DEPARTMENT OF DEFENSE

SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION

FISCAL YEAR 2012

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

ABOUT THIS REPORT

The Department of Defense (DoD) Summary of Performance and Financial Information for Fiscal Year (FY) 2012 offers a high-level summary of the performance and financial information presented in the DoD *Agency Financial Report for FY 2012* and the DoD Annual Performance Report, which will be incorporated in the Department's FY 2014 Congressional budget submission. Both of these reports will be available for viewing on the Office of the Under Secretary of Defense (Comptroller)'s public website (*http://comptroller.defense.gov/*).

INSIDE

Preparation of this Report for the
Department of Defense was
approximately $6,450 for the
2013 fiscal year.

Generated on 02/11/2013   RefID: 7-BEC4CAE

FISCAL YEAR 2012 OVERVIEW

The Department of Defense (DoD) fields, sustains, and employs the military capabilities necessary to meet our mission, which is to protect the American people and advance our national interests. Key among America's interests is security, prosperity, broad respect for universal values, and an international order that promotes cooperative action.

For fiscal year (FY) 2012, the Department continued to shape its program based on the defense strategy expressed in the *2010 Quadrennial Defense Review* (QDR) report, a legislatively-mandated review of DoD strategies and priorities. Strategic goals 1 through 3, below, reflect DoD's core warfighting missions, and Strategic goals 4 and 5 focus on infrastructure support.

Leon E. Panetta
Secretary of Defense

- Strategic Goal 1, "Prevail in Today's Wars," refers to the ongoing conflict and extended stabilization campaigns in Afghanistan and Iraq and to ensure the success of our forces around the world. These efforts will substantially determine the size and shape of major elements of U.S. military forces for several years.

- Strategic Goal 2, "Prevent and Deter Conflict," focuses on integrated security cooperation and reorienting the Armed Forces to deter and defend against transnational terrorists around the world. Such an approach also requires working closely with our allies and partners to leverage existing alliances and create conditions to advance common interests.

- Strategic Goal 3, "Prepare to Defeat Adversaries and Succeed in a Wide Range of Contingencies," indicates DoD's contributions to homeland defense, natural disasters, and other contingencies. In the mid- to long-term, U.S. military forces must plan and prepare to prevail in a broad range of operations that may occur in multiple theaters in overlapping time frames.

- Strategic Goal 4, "Preserve and Enhance the All-Volunteer Force," focuses on our personnel management, healthcare, and military families.

- Strategic Goal 5, "Reform the Business and Support Functions of the Defense Enterprise," focuses on improving and integrating our business operations to better support the warfighter.

To enhance the ability of U.S. forces to protect and advance America's interests in both the near- and long-term, the Department has focused on prevailing in today's wars and rebalancing military capabilities to prepare for an uncertain future. The Department also sought to further reform our institutions and processes to better support the urgent needs of the warfighter; buy weapons that are effective, affordable, and truly needed; and ensure taxpayer dollars are spent wisely and responsibly. The 2010 QDR and the FY 2012 budget also address the Department's imperative to take care of its people. Much has been asked of the All-Volunteer Force and the civilians who have supported that force over the past decade, and as a nation, we are obligated to take care of our people to the best of our ability.

During FY 2012, the Department's enacted appropriations were approximately $646 billion, comprised of $531 billion in the base operating budget and $115 billion in Overseas Contingency Operations (OCO) resources. These appropriations 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.

The OCO resources enabled the Department to support and fund efforts primarily in Afghanistan and Iraq. The Department continued activities under Operation New Dawn (OND)/post-OND Iraq activities. We worked to complete the military mission and the responsible drawdown of forces in accordance with the U.S.-Iraq Security Agreement and transition of authority, building on Iraq's improving security gains. In December 2011, the U.S. made good on its pledge to turn over this responsibility to the U.S. Mission in Iraq.

In Afghanistan, our goal remains to disrupt, dismantle, and eventually defeat al-Qa'ida and prevent their return to either Afghanistan or Pakistan. The U.S. coalition and Afghan forces have arrested the Taliban's momentum in much of the country and reversed it in several key areas. The last of the 33,000 surge troops sent to Afghanistan nearly two years ago to contain the Taliban insurgency have left the country. The U.S. troops continue to work with Afghan National Security Forces and international partners and have begun transitioning the lead for security to Afghanistan, a process that is scheduled to be completed across the country by the end of 2014. We also continue to apply relentless pressure to al-Qa'ida and other terrorist networks around the globe that threaten the U.S., its allies and partners, and our interests abroad.

In addition, during FY 2012, the Department concluded its portion of the U.S. Government's support to the North Atlantic Treaty Organization-led mission in Libya, Operation Unified Protector, to respond to Muammar Gaddafi's brutal behavior against the people of Libya. The U.S. Government and its international partners acted to mobilize a broad coalition, secure an international mandate to protect civilians, stop an advancing army, prevent a massacre, and establish a no-fly zone.
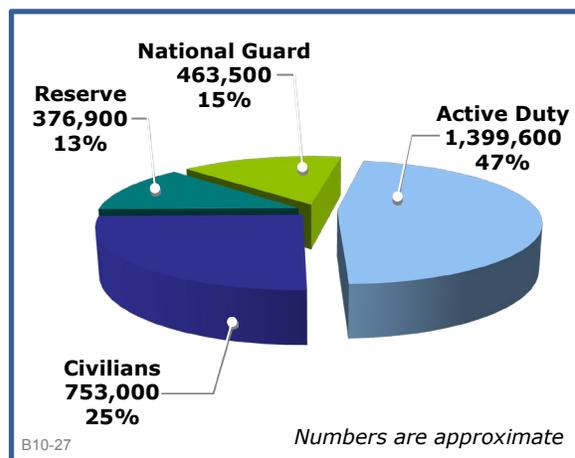
The Department's FY 2012 budget also looked ahead, continuing the process of rebalancing the capabilities of the Armed Forces to confront future threats. For example, the Department made investments to ensure that we can operate effectively in cyberspace and maintain resilient and reliable networks that can operate in contested environments. The defense program strengthened capabilities for projecting power, such as the long-range strike family of weapons systems. The FY 2012 budget also included funding to ensure that the U.S. nuclear posture continues to provide a safe, secure, and effective deterrent as we implement the *New START Treaty*.

The Department sought to further reform our institutions and processes--buying weapons that are effective, affordable, and truly needed, and ensuring taxpayer dollars are spent wisely and responsibly. We continue to invest in weapon systems and capabilities to counter 21st century threats, support the workforce, and accomplish mission requirements and objectives. Development, modernization and recapitalization of equipment, focused on current and emerging threats, greatly improved combat capability. These new capabilities include the fifth generation Joint Strike Fighter, the Littoral Combat Ship, a new generation of ground vehicles, and many more weapons.

The FY 2012 budget also addressed the Department's imperative to take care of its people. Our workforce consists of nearly three million employees, both afloat and ashore, deployed throughout the world to meet mission requirements. To provide Americans with the highest level of national security, the Department is staffed by approximately 1,399,600 men and women on Active Duty, 840,400 Reservists and National Guard members, and 753,000 civilians.

DoD Staffing as of September 30, 2012

National Guard 463,500 15%

Reserve 376,900 13%

Active Duty 1,399,600 47%

Civilians 753,000 25%

B10-27 *Numbers are approximate*

During FY 2012, the Department mobilized approximately 70,000 Reserve Component members at any given time. The men and women of the Reserve and National Guard provided security and assistance in both the Afghanistan and Iraq theaters and maintained aircraft in the Horn of Africa, to name a few of their many missions. The skills and capabilities of the Reserve Component members match current and anticipated DoD requirements, thereby reducing the stress on the total force while increasing the capacity.

To protect the security of the U.S., the Department operates almost 16,000 aircraft and 600 ships, and many ground units. The Department's worldwide infrastructure includes more than 555,000 facilities (buildings and structures) located at more than 5,000 sites around the world on more than 28 million acres. These sites vary

greatly in size. They range from the very small--an unoccupied site supporting a single navigational aid that sits on less than one-half acre of land--to the vast and immense, such as the Army's White Sands Missile Range in New Mexico, with over 2.2 million acres, or the Navy's large complex of installations in Norfolk, Virginia.

