Guard Joint Leadership Conference in National Harbor, MD. Secretary Panetta highlighted the National Guard's diverse missions and capabilities and its importance to the country.

*DOD photo by Erin A. Kirk-Cuomo*

efforts to prevail in today's conflicts and to prepare for the complex challenges ahead, America has asked much of its All-Volunteer Force and the civilians who support that force. Multiple and extended deployments have taken a toll on our people and their families. From wartime force management issues, to recruiting, retention, family support, and wounded warrior care, we must continue to tend to the health of the All-Volunteer Force to the best of our ability.

## PERFORMANCE HIGHLIGHTS

The 2010 [Quadrennial Defense Review](#) (QDR) examines national defense strategy, force structure, force modernization plans, infrastructure, budget plans, and other elements of the defense program and policies of the United States, consistent with the most recent [National Security Strategy](#) and [National Military Strategy](#). The FY 2010 QDR constitutes the Department's strategic plan, and it forms the basis for the Department's annual performance plan and enterprise-wide goal priorities.

Primary responsibility for performance improvement rests with the Deputy Secretary of Defense in his role as the Chief Management Officer (CMO). The Deputy Secretary is assisted by the Deputy CMO/DoD Performance Improvement Officer, who integrates performance information across the Department. Principal Staff Assistants within the [Office of the Secretary of Defense](#), in coordination with the [Joint Staff](#), recommend the strategic objectives and performance goals determined to be the most relevant for DoD-wide management focus. The DoD strategic objectives and performance goals are subject to annual refinement based on changes in missions and priorities.

The following tables capture results for some of the key, enterprise-wide goals that were reported in the FY 2011 AFR, updated to reflect FY 2011 end results. The Department addressed the FY 2011 final results for all 76 performance goals in the FY 2013 Congressional Budget Justification, submitted in February 2012, which may be viewed at <http://comptroller.defense.gov/>.

STRATEGIC GOAL 1: PREVAIL IN TODAY'S WARS			
Key measures focus on increasing Afghan National Security Forces (ANSFs) capacity and executing a responsible drawdown in Iraq.			
Performance Measure	FY 2010 Results	FY 2011 Goals	FY 2011 Results
Cumulative number of Afghan National Army (ANA) end strength	144,000	171,600	■ 170,781
Cumulative number of Afghan National Police end strength	115,000	134,000	■ 136,122
Cumulative number of U.S. military troops in Iraq	48,770	50,000	■ 39,000
<b>Results:</b> The Department fell slightly short in achieving the ANA end strength goal, but exceeded the combined ANSF goal of 305,600. In addition, the Department reduced its military combat presence in Iraq ahead of schedule.			

## STRATEGIC GOAL 2: PREVENT AND DETER CONFLICT

Key measures focus on increasing general purpose forces, maintaining a safe and effective nuclear arsenal, and strengthening missile defense and Intelligence, Surveillance, and Reconnaissance (ISR) operations.

Performance Measure	FY 2010 Results	FY 2011 Goals	FY 2011 Results
Cumulative percent increase in DoD Special Forces and Navy Sea, Air, and Land personnel achieved	27%	28%	■ 35%
Cumulative percent of unit initiatives completed to balance three Marine Corps Expeditionary Forces	84%	92%	■ 95%
Cumulative number of Aegis Ballistic Missile Defense capable ships	21	23	■ 23
Cumulative number of Predator (MQ-1) and Reaper (MQ-9) ISR orbits	45	50	■ 59

**Results:** The Department surpassed its annual goals to increase Special Forces, rebalance Marine Corps Expeditionary Forces, and improve missile defense and ISR capacity.

## STRATEGIC GOAL 3: PREPARE TO DEFEAT ADVERSARIES AND SUCCEED IN A WIDE RANGE OF CONTINGENCIES

This key measure focuses on destroying dangerous materials that pose grave threats and continue to undermine global security.