Even as we continued our strategic emphasis on prevailing in today's conflicts and rebalancing capabilities to prepare for future threats, in FY 2012 we continued an aggressive pursuit of efficiencies throughout the Department. The FY 2012 budget proposed more than $150 billion in savings from efficiencies, continuing initiatives begun in FYs 2010 and 2011. Recognizing the fiscal pressures the country is facing, in FY 2012 the Department launched a comprehensive effort – within the Military Services and in the Department as a whole – to generate efficiency savings by reducing overhead costs, improving business practices, and terminating lower priority or troubled programs. We redirected resources away from those programs and activities so that more pressing needs can be addressed.

Defense Secretary Leon E. Panetta, President Barack Obama and Army Gen. Martin E. Dempsey, chairman of the Joint Chiefs of Staff, render honors as the national anthem plays during a ceremony to commemorate the 11th anniversary of the 9/11 terrorist attacks at the Pentagon, September 11, 2012.

DOD photo by U.S. Navy Petty Officer 1st Class Chad J. McNeeley

The Department remains dedicated to obtaining, investing, and effectively using its financial resources to ensure the security of the U.S. and to meet the needs of both the warfighter and the ever-changing battlefield. The strategic placement of the Department's personnel, installations, and facilities is essential for protecting our homeland and national resources. These resources have never been more important than they are today as the U.S. fights terrorists who plan and carry out attacks on our facilities and our people. Taking care of our people, reshaping and modernizing the force, and supporting our troops in the field remain the highest priorities for the Department.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

This section presents some of the key goals and measures we use to assess our success in the Department of Defense. Primary responsibility for performance improvement rests with the Deputy Secretary of Defense in his role as the Chief Management Officer. The 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 and of highest priority for DoD-wide management. Results for all of our performance goals will be reported in the Department's FY 2012 Annual Performance Report, which is submitted with the FY 2014 Congressional budget justification and soon will be available for viewing at *http://comptroller.defense.gov/*.

Strategic Goal 1: Prevail in Today's Wars

The Afghan National Security Force (ANSF) is the backbone of long-term security and stability plans for Afghanistan. As of September 30, 2012, the ANSF achieved its end-strength recruitment goal of 352,000 soldiers and police (Strategic Objective 1.1-OCO). As the Afghan National Army and the Afghan National Police achieved growth goals, the ANSF and the North Atlantic Treaty Organization Training Mission – Afghanistan have shifted focus from force generation to training and development. The ANSF continues to develop into a force capable of assuming the lead for security responsibility throughout Afghanistan by the end of 2014.

STRATEGIC GOAL 1: PREVAIL IN TODAY'S WARS.				
Key Performance Measures	**Strategic Plan Long-Term Performance Goals**	**Annual Performance Goals/Results**		
		FY 2011 Results	**FY 2012 Goals**	**FY 2012 Results**
Strategic Objective 1.1-OCO: Degrade the Taliban to levels manageable by the Afghan National Security Force (ANSF), while increasing the size and capability of the ANSF.				
1.1.4-OCO: Cumulative number of Afghan National Security Force end strength	1.1.4-OCO: By FY 2012, the DoD will improve combat effectiveness by increasing the Afghan National Security Forces to 352,000.	306,903	352,000	■352,000

Strategic Goal 2: Prevent and Deter Conflict

The four performance objectives depicted below are key to satisfying the Department's deterrence missions and achieving its national security objectives. Our deterrent remains grounded in land, air, and naval forces capable of fighting limited and large-scale conflicts. The ability to successfully execute military operational plans is a core competency of the Department.

Throughout FY 2012, DoD Combatant Commanders (CoComs) met all of their readiness goals (Strategic Objective 2.1-1F1). The Army exceeded the FY 2012 goal and completed modular conversion of 228 planned Multi-Functional and Functional (MFF) brigades (Strategic Objective 2.1.4-1F1), with the final MFF brigade activation scheduled for the fourth quarter of FY 2013. In addition, results for the

Defense Nuclear Surety Inspections have consistently improved over the last four years and currently are achieving the desired goal of a 100 percent, first-time pass rate (Strategic Objective 2.2-1F2A). This is a positive indication of sustained Military Services' excellence and senior leader focus on the nuclear enterprise.

In FY 2012, the Department fielded two more of its large surface combatant ships with Ballistic Missile Defense (BMD) capability (Strategic Objective 2.3-1F3). This moves the Department closer to achieving its long-term goal of having most of the Navy's cruisers and destroyers with BMD capability.

STRATEGIC GOAL 2: PREVENT AND DETER CONFLICT.				
Key Performance Measures	**Strategic Plan Long-Term Performance Goals**	**Annual Performance Goals/Results**		
		FY 2011 Results	**FY 2012 Goals**	**FY 2012 Results**
Strategic Objective 2.1-1F1: Extend a global posture to prevail across all domains by increasing capacity in general purpose forces and by enhancing stability operations and foreign security force competency.				
2.1.2-1F1: Percent of the DoD CoComs' Contingency Plans which they report ready to execute	2.1.2-1F1: For each fiscal year, DoD CoComs will be ready to execute at least 80 percent of their Contingency Plans.	85%	80%	■ 91%
2.1.4-1F1: Cumulative number of Army MFF brigades converted to a modular design and available to meet military operational demands	2.1.4-1F1: By FY 2013, the DoD will convert 229 Army MFF brigades to a modular design.	225	227	■ 228
Strategic Objective 2.2-1F2A: Maintain a safe, secure, and effective nuclear arsenal to deter attack on the U.S. and on our allies and partners.				
2.2.2-1F2A: Passing percentage rate for Defense Nuclear Surety Inspections	2.2.2-1F2A: Beginning in FY 2011, the DoD will maintain a passing rate of 100 percent for all regular Defense Nuclear Surety Inspections.	85.7%	100%	■ 100%
Strategic Objective 2.3-1F3: Strengthen cooperation with allies and partners to develop and field robust, pragmatic, and cost-effective missile defense capabilities.				
2.3.1-1F3: Cumulative number of large-surface DoD combatant ships that are BMD-capable and ready for tasking.	2.3.1-1F3: By FY 2042, 85 large-surface DoD combatant ships will be BMD-capable and ready for tasking.[1]	23	25[1]	■ 25

Strategic Goal 3: Prepare to Defeat Adversaries and Succeed in a Wide Range of Contingencies.

One key performance goal, carried over from FY 2011, is focused on establishing and certifying Homeland Response Forces (HRFs) at a response time of 6 – 12 hours (Strategic Objective 3.1-1F2B). The HRFs are operationally focused and aligned to the ten Federal Emergency Management Agency regions, and sourced by either a single state or a collection of states in that region. The HRFs,

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[1] The FY 2012 goal was revised downward, from 29 to 25, to measure the number of Navy ships (25) equipped with BMD capability and ready for tasking, versus measuring the number of ships funded by the Missile Defense Agency (29). This revised goal better supports the strategic objective (2.3-1F3) which is focused on fielded (vice funded) capability and ensures that DoD performance data is consistent with information published in the Navy's 30-year shipbuilding plan that was approved March 28, 2012.

under control of the state governors, deploy in 6 – 12 hours with life-saving capabilities (emergency medical, search and extraction, decontamination, security, and command and control) supporting the needs of civilian agencies in response to chemical, biological, radiological, or nuclear incidents.

By the end of FY 2012, the Department had certified all ten HRFs located in the states of California, Missouri, Georgia, Pennsylvania, Ohio, Washington, Texas, New York, Utah, and Massachusetts.

STRATEGIC GOAL 3: PREPARE TO DEFEAT ADVERSARIES AND SUCCEED IN A WIDE RANGE OF CONTINGENCIES				
Key Performance Measure	Strategic Plan Long-Term Performance Goals	Annual Performance Goals/Results		
		FY 2011 Results	FY 2012 Goals	FY 2012 Results
Strategic Objective 3.1-1F2B: Improve the responsiveness and flexibility of consequence management response forces.				
3.1.1-1F2B: Cumulative number of HRFs trained, equipped, evaluated, and validated at a reduced response time of 6-12 hours	3.2.1-1F2: By FY 2012, the DoD will have and maintain 10 HRFs trained, equipped, evaluated, and validated at a reduced response time of 6-12 hours to a very significant or catastrophic event.	2	10	■ 10

Strategic Goal 4: Preserve and Enhance the All-Volunteer Force

The Department met two of four key performance goals that relate to the preservation and enhancement of the All Volunteer military force. In the area of military health care costs (Strategic Objective 4.1-2M), outpatient prospective payment systems have yielded pricing reductions for private sector care as these are phased into full implementation. Pharmacy rebates provided reductions in retail pharmacy, which is the highest cost pharmacy venue. Less progress has been made in conversion to the Integrated Disability Evaluation System (IDES) (Strategic Objective 4.1.3-2M), which was completed in FY 2011 and now is used for all Service member disability evaluation processing. In this area, all Military Services report staffing shortages and information technology challenges. Mitigation measures include hiring additional staff and actions to streamline medical and physical evaluation boards.

While the Services continue to meet their end strength goals for both Active and Reserve components, managing the deployment tempo will remain a challenge (Strategic Objective 4.2-2P). In FY 2012, however, the Army made significant progress and, at 91 percent, exceeded the FY 2012 goal for time deployed and time at home. While the Department met its quarterly goals for civilian hiring in the first three quarters of FY 2012, it fell short of meeting the annual, Federal-wide timeliness goal for number of days for external hiring (Strategic Objective 4.2-2P). The use of the automated *USA Staffing* application has improved the Department's hiring timeliness and is enabling human resource professionals to manage this process more effectively.

STRATEGIC GOAL 4: PRESERVE AND ENHANCE THE ALL-VOLUNTEER FORCE.				
Key Performance Measures	**Strategic Plan Long-Term Performance Goals**	**Annual Performance Goals/Results**		
		FY 2011 Results	**FY 2012 Goals**	**FY 2012 Results**
Strategic Objective 4.1-2M: Provide top-quality physical and psychological care to wounded warriors, while reducing growth in overall healthcare costs.				
4.1.1-2M: Average percent variance in Defense Health Program annual cost per equivalent life increase compared to average civilian sector increase	4.1.1-2M: Beginning in FY 2007, the DoD will maintain an average Defense Health Program medical cost per equivalent life increase at or below the average healthcare premium increase in the civilian sector.	1.4%	</=0%	🟩 -6.4%
4.1.3-2M: Percent of Service members who are processed through the IDES within 295 days (Active) and 305 days (Reserve) Components.	4.1.3-2M: By FY 2014, 80 percent of Service members will be processed through the IDES within 295 days (Active) and 305 days (Reserve) Components.	Non-Applicable	60%	🟥 24%
Strategic Objective 4.2-2P: Ensure the Department has the right workforce size and mix, manage the deployment tempo with greater predictability, and ensure the long-term viability of the Reserve Component.				
4.2.3-2P: 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	4.2.3-2P: By FY 2015, 95 percent of active duty Army personnel will meet the deployment to dwell objective of 1:2.	85.7%	80%	🟩 91%
4.2.8-2P: Number of days for external civilian hiring (end-to-end timeframe)	4.2.8-2P: By FY 2012, the Department will improve and maintain its timeline for all external (direct hire authority, expedited hire authority, and delegated examining) civilian hiring actions to 80 days or less.	104	80	🟥 83

Strategic Goal 5: Reform the Business and Support Functions of the Defense Enterprise

As depicted in the table on page 9, the Department met four of seven key performance goals to improve business-related support across the Defense enterprise. In the area of partnering with other critical infrastructure owners to increase mission assurance, the Department is under-executing its share of the Federal-wide initiative to reduce the number of data centers (Strategic Objective 5.2-2C), due to unanticipated closure costs and complications with execution.

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

Key Performance Measures	Strategic Plan Long-Term Performance Goals	Annual Performance Goals/Results		
		FY 2011 Results	FY 2012 Goals	FY 2012 Results
Strategic Objective 5.2-2C: Protect critical DoD infrastructure and partner with other critical infrastructure owners in government and the private sector to increase mission assurance.				
5.2.2-2C: Cumulative percent reduction in the number of DoD data centers	5.2.2-2C: By FY 2015, the DoD will reduce its number of data centers by 45 percent (from 772 in FY 2010 to 428 in FY 2015) in order to increase data center storage utilization/capacity.	7%	19%	■ 15%
Strategic Objective 5.3-2E: Improve acquisition processes, from requirements definition to the execution phase, to acquire military-unique and commercial items.				
5.3.2-2E: Average percent increase from the Acquisition Program Baseline (APB) cycle time for Major Defense Acquisition Programs (MDAPs) starting in FY 2002 and after	5.3.2-2E: Beginning in FY 2011, the DoD will not increase by more than five percent from the Acquisition Program Baseline (APB) cycle time for Major Defense Acquisition Programs (MDAPs) starting in FY 2002 and after.	4.5%	</=5%	■ 6.6%
5.3.5-2E: Number of Major Automated Information System (MAIS) "critical" breaches (equal to or greater than 25 percent of Acquisition Program Baseline (APB) total cost or with schedule slippages of one year or more))	5.3.5-2E: By FY 2012, the DoD will ensure that the number of MAIS "critical" breaches (equal to or greater than 25 percent of Acquisition Program Baseline (APB) total cost or with schedule slippages of one year or more)) will not exceed two.	1	2	■ 3
5.3.6-2E: Average rate of acquisition cost growth from the previous year for Major Defense Acquisition Programs (MDAPs) starting in FY 2002	5.3.6-2E: Beginning in FY 2012, the DoD will ensure that average rate of acquisition cost growth from the previous year for Major Defense Acquisition Programs (MDAPs) starting in FY 2002 does not exceed three percent.	-0.2%	3%	■ -0.3%
Strategic Objective 5.4-2L: Provide more effective and efficient logistical support to forces abroad.				
5.4.2-2L: Army customer wait time	5.4.2-2L: By FY 2013, the DoD will maintain the Army's average customer wait time at or below 15 days.	14.1	15.5	■ 13.7
Strategic Objective 5.5-2U/V: Improve financial management and increase efficiencies in headquarters and administrative functions, support activities, and other overhead accounts.				
5.5.3-2U: Percentage of DoD mission critical assets (real property, military equipment, general equipment, operating materials and supplies, and inventory balances) validated for existence and completeness	5.5.3-2U: By FY 2017, 100 percent of DoD mission critical assets (real property, military equipment, general equipment, operating materials and supplies, and inventory balances) validated for existence and completeness	4%	40%	■ 41%
5.5.4-2U: Percentage of DoD Statement of Budgetary Resources (SBR) for Appropriations Received validated as audit-ready	5.5.4-2U: By FY 2013, the DoD will improve its audit readiness on the Statement of Budgetary Resources (SBR) for Appropriations Received to 100 percent.	80%	83%	■ 88%

Perhaps the most noteworthy result shows the average rate of Major Defense Acquisition Program (MDAP) cost growth at -0.3 percent – significantly below the annual FY 2012 goal of 3.0 percent (Strategic Objective 5.3-2E); however, the Department did not meet its FY 2012 cycle time goal of less than or equal to 5 percent growth in the average time required for weapon systems to progress from program initiation to operational capability. Most of the programs in the portfolio of MDAPs, starting in FY 2002 and after, have experienced little or, in some cases, negative cycle time growth. There are 10 programs, out of 28 in the measured population, with cycle time growth exceeding 5 percent, which collectively result in an average 6.6 percent cycle time growth for FY 2012. As the changes in our Better Buying Power initiatives are implemented, the Department expects improved results in cycle time, especially for new acquisition programs.

Secretary of Defense Leon E. Panetta addresses soldiers deployed to Forward Operating Base Shukvani, Afghanistan.

DoD photo by Petty Officer 1st Class Chad J. McNeeley, U.S. Navy

In the area of Major Automated Information System (MAIS) acquisition, the Department failed to restrain the number of "critical" MAIS breaches to no more than two per year. In FY 2012, three "critical" MAIS breaches occurred, in the Expeditionary Combat Support System – Increment 1, the Key Management Infrastructure System—Increment 1; and the Virtual Interactive Processing System.