Performance Measure	FY 2010 Results	FY 2011 Goals	FY 2011 Results
Cumulative percent of treaty-declared category 1 chemical weapons destroyed	79.8%	88.3%	■ 89.1%

**Results:** The Department exceeded its annual goal of eliminating select weapons of mass destruction.

## STRATEGIC GOAL 4: PRESERVE AND ENHANCE THE ALL-VOLUNTEER FORCE

Key measures focus on maintaining an All-Volunteer military force and improving civilian hiring efficiency.

Performance Measure	FY 2010 Results	FY 2011 Goals	FY 2011 Results
Percent variance in Active Component end strength	0.4%	0-3%	■ -0.5%
Percent variance in Reserve Component end strength	0.6%	+/-3%	■ 0.2%
Number of soldiers under stop loss	3,198	0	■ 0
Number of days for external civilian hiring (end-to-end timeframe)	116	101	■ 104
Percentage of the Department's Active Duty Army who meet the planning objectives for time deployed in support of combat operations versus time at home	Not available	75%	■ 85.7%
Percent of Reserve Component members mobilized in the evaluation period that have dwell ratios greater than or equal to 1:5	64.8%	60%	■ 71.8%

**Results:** In FY 2011, the Army eliminated the use of Stop Loss and all Military Departments began adjusting their force levels to meet reduced strength levels in FY 2012 and beyond. These reductions resulted in overall military end strength at -0.5%, or 7,300 less than planned, but this result did not adversely affect current operations or readiness. In addition, both the Army and the Reserve Components have shown substantial improvement in the Service members' time spent at home. The Department failed to achieve its efficiency improvement timeline of 101 days for hiring civilians from external sources.

## STRATEGIC GOAL 5: REFORM THE BUSINESS AND SUPPORT FUNCTIONS OF THE DEFENSE ENTERPRISE

Key measures focus on improving DoD business operations in the areas of acquisition, logistics, and audit readiness.

Performance Measure	FY 2010 Results	FY 2011 Goals	FY 2011 Results
Percentage of contracts that are competitively awarded	62.5%	65.0%	■ 58.5%
Perfect Order Fulfillment rate for Defense Logistics Agency stock items	84.8%	84.9%	■ 86.2%
Percent of Appropriations Received as reported on DoD's Statement of Budgetary Resources, that are validated as audit ready	19%	80.0%	■ 80.0%

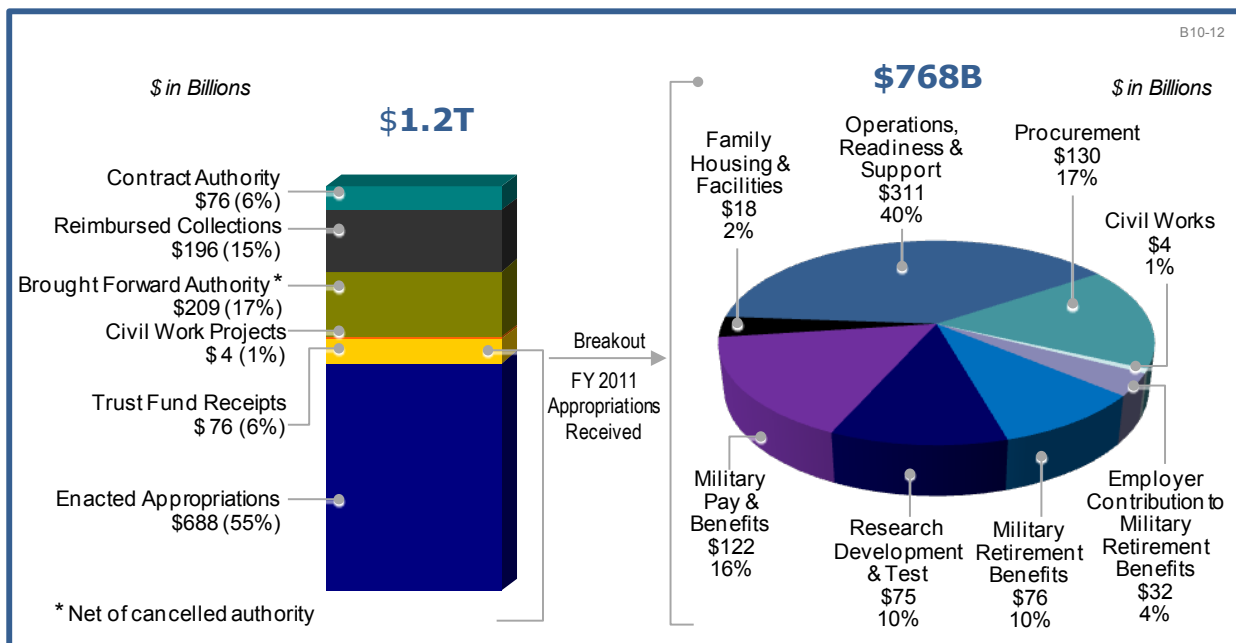
**Results:** The Department exceeded its perfect order fulfillment rate and improved its audit readiness posture for appropriations received; however, the Department did not meet its goal for percent of contracts awarded on a competitive basis.