In the area of logistics (Strategic Objective 5.4-2L), all Military Services met FY 2012 customer wait time goals. In particular, the Army reduced its average customer wait time by 3 percent (from 14.1 days in FY 2011 to 13.7 days at the end of FY 2012). This improvement was achieved by receiving materiel at selected sites through the nearest supply activity.

The Department relies on four key performance indicators or measures to assess its progress with regard to becoming audit ready. All of the measures are focused on the accuracy and reliability of the Department's ledgers, accounting systems, and associated financial reports (Strategic Objective 5.5-2U/V).

At the end of FY 2012, the Department met all four of its annual goals for audit readiness, exceeding the goals pertaining to audit readiness of DoD mission-critical assets and for achieving audit readiness of Appropriations Received on the Statement of Budgetary Resources (SBR).

FINANCIAL PERFORMANCE

Financial Statement Highlights and Analysis

The preceding sections provided an overview of DoD operations and results for some of the key performance objectives in FY 2012. Meeting our defense goals requires resources. The data summarized in this section provide the Department with the financial information necessary to manage its operations, including its wartime operations. While the Department's financial statements are not auditable because of documentation and control problems, the underlying data are used regularly and successfully to pay people and vendors and to keep track of those payments. The Financial Improvement and Audit Readiness (FIAR) initiative, discussed on page 17 of this report and in the *FIAR Plan Status Report* issued in November 2012, is guiding the Department's effort to improve the quality of financial information and achieve audit readiness for key financial statements by 2014, and for all statements by 2017.

The Department's financial statements, which include the Statement of Budgetary Resources (SBR), the Balance Sheet, the Statement of Net Cost, and the Statement of Changes in Net Position, are presented in the *Financial Section* of the DoD Agency Financial Report for FY 2012. The following section provides an executive-level summary of the significant balances and changes in financial information from that presented in FY 2011.

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the Department's total budgetary resources, their status at the end of the year, and the relationship between the budgetary resources and the outlays made against them.

The Department reported $1.2 trillion in total budgetary resources in FY 2012. The DoD's enacted appropriations totaled 645.7 billion, $42.3 billion less than FY 2011 mainly due to the decrease in appropriations for OCO. The OCO resources needed in FY 2012 were significantly lower due to completing the military "advise and assist" mission in Iraq at the end of 2011 and the redeployment of approximately 33,000 troops from Afghanistan by the end of FY 2012.

COMPOSITION OF TOTAL FY 2012 BUDGETARY RESOURCES

Description	FY 2012 ($ in billions)
DoD Enacted Appropriations	$645.7
U.S. Treasury Contribution for Military Retirement and Health Benefits	76.8
Civil Works Projects Executed by the USACE	5.7
Trust Fund Receipts	125.3
Trust Fund Resources Temporarily Not Available	(61.3)
Total Appropriations Reported on SBR	**$792.2**
Brought Forward Unobligated Budget Authority	214.9
Spending Authority from Offsetting Collections	117.2
Contract Authority	80.5
Total Budgetary Resources	**$1,204.8**

Balance Sheet. The Balance Sheet reports assets owned or managed by the Department, amounts owed (liabilities), and the difference (net position) between the assets and liabilities.

TOTAL ASSETS. In FY 2012, the Department reported $2.1 trillion in DoD assets, which are primarily comprised of Fund Balance with Treasury, Investments, and General Property, Plant, and Equipment. The total amount of assets increased $54.2 billion (3 percent) from FY 2011 largely due to a $72.4 billion increase in investments in U.S. Treasury securities to cover future military retirement and health benefits. Under the Department's current strategy, invested balances will continue growing to cover the unfunded portions of future benefits.
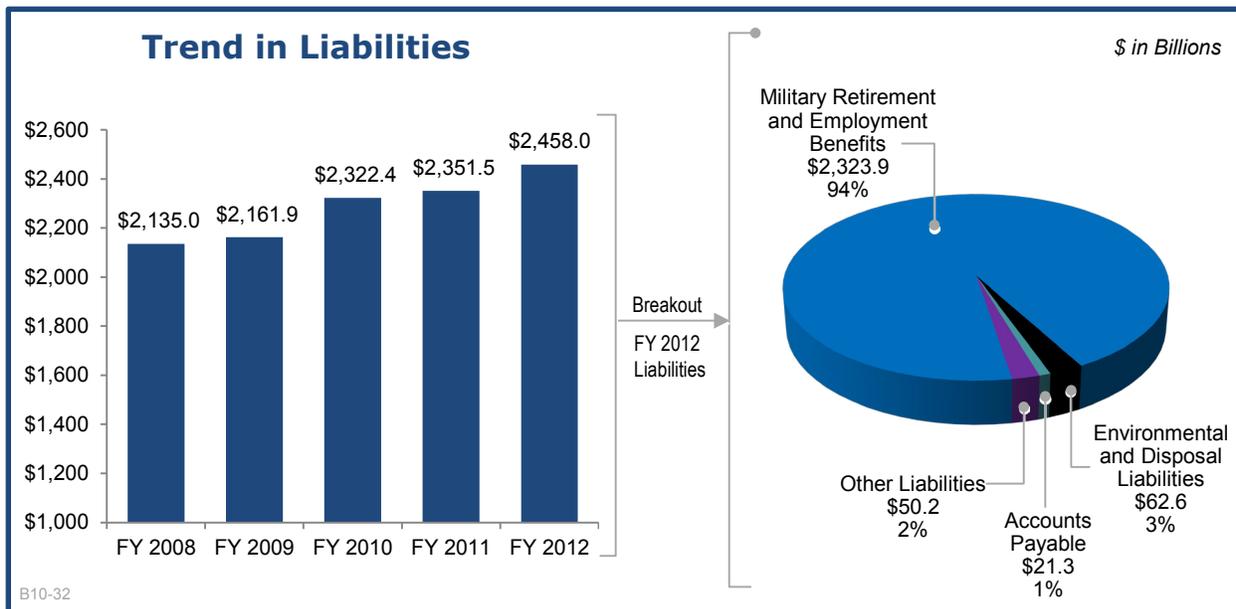
Summary of Total Assets
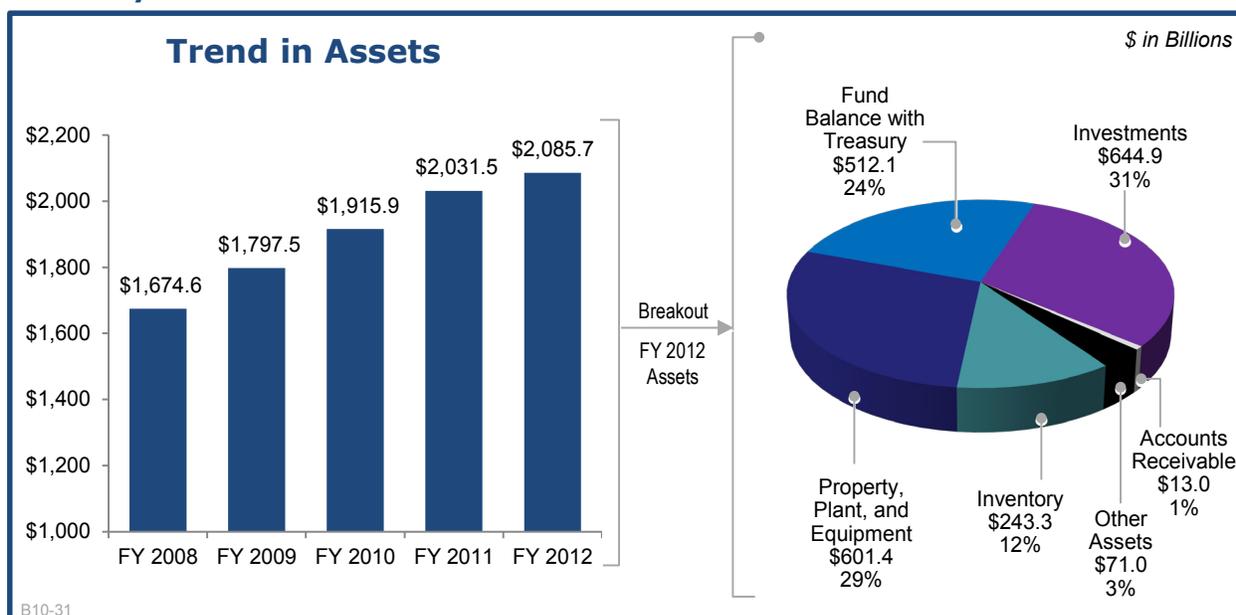
The $72.4 billion increase in investments in FY 2012 was offset by an $11.3 billion decrease in Fund Balance with Treasury, largely due to the overall reduction in the FY 2012 defense budget, and $7.9 billion decrease in General Property Plant and Equipment, largely resulting from the Department's ongoing efforts to improve the financial information related to its assets and move toward auditable financial statements.
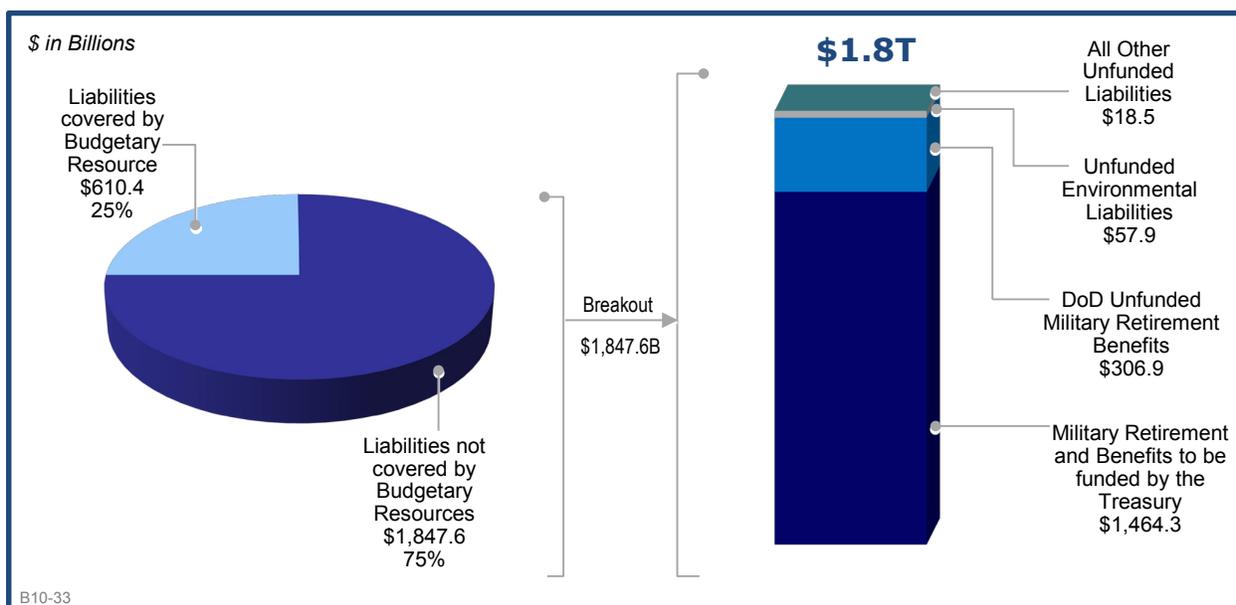
TOTAL LIABILITIES. As illustrated in the figure on the following page, the Department reported nearly $2.5 trillion in amounts owed, a $106.5 billion increase from FY 2011 caused almost exclusively from growth in actuarial liabilities related to military retirement pension and health care benefits.
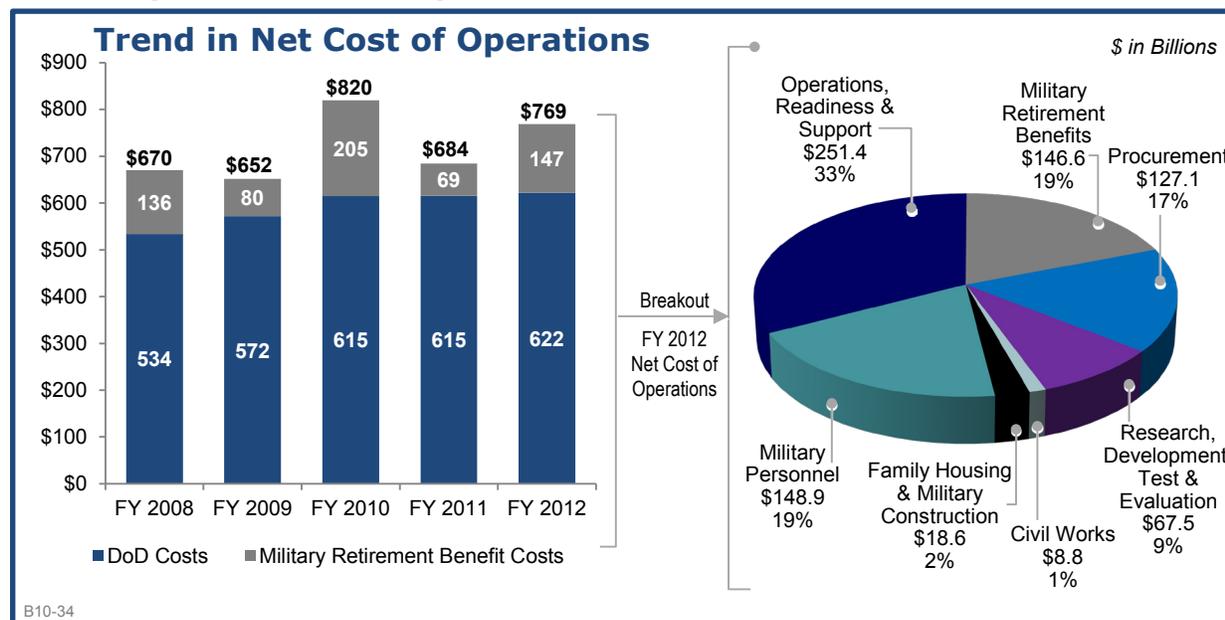
Total Liabilities

Trend in Liabilities

$ in Billions

Military Retirement
and Employment
Benefits
$2,323.9
94%

Other Liabilities
$50.2
2%

Accounts
Payable
$21.3
1%

Environmental
and Disposal
Liabilities
$62.6
3%

Breakout
FY 2012
Liabilities

B10-32

As illustrated below, the Department reported $1.8 trillion in unfunded liabilities that will require future resources. The U.S. Treasury is responsible for funding $1.5 trillion (79 percent) of the unfunded liabilities, the amount comprised of the actuarial liability that existed at the inception of the military retirement and health care programs. The Department has resources available to cover approximately $610.4 billion of the remaining liabilities, including funds primarily invested in U.S. Treasury securities.

Unfunded Liabilities

$ in Billions

$1.8T

Liabilities
covered by
Budgetary
Resource
$610.4
25%

Liabilities not
covered by
Budgetary
Resources
$1,847.6
75%

Breakout

$1,847.6B

All Other
Unfunded
Liabilities
$18.5

Unfunded
Environmental
Liabilities
$57.9

DoD Unfunded
Military Retirement
Benefits
$306.9

Military Retirement
and Benefits to be
funded by the
Treasury
$1,464.3

B10-33

Statement of Net Cost of Operations. The Statement of Net Cost reports total expenses incurred, less the revenues earned from external sources to finance those expenses. In FY 2012, the Department reported $768.9 billion in net costs, approximately $85 billion higher than FY 2011, primarily due to changes in trend and other key assumptions used to calculate the liability for military retirement benefits.

Summary of Net Cost of Operations

Trend in Net Cost of Operations

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Total	$670	$652	$820	$684	$769
Military Retirement Benefit Costs	136	80	205	69	147
DoD Costs	534	572	615	615	622

Breakout FY 2012 Net Cost of Operations

$ in Billions

- Operations, Readiness & Support $251.4 33%
- Military Retirement Benefits $146.6 19%
- Procurement $127.1 17%
- Research, Development, Test & Evaluation $67.5 9%
- Civil Works $8.8 1%
- Family Housing & Military Construction $18.6 2%
- Military Personnel $148.9 19%

B10-34

Costs primarily relate to operations, readiness, and support activities, military personnel cost, and military retirement benefits, and are offset with investment earnings and contributions to support retirement and health benefit requirements, as well as earnings from reimbursed activities.