## FINANCIAL HIGHLIGHTS

### Resources

The Department received a total of \$768 billion in FY 2011 resources, as depicted in Figure 1-1. The Department's enacted appropriations total \$688 billion. In addition, the Department received \$80 billion in resources from the United States Treasury for retirement and health benefits and appropriations in support of civil work projects executed by the U.S. Army Corps of Engineers. Additional budgetary resources for the year include \$209 billion (net of FY 2011 cancelled authority) for outstanding requirements carried forward from FY 2010, \$196 billion in collections related to reimbursed activity, and \$76 billion in contract authority, for a total of \$1.2 trillion in available budgetary resources.

**Figure 1-1. Total Budgetary Resources**



The Department used its resources to meet the needs of the warfighter and the ever-changing battlefield. Funding enabled the Department to maintain readiness to conduct missions abroad and a full spectrum of training, combat training center rotations, and recruiting and retention efforts. Modernization and recapitalization of equipment, focused on today's threats, greatly improved combat capabilities. These new capabilities included procurement and development of platforms, such as the fifth generation Joint Strike Fighter aircraft; the Littoral Combat Ship; unmanned aircraft systems, such as Global Hawk and Reaper; new generation ground combat vehicles, such as the Stryker; communications, navigation, missile warning, space situational awareness, and environmental monitoring satellites; and missile defense systems.

In addition, during the first quarter of FY 2011, the Department completed its portion of the U.S. Government's response to the Government of Pakistan's call for humanitarian assistance and disaster relief following the flooding that started in July 2010. In March 2011, the Department deployed personnel, ships, and aircraft to augment the Government of Japan's disaster relief efforts in response to the devastating magnitude 9.0 earthquake that struck off Japan's main island of Honshu. Also during FY 2011, the Department provided humanitarian assistance relief, forces, and capabilities to augment and support coalition partners in the North Atlantic Treaty Organization-led military operations to respond to Muammar Gaddafi's brutal actions against the people of Libya.



Robert F. Hale,  
Under Secretary of Defense  
(Comptroller)/  
Chief Financial Officer

## **Financial Stewardship**

To ensure the security of the United States, the Department remains dedicated to obtaining the required resources and making the best use of them. Taking care of our people, reshaping and modernizing the force, and supporting our troops in the field also remain high priorities for the Department, which is committed to spending funds carefully and effectively.

The Department cannot yet produce consolidated, auditable financial statements, nor can it provide reasonable assurance that internal controls over financial reporting were effective as of June 30, 2011. Defense financial managers, however, maintained effective financial processes and controls in many areas. For example, DoD payment processes continue to successfully ensure timely and accurate payments in a very high percentage of cases, including military and civilian payroll disbursements with a greater than 99-percent degree of accuracy. We have greatly reduced the number of abnormal balances beneath the appropriation detail level. In 2005, the Department had over 3,200 such abnormal balances; as of 2011, we reduced these abnormal balance conditions by 99 percent to just 40 cases. The hands-free payment processing of invoices, receiving reports, contracts, and modifications through the legacy systems increased from 18 percent in FY 2009 to 38 percent as of September 2011.