Financial Management Improvement Initiatives

In FY 2012, the Department carried out its mission even as it dealt with budgetary pressures. With further Defense cuts on the horizon, it is more important than ever for the Department to maintain the public's trust in our stewardship of taxpayer resources for the national defense. We are committed to improving defense financial management and providing the financial resources and business operations necessary to meet our national security objectives. The following initiatives highlight the Department's progress toward better financial management.

Financial Flexibility for Warfighters

The concept of financial flexibility means the ability to adjust priorities, identify financial resources, and make investment decisions quickly. In wartime, schedule slippage can cost lives. During active conflicts, the speed at which an urgent need is satisfied becomes the most relevant factor for reducing a commander's operational risk and for saving lives and maintaining tactical advantage.

Since June 2011, the Department's Warfighter Senior Integration Group (SIG) has facilitated a flexible, agile approach to quickly identify emerging urgent operational needs (UONs) and rapidly adjust program and budgetary priorities to fulfill UONs within an operationally relevant timeframe. The Warfighter SIG, chaired by the Deputy Secretary of Defense, prioritizes actions and resources to resolve UONs to better provide our forces with the best capabilities possible in force protection, command and control, counter improvised explosive devices, and intelligence, surveillance and reconnaissance.

A U.S. Air Force C-17 Globemaster III aircraft taxis to its parking spot on Bagram Airfield, Afghanistan. The Globemaster III is a regular visitor to Bagram Airfield, transporting troops, equipment and supplies in and out of the country.

U.S. Air Force photo by Capt. Raymond Geoffroy

The most flexible financing available to the Department are the accounts appropriated by the Congress for the Joint Improvised Explosive Device Defeat Fund, the Mine-Resistant Ambush-Protected Vehicle Fund, and the Commander's Emergency Response Program. For urgent needs beyond the scope of these appropriations, the Department uses other tools provided by Congress, such as the Rapid Acquisition Authority provided by Public Law 107-314, the use of Contingency Construction Authority to enable flexible use of military construction funds to build wartime facilities at combat outposts, forward operating bases, and airfields.

Also, the Department remains heavily dependent upon the transfer authorities granted by the Congress within the annual appropriations, which allow the Department to be more financially agile in a rapidly changing world. Within prescribed limits, the Department uses its authority to transfer funds within accounts to meet changing priorities. When those limits must be exceeded, the Department requests specific, above-threshold approval for each transfer from the congressional oversight committees.

In FY 2012, transfer authority allowed the Department to accelerate selected programs and projects in response to the new Defense Strategic Guidance, positioning the Department to meet defense needs in the coming era. For example, the Department gained congressional approval to expedite the preparation of Bahrain-based patrol craft to defend U.S. Navy vessels against hostile, fast attack craft.

The Congress provided additional financial tools for the Department when the Global Security Contingency Fund (GSCF) was created as a four-year pilot project by the FY 2012 National Defense Authorization Act (Public Law 112-81), Section 1207. The GSCF is jointly administered and funded by the Department of State (DoS) and the Department of Defense. The Department recently reprogrammed $21.8 million in support of security activities with partner nations across the globe. This newly created financial tool enables better cooperation among DoS and DoD activities for national security.

Finally, as part of its Strategic Management Plan, the Department's Chief Financial Officer tracks the time to process above-threshold reprogramming requests. This metric provides a view of how well the Department supports its requests with the congressional oversight committees and responds to the needs of the warfighter for adjusting resources to meet evolving requirements. This year, the Department averaged 24 days – a 50 percent reduction from FY 2009 – to process and receive Congressional approval for UONs reprogramming.

In summary, financial flexibility gives the Department critical management tools to balance between available resources and urgent security needs to ensure that our Armed Forces can meet the demands of the U.S. National Security Strategy.

Financial Improvement and Audit Readiness Initiative

Financial statement audit readiness is important to the Department for many reasons. It is required by law, but it also will validate that the Department is properly and effectively managing and executing the resources entrusted to it by Congress and the taxpayers. To better enable the Department to move toward auditable financial statements, the Department refocused its Financial Improvement and Audit Readiness (FIAR) initiative in 2009 on the information most often used to manage the Department. With the change in focus, two financial improvement priorities were established: budgetary information (i.e., an auditable SBR) and accountability of mission critical assets, validated by existence and completeness audits.

The Department is making significant progress toward achieving audit readiness. In FY 2012, the Department exceeded its audit readiness interim goal by achieving 88 percent (83 percent goal) of auditability of its Appropriations Received, or funds distribution process. Also, 41 percent (40 percent goal) of existence and completeness assertions for the Department's mission critical assets will be either under audit or validated as audit ready.

Other important, incremental progress has been made on other key elements of the SBR and accountability of mission critical assets. For example, 15 percent of the Department's budgetary resources are under audit. This percentage will significantly increase as the Navy plans to assert SBR audit readiness by the end of FY 2013, followed by the Army, Air Force, and other Defense organizations in FY 2014.

Additional information on the FIAR initiative may be found on the Under Secretary of Defense (Comptroller)'s public website, *at http://comptroller.defense.gov/fiar/*.

U.S. Marine Corps amphibious assault vehicles move into position after reaching the beach during the amphibious assault phase of Bold Alligator 2012 at Camp Lejeune, NC, on Feb. 6, 2012.

DoD photo by Petty Officer 2nd Class Tom Gagnier, U.S. Navy.

Financial Management Workforce Improvement Initiative

The Department has initiated a Strategic Human Capital Plan process to ensure it meets DoD-wide civilian financial management workforce and lifecycle management needs. This multi-year effort, which is being applied across the Department's financial management civilian community, involves analysis of both manpower and position requirements.

In FY 2012, the Department established enterprise-wide, financial management competencies applicable to each financial management occupation. Based on these competencies, the Department has started action to implement a DoD Financial Management (FM) Certification Program to assist the FM workforce in meeting future needs and requirements. The training is targeted to financial management technical competencies, DoD leadership competencies, and specific topics, such as audit readiness, fiscal law, and ethics. In addition to the training, a minimum number of years of financial management experience will be required for each certification level, and upon obtaining certification, a minimum level of continuing education credits will be required every two years.

Disciplined Use of Resources

In the FY 2012 budget submission, the Department proposed more than $150 billion in streamlining and efficiency goals for FYs 2012 – 2016, with FY 2012 estimated savings projected at $19.8 billion. Examples of a few of the FY 2012 efficiencies follow:

- Navy Cuts Costs by Consolidating Wireless Contracts. The Navy saved an estimated $10 million by consolidating numerous contracts with major carriers of wireless services, which enabled better pricing and "minute pooling."

- Air Force Aircraft Use Less Fuel. The Air Force is implementing sixteen fuel saving initiatives that saved an estimated $45 million. For example, the Air Force is using commercial flight planning software to make real-time flight adjustments (airspeed, altitude) to save fuel. The Air Force also is reducing fuel reserves, consistent with safety and mission performance, in order to cut weight and save fuel.

- Army Recruiting. The Army saved an estimated $764 million by restructuring its recruiting and retention efforts in order to capitalize on the current and projected economic environments.

- Disestablishment of Joint Forces Command. The Department eliminated the Four Star Headquarters operation, along with redundant or non-essential functions, and reassigned essential functions to other organizations while scaling each remaining function to an efficient and appropriate capacity. This action resulted in estimated savings of $292 million in FY 2012.

- <u>Business Transformation Agency (BTA) Disestablishment</u>. The Department also eliminated the BTA, with critical functions reassigned to the Defense Logistics Agency, Washington Headquarters Services, and the Office of the Deputy Chief Management Officer, with savings estimated at $98 million in FY 2012.

- <u>Health Care Costs Reduced by Responsibly Paying Hospitals for Outpatient Costs</u>. The Department requested and won authority to use Medicare's Outpatient Prospective Payment Systems for reimbursing private sector institutions for outpatient care delivered to TRICARE beneficiaries, resulting in an estimated savings of $840 million in FY 2012.

USMC aerial refueling operation.

U.S. Marine Corps photo by Cpl. Reece Lodder

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGERS' INTERNAL CONTROL PROGRAM

The Department has a fundamental responsibility to be an effective steward of government money. Effective internal controls are the foundation of an organizational framework predicated on accuracy and accountability. Internal controls represent an organization's plans, methods, and procedures used to meet its mission, goals, and objectives, and serve as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, waste, abuse, and mismanagement. The purpose of internal control is to provide reasonable assurance that an organization's objectives are achieved through (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations.

The Department is responsible for establishing, maintaining, and assessing internal controls in order to provide reasonable assurance that it meets the objectives of the *Federal Managers' Financial Integrity Act*, Public Law 97-255, sections 2 and 4; the *Federal Financial Management Improvement Act*, Public Law 104-208; and the *Office of Management and Budget's Circular No. A-127*, entitled "Financial Management systems.

Assessment

The Department's management uses the following criteria to classify conditions as material weaknesses in internal control:

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees;

- Impairs fulfillment of essential operations or mission;

- Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets, or conflicts of interest;

- Constitutes substantial noncompliance with laws and regulations; or

- Represents nonconformance with government-wide, financial management system requirements.

Although the Department cannot provide reasonable assurance that internal controls over financial reporting were effective as of June 30, 2012, there has been significant progress toward improving both financial and operational internal controls. However, it remains clear that the most daunting challenges remain ahead, and more emphasis on effective and efficient operations is critical. In the upcoming fiscal year, the Department will continue to provide best practices and facilitate more validation assessments in order to meet the challenge.

Material Weaknesses in Internal Control

Based on the Department's assessment of internal controls, the following material weaknesses have been identified.

	Areas of Material Weakness	Number of Material Weaknesses	Year Identified	Component	Target Correction Year
1	Financial Reporting	18	FY 2001	Department-wide	FY 2017
2	Financial Management Systems	1	FY 2001	Department-wide	FY 2017
3	Acquisition	1	FY 2011	Department-wide	Reassessed annually based on incremental improvements
4	Communications, Intelligence and/or Security	4	FY 2006	OSD; Navy; Air Force; USAFRICOM	FY 2013
5	Comptroller and/or Resource Management	2	FY 2011	Department-wide	FY 2017
6	Contract Administration	2	FY 2006	Department-wide	Reassessed annually based on incremental improvements
7	Force Readiness	2	FY 2011	Air Force	FY 2013
8	Personnel and/or Organizational Management	3	FY 2006	Department-wide	FY 2015
9	Property Management	1	FY 2011	Department-wide	FY 2016
10	Supply Operations	1	FY 2011	Department-wide	Reassessed annually based on incremental improvements
	Total Material Weaknesses	**35**			

Details regarding the Department's action plans and timelines for correction of these material weaknesses are provided in _Addendum A_, "Managers' Internal Control Program," to the Department's Agency Financial Report for FY 2012.

FINANCIAL MANAGEMENT SYSTEMS

The Department recognizes that to successfully meet our goal of achieving and sustaining improvements in financial management and auditable financial statements, we must improve our business systems. Our goal is to deliver a streamlined, 21st-century systems environment with information technology (IT) capabilities that work together seamlessly to support effective and efficient business processes and operations. Regrettably, our current business environment does not always meet these objectives. Many of our systems are old and handle or exchange information in ways that do not readily support strong financial management and audit standards. These same systems also are generally focused on budgetary rather than proprietary accounting standards, tend to be non-standard, and sometimes do not include strong financial controls. Many of these legacy systems also do not record data at the transaction level, a capability that is essential to audit success.

To address these issues, the Department is pursuing improvements in its business systems environment by implementing modern, compliant systems and modernizing legacy systems when necessary and supported by a business case. The Department also is aggressively retiring legacy systems that are obsolete, redundant, or not aligned with our business objectives. Implementing modern technology solutions, a central part of our business systems modernization strategy, will directly enable key elements of auditability, such as: the ability to trace all transactions from source to statement and to re-create a transaction; documented, repeatable processes and procedures; demonstrable compliance with laws, regulations and standards; and a control environment that is sufficient to reduce risk to an acceptable level.

Improved systems alone, however, will not eliminate weaknesses or guarantee auditable statements. Achieving auditability requires consistent application of process controls across organizations and functional areas. Business and financial information that is passed from system to system must be controlled to ensure that only authorized personnel are using the system, that the systems protect data quality and integrity, and that a compliant audit trail is maintained. These processes must be controlled at the transaction level, from the source document to general ledger postings, accurate trial balances, and reliable period closeouts. Only by completing these steps can we prepare financial statements that can be cost-effectively reviewed and verified.

Additional information about the Department's defense business systems, including the plans for acquiring new systems and modernizing or retiring legacy systems, can be found in the statutorily mandated *Enterprise Transition Plan*. Further information about the link between these systems and the Department's auditability efforts can be found in the *Financial Improvement and Audit Readiness (FIAR) Plan*.

MANAGEMENT CHALLENGES

While we made progress in FY 2012 in managing DoD financial resources, challenges remain. On August 14, 2012, the Department's Inspector General (IG) reported the following serious management and performance challenges 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

- The Nuclear Enterprise

The Inspector General's detailed description of the challenges and his assessment of the Department's progress in addressing these challenges, along with the Department's management responses, may be viewed in *Addendum A* to the Agency Financial Report for FY 2012.

PATH FORWARD

Over the last decade, the Department has undertaken extended operations in Iraq and Afghanistan to bring stability to those countries and secure our nation's interests. Even as these large-scale military campaigns recede, the U.S. still faces a complex and growing array of security challenges across the globe. Unlike past drawdowns, when often the threats that the U.S. faced were subsiding, the U.S. faces a strategic turning point due to the challenging and rapidly changing geopolitical environment amid difficult domestic fiscal circumstances. These challenges include 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 geopolitical landscape in the wake of the "Arab Awakening."

These challenges prompted the Department to begin a strategy-driven review in early 2011 to reshape our defense priorities and spending over the coming decade. This strategic review, an inclusive process throughout the Department, was guided by four overarching principles: maintain the world's finest military; avoid hollowing out the force; take the reductions in a balanced, strategy-driven manner; and preserve the quality of the All-Volunteer Force by ensuring that we do not break faith with our men and women in uniform or their families.

The Department released a new Defense strategy in January 2012, "*Sustaining U.S. Global Leadership: Priorities for 21st Century Defense,*" that describes the tough choices the Department made to ensure that our Armed Forces have the capabilities and readiness they need while contributing to the nation's economic vitality.

The U.S. Armed Forces will remain capable across the spectrum of potential conflicts. We will continue to conduct a complex set of 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 be fully prepared to protect our interests, defend our homeland, and support civil authorities. Going forward, the U.S. joint force will be smaller and leaner, but it will be agile, more flexible, ready to deploy quickly, innovative and technologically advanced. We will rebalance our global posture and presence, emphasizing the Asia-Pacific and the Middle East regions. We will continue to strengthen our key alliances, build partnerships, and develop innovative ways to sustain U.S. presence elsewhere in the world. We must be capable of successfully confronting and defeating any aggressor and have the ability to defeat more than one adversary at a time. And, even as we reduce the growth in the overall defense budget, we will protect, and in some cases increase, our investments in technology and new capabilities as well as our capacity to adapt, mobilize, and grow the force if necessary.

U.S. Army paratroopers and Afghan soldiers and policemen conduct a presence patrol in Afghanistan's Ghazni province.

*U.S. Army photo by Sgt. Michael J. MacLeod*

ORGANIZATION

Accomplishment of our mission, goals, and objectives, which have been briefly captured in this report, requires a sophisticated organizational structure that is adept at managing the large, complex enterprise of the Department of Defense. The following section briefly describes the Department's organization.

Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence of nearly 3 million individuals stationed throughout the world, dedicated to defending the United States by deterring and defeating aggression and coercion in critical regions.