The Department is committed to attaining audit readiness by September 30, 2017, as mandated by Congress, and achieving auditability of the general funds Statement of Budgetary Resources (SBR) by 2014. We already have seen significant progress. For example, Independent Public Auditors recently examined and issued unqualified opinions on the Army, Navy, and Air Force assertions of audit readiness for “Appropriations Received,” a key element in the SBR. In addition, the U.S. Marine Corps (USMC), the first Military Service to undergo an audit of its SBR, is making significant progress. The audits of the USMC’s SBR in FYs 2010 and 2011 are providing important “lessons learned” to the other Military Services. For FY 2011, the financial statements for seven of the 33 reporting entities within the Department received unqualified audit opinions (refer to Figure 1-2).

At the same time, it is clear that major challenges remain. These challenges are especially complex considering DoD’s geographical dispersion and enormous size. Every business day, we obligate an average of \$2 billion to \$3 billion and handle hundreds of thousands of payment transactions in thousands of locations worldwide, including war zones. Given our size and mission requirements, we are not able to deploy the vast numbers of accountants that would be required to reconcile our books manually.

**Figure 1-2. Audit Opinions**

DoD Reporting Entity	Audit Opinions
U.S. Army Corps of Engineers	Unqualified
Military Retirement Fund	Unqualified
Defense Commissary Agency	Unqualified
Defense Finance and Accounting Service	Unqualified
Defense Contract Audit Agency	Unqualified
Office of the Inspector General of the Department of Defense	Unqualified
TRICARE Management Activity – Contract Resource Mgmt	Unqualified

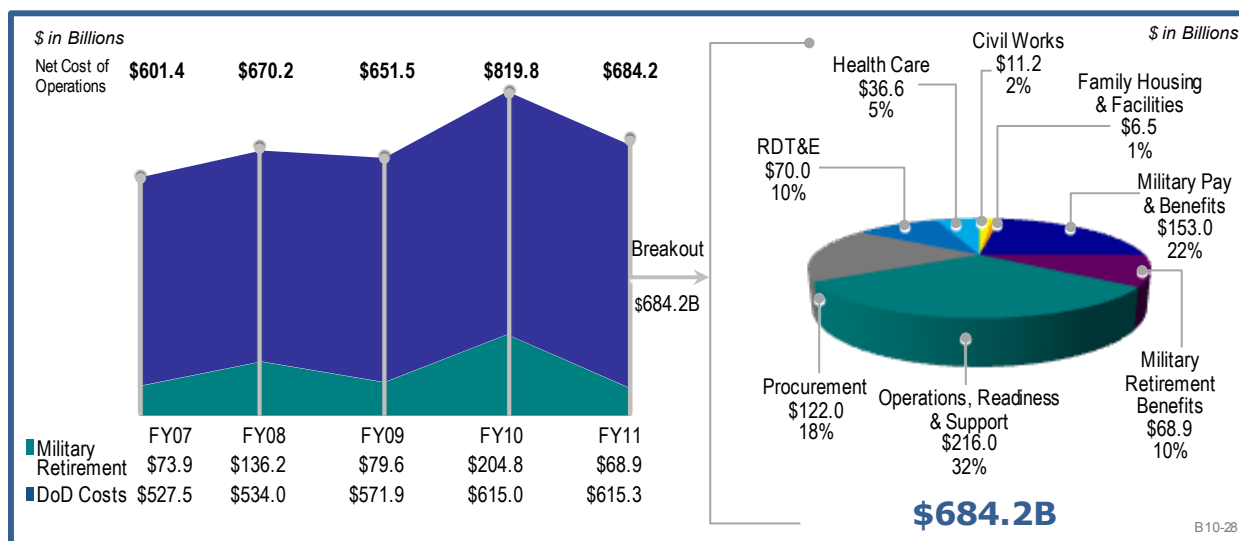
We are dedicated to improving defense financial management as part of our overall commitment to providing the financial resources and business operations necessary to meet our national security objectives. The [Financial Improvement and Audit Readiness Plan Status Report](#) details the Department’s financial improvement priorities, milestones, and measures of success that apply to the preparation of the financial statements and the planned improvements in the process. It also provides an estimate of when each financial statement will convey reliable information. The Department’s focused approach to financial improvement and audit readiness has put us on the path to auditability.