The Secretary of Defense is the principal assistant to the President in all matters relating to the Department of Defense and exercises authority, direction, and control over the Department. The *Department of Defense* is composed of the Office of the Secretary of Defense (OSD), the Joint Chiefs of Staff, the Joint Staff, the Office of the Inspector General of the Department of Defense (IG DoD), 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. A brief description of each of these offices follows.

Department of Defense Organizational Structure
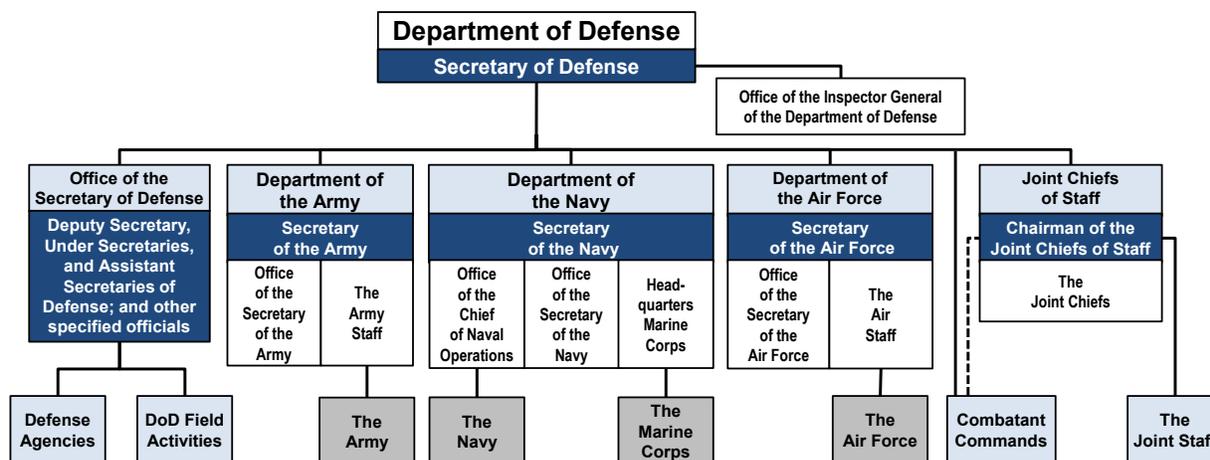
The Office of the Secretary of Defense

The function of the Office of the Secretary of Defense (OSD) is to assist the Secretary of Defense in carrying out the Secretary's duties and responsibilities and to carry out such other duties as prescribed by law. The OSD Principal Staff Assistants are responsible for the formulation and oversight of defense strategy and policy. The OSD is comprised of the Deputy Secretary of Defense, who also serves as the Chief Management Officer; the Under Secretaries; the Deputy Chief Management Officer; the General Counsel; the Assistant Secretaries; the Assistants to the Secretary of Defense; the OSD Directors, and equivalents, who report directly to the Secretary or the Deputy Secretary; their staffs; the IG DoD; and such other staff offices within OSD established by law or the Secretary to assist in carrying out assigned responsibilities.

The Joint Chiefs of Staff and the Joint Staff

The Joint Chiefs of Staff, supported through the Chairman by the Joint Staff, constitute the immediate military staff of the Secretary of Defense. The Joint Chiefs of Staff consist of the Chairman, the Vice Chairman, the Chief of Staff of the U.S. Army, the Chief of Naval Operations, the Chief of Staff of the U.S. Air Force, the Commandant of the Marine Corps, and the Chief of the National Guard Bureau. The Joint Chiefs of Staff function as the military advisors to the President, the National Security Council, the Homeland Security Council, and the Secretary of Defense.

Office of the Inspector General

The Office of the IG (OIG), DoD, is an independent and objective unit within the Department that conducts and supervises audits and investigations relating to the programs and operations of the Department.

Military Departments

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). The Secretary of Defense assigns these trained and ready forces to the Combatant Commands, which are responsible for conducting military operations as directed by the President.

Military Departments include Active and Reserve Components. The Active Component is composed of units under the authority of the Secretary of Defense manned by active duty Military Service members, Reservists on active duty orders, or a combination of the two. The National Guard has a unique dual mission with both Reserve Component and State responsibilities. The National Guard, when

commanded by the Governor of each state or territory, can be called into action during local, statewide, or other emergencies, such as storms, drought, or civil disturbances (non-Federalized service). When ordered to active duty for mobilization or called into Federal service for national emergencies, units of the Guard are placed under operational control of the appropriate Combatant Commander. The Guard and Reserve forces 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

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 that is common to more than one Military Department when it is determined to be more effective, economical, or efficient to do so. Each of the 17 Defense Agencies and 10 DoD Field Activities operate under the authority, direction, and control of the Secretary of Defense, through an OSD Principal Staff Assistant or the Chairman of the Joint Chiefs of Staff.

Combatant Commands

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 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.

APPENDIX A: GLOSSARY OF ACRONYMS AND ABBREVIATIONS

Acronym	Definition
AFR	Agency Financial Report
ANSF	Afghan National Security Forces
APB	Acquisition Program Baseline
BMD	Ballistic Missile Defense
BTA	Business Transformation Agency
CoCOM	Combatant Commander
DoD	Department of Defense
FIAR	Financial Improvement and Audit Readiness
FM	Financial Management
FY	Fiscal Year
GSCF	Global Security Contingency Funds
HRF	Homeland Response Force
IDES	Integrated Disability Evaluation System
IG, DoD	Inspector General, Department of Defense
IT	Information Technology
MAIS	Major Automated Information System
MDAP	Major Defense Acquisition Program
MFF	Multi-Functional Brigades
OCO	Overseas Contingency Operations
OIG	Office of the Inspector General
OND	Operation New Dawn
OSD	Office of the Secretary of Defense
QDR	Quadrennial Defense Review
SBR	Statement of Budgetary Resources
SIG	Senior Integration Group
UON	Urgent Operational Needs
U.S.	United States

APPENDIX B: USEFUL WEBSITES

Link	URL
Agency Financial Report	http://comptroller.defense.gov/afr/fy2012.html
Agency Performance Report	http://comptroller.defense.gov/Budget2013.html
Chief Financial Officers Act of 1990	http://thomas.loc.gov/cgi-bin/query/z?c101:H.R.5687.ENR:
Department of Defense	United States Department of Defense (defense.gov)
Defense Finance and Accounting Service	http://www.dfas.mil
DoD Strategic Management Plan	http://dcmo.defense.gov/publications/strategic-management-plan.html
Enterprise Transition Plan	http://dcmo.defense.gov/publications/enterprise-transition-plan.html
Financial Improvement and Audit Readiness Plan	http://comptroller.defense.gov/FIAR
DoD Budget Request	http://comptroller.defense.gov/budget.html
Joint Chiefs of Staff	http://www.jcs.mil
Managers' Internal Control Program	http://comptroller.defense.gov/micp.html
National Guard	The National Guard – Official Website of the National Guard
National Security Strategy	http://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf
New START Treaty	http://www.state.gov/t/avc/newstart/index.htm
Under Secretary of Defense (Comptroller)	Office of the Under Secretary of Defense (Comptroller)
Quadrennial Defense Review	http://www.defense.gov/qdr
Sustaining U.S. Global Leadership: Priorities for 21st Century Defense	http://www.defense.gov/news/Defense_Strategic_Guidance.pdf
U.S. Africa Command	http://www.africom.mil
U.S. Air Force	http://www.af.mil
U.S. Army	http://www.army.mil
U.S. Central Command	http://www.centcom.mil
U.S. European Command	http://www.eucom.mil
U.S. Marine Corps	http://www.marines.mil
U.S. Navy	http://www.navy.mil
U.S. Northern Command	http://www.northcom.mil
U.S. Pacific Command	http://www.pacom.mil
U.S. Southern Command	http://www.southcom.mil
U.S. Special Operations Command	http://www.socom.mil
U.S. Strategic Command	http://www.stratcom.mil
U.S. Transportation Command	http://www.transcom.mil

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

DoDAFR@osd.mil

or

United States Department of Defense
Office of the Under Secretary of Defense (Comptroller)
1100 Defense Pentagon, Room 3D150
Washington, DC 20301-1100

You may also view this document at

http://comptroller.defense.gov/citizensreport/index.html

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