## Financial Statement Analysis

**Net Cost of Operations.** During FY 2011, the Department's incurred costs related primarily to Operations, Readiness and Support, and military personnel, as shown in Figure 1-3. These costs were offset with investment earnings and contributions to support retirement and health benefit requirements, as well as earnings from reimbursed activities. These activities resulted in \$684.2 billion in net costs of operations during the fiscal year, representing a \$135.6 billion decrease (17 percent) from FY 2010 largely due to a \$130.5 billion reduction in military retiree health benefit expenses caused by changes in the assumptions used to calculate long-term costs.



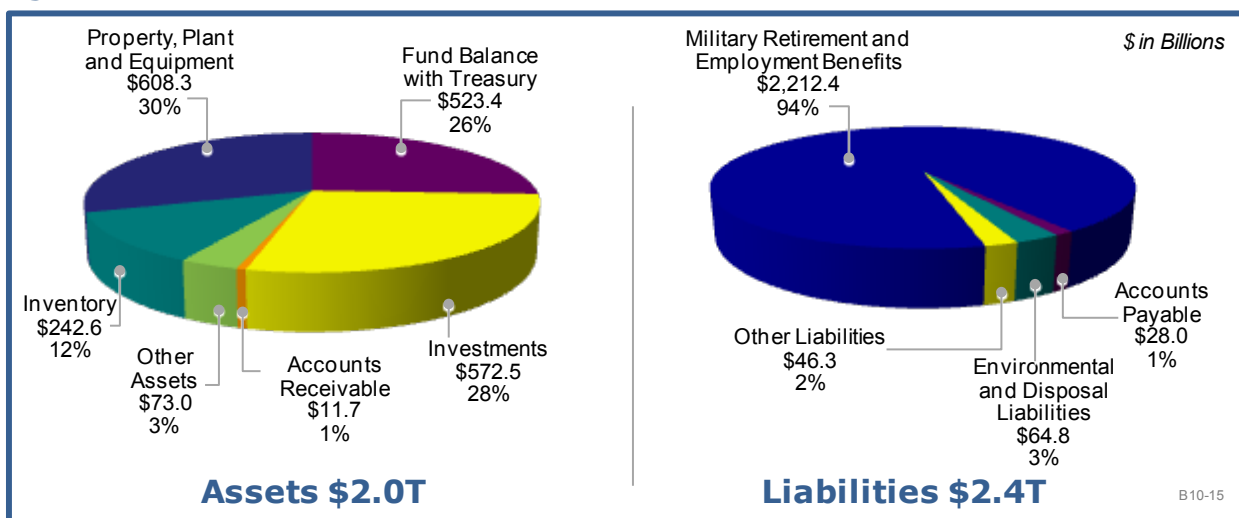
**Figure 1-3: Net Cost of Operations**



**Assets.** The Department owns and manages \$2.0 trillion in assets (refer to Figure 1-4), primarily comprised of Fund Balance with Treasury, Investments, and General Property, Plant, and Equipment. General Property, Plant, and Equipment is largely comprised of military equipment, buildings, structures, and general equipment used to support the Department’s mission. Assets increased \$115.6 billion (6 percent) from FY 2010, primarily due to a \$72.9 billion net increase in investments related to military retirement and health benefits and a \$27 billion increase in General Property, Plant, and Equipment, largely the result of ongoing efforts to validate the existence and completeness of these assets and improve their valuation. In addition, the Department acquired additional military equipment to improve combat capabilities.

**Liabilities.** The Department reports \$2.4 trillion in liabilities, an increase of \$29.1 billion (1 percent) from FY 2010, primarily resulting from changes in the actuarial assumptions

**Figure 1-4. Assets and Liabilities**



used to calculate the long-term benefits related to military retirement pensions. The Department is confident in its ability to meet its financial obligations for the \$2.4 trillion in reported liabilities. The U.S. Treasury is responsible for funding approximately \$1.3 trillion of the actuarial liability that existed at the inception of the Military Retirement and Health programs. Additionally, the Department has resources to cover approximately \$615.0 billion (26 percent) of the remaining liabilities, including funds currently invested in U.S. Treasury securities to cover future military retirement pension and health care benefits.

## **MANAGEMENT CHALLENGES**

The Inspector General of the Department of Defense (IG DoD) works to promote efficiency, effectiveness, and integrity in the programs and operations of the Department. As required by the Reports Consolidation Act of 2000, the IG DoD identified the following management and performance challenges as the most serious facing the Department:

- Financial Management
- Acquisition Processes and Contract Management
- Joint Warfighting and Readiness
- Information Assurance, Security, and Privacy
- Health Care
- Equipping and Training Iraq and Afghan Security Forces
- Nuclear Enterprise

Detailed information regarding these challenges, as well as the Department's response, is detailed in Addendum A to the [DoD AFR for FY 2011](#). The IG-identified challenges are in addition to those identified in the Government Accountability Office report, entitled "[High-Risk Series, An Update](#)," issued February 2011.

## **PATH FORWARD**

The United States faces a complex and uncertain future security landscape in which the pace of change continues to accelerate. Terrorists remain committed to learning and adapting, posing a continuing threat to the security of the United States and to our allies and partners. In addition, the rise of new powers, the growing influence of non-sovereign entities that exercise significant influence at a national or international level, the spread of weapons of mass destruction and other destructive enabling technologies, and a series of enduring and emerging trends pose profound challenges to the international order.

These are challenging times. America's interests and role in the world require armed forces with unmatched capabilities and a willingness on the part of the Nation to employ them in defense of our interests and the common good. We must ensure that our military has what it needs to protect our national security at a time of considerable fiscal challenge in our country. We cannot choose between fiscal discipline and national security – they are interconnected. Our growing national debt, if not addressed, will imperil our prosperity, hurt our credibility and influence around the world, and ultimately put our national security at risk. As the country takes steps to get its finances in order, defense spending will be part of the solution. Achieving savings based on sound national security policy will serve our Nation's interests and will also prove more enforceable and sustainable over the long term.

## Useful Web Sites

### Web Address and Report Description

<http://www.defense.gov/>

- Main Department of Defense (DoD) Web site, and links to other DoD Web sites.

<http://dcmo.defense.gov/>

The Office of the Deputy Chief Management Officer Web site includes:

- Business Enterprise Architecture  
Blueprints DoD standard process, data, data standards, business rules, operating requirements, and information exchanges for the Department's business and financial management activities.
- Enterprise Transition Plan  
Sets the defense business systems modernization strategy and defines the target systems environment.

<http://comptroller.defense.gov/>

The DoD Comptroller Web site includes:

- Agency Financial Report  
Reports DoD's financial condition, financial execution, plans, and accomplishments.
- Annual Performance Plan  
Describes DoD's strategic goals and objectives and the respective performance measures and targets used to assess progress.
- Annual Performance Report  
Contains details of DoD's performance results and progress in achieving its strategic goals as required by the Government Performance and Results Act (GPRA).
- Summary of Performance and Financial Information / Citizen's Report  
Summarizes DoD's mission, key goals, budget allocation, and progress on key performance goals linking to the strategic goals.
- Congressional Budget Justification  
The Department of Defense's budget request to the Congress.
- Financial Improvement and Audit Readiness Plan  
Describes DoD's strategy for improving financial management and reports progress in achieving financial statement audit readiness.

<http://www.defense.gov/qdr>

- Quadrennial Defense Review  
Dated February 2010, provides DoD's strategic plan.

# WELCOME TO THE DEPARTMENT OF DEFENSE

We are interested in your feedback  
regarding the content of this report.

Please feel free to send your comments to

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or

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