



*DEPARTMENT OF THE NAVY*  
*Annual Financial Report*  
*Fiscal Year 1999*





## Our Vision

The core objectives of the *National Security Strategy for a New Century* are critical elements for the Nation's Naval expeditionary forces, today as well as 25 years from now:

- ◆ **Enhance** our security with effective diplomacy and with military forces that are ready to fight and win.
- ◆ **Bolster** America's economic prosperity.
- ◆ **Promote** democracy abroad.

## Our Mission

The mission of the Navy is to maintain, train, and equip combat-ready Naval forces capable of:

- ◆ Winning wars,
- ◆ Deterring aggression, and
- ◆ Maintaining freedom of the seas.

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# Table of Contents

<b>MESSAGE FROM THE SECRETARY OF THE NAVY .....</b>	<b>iii</b>
<b>OVERVIEW .....</b>	<b>1</b>
SERVING THE NATION’S NEEDS IN FISCAL YEAR 1999 .....	5
AMERICA’S 21st CENTURY FORCE .....	6
SUMMARY .....	11
<b>PERFORMANCE RESULTS – SUPPORTING DoD CORPORATE GOALS .....</b>	<b>13</b>
DoD CORPORATE GOAL 1: SHAPE AND RESPOND .....	13
DOD CORPORATE GOAL 2: PREPARE .....	20
<b>MESSAGE FROM THE SENIOR CIVILIAN OFFICIAL FOR THE OFFICE OF THE ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER) .....</b>	<b>27</b>
<b>FINANCIAL MANAGEMENT ACCOMPLISHMENTS AND INITIATIVES .....</b>	<b>28</b>
<b>PRINCIPAL STATEMENTS .....</b>	<b>33</b>
<b>NOTES TO PRINCIPAL STATEMENTS .....</b>	<b>43</b>
<b>SUPPORTING CONSOLIDATING/COMBINING STATEMENTS .....</b>	<b>79</b>
<b>REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION .....</b>	<b>89</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION .....</b>	<b>109</b>
<b>OTHER ACCOMPANYING INFORMATION .....</b>	<b>119</b>
<b>AUDIT OPINION .....</b>	<b>129</b>







**THE SECRETARY OF THE NAVY**  
WASHINGTON, D.C. 20350-1000



**February 2000**

**MESSAGE FROM THE SECRETARY OF THE NAVY**

The United States Navy and the United States Marine Corps are the world's premier Naval forces. To maintain this preeminence, the Department of the Navy (DON) must ensure its current readiness and develop future capabilities to safeguard our Nation. We must recruit and retain the best people in military and civilian service; deliver recognizable value for every dollar spent; create the most efficient acquisition and business environment. These actions are necessary to support our goal for improving how we work, how we fight, and how we live.

In an enterprise as complex as the DON, it is the collective responsibility of our military and civilian leadership to be progressive and innovative. We must take a fresh look at our business practices, performance and accountability. Although the Federal government does not operate for profit or compete for market share, many of its business functions are very similar to those in the private sector. One of our goals at DON is to adopt the best business practices and supporting system architectures for decision making. We have and are continuing to identify and adopt these best business practices where appropriate. The result of this strategy is that more resources are available for maintaining our Nation's military capability.

The enclosed annual report provides a means for the Legislative and Executive branches and the public to review our stewardship. This report is but one step in the Administration's effort to move beyond traditional budgetary stewardship reporting to an organization that will focus on performance and financial condition. This information is provided in response to the Chief Financial Officer's Act of 1990 (Public Law 101-576) as amended by the Government Management Reform Act of 1994 (Public Law 103-356). Our financial accountability is a trust that we must honor as we provide the Nation with the best Naval forces.

  
Richard Danzig



# **Today's Navy and Marine Corps – Always There When the Nation Calls**

## A Review of Fiscal Year 1999



**A Direct Action Platoon enjoys the ride after parachuting from a CH-53E “Sea Stallion.”**

**Force Structure.** The force structure objectives established in the QDR reflect the need for balance between investments in existing forces and adequate preparation for the future. Today’s security environment presents the same pressing need for military forces that existed when the QDR was conducted. The intent is to have forces that can fight and win two major theater wars nearly simultaneously. The Navy and Marine Corps met all of their force structure goals for FY 1999.



**U.S. Marines take part in training exercises.**

**Overseas Presence.** The Department of the Navy (DON) records the percentage of time that three strategic regions are covered by the presence of a U.S. Navy carrier battle group (CVBG) or by Marine expeditionary units (MEUs) and amphibious ready groups (ARGs). In combination, these measures gauge the ability of naval air, land, surface, and submarine forces to rapidly respond to crises and engage in exercises, military-to-military contacts, and other activities in support of regional alliances. During FY 1999 the Navy met the established goals for Southwest Asia, but fell short of the goals for Europe and the Pacific. The Marine Corps met the established goals for deployments in Europe, and Southwest Asia, but fell short of their goal for the Pacific.



**U.S. Marines from the 3<sup>rd</sup> Light Armor Recon Unit arrive at Phayoa Beach, Thailand in support of Exercise Cobra Gold 99.**

**Personnel and Deployment TEMPO.** The Navy and Marine Corps maintain a cyclical readiness posture, tied to the deployment schedules of their forces. When in home port, Navy and Marine units are engaged in training, maintenance, and resupply activities in preparation for their next rotational deployment. As a result, the Navy and Marine Corps have established thresholds for indicating when the pace of operations may begin to impair operational readiness, quality of life, or retention. Operation Allied Force resulted in two Navy units failing to meet tempo goals in FY 1999. The Marine Corps met its FY 1999 tempo goal, despite the increased pace of operations.



**Number of Flying hours per month.** The DON goal is to maintain pilot and crew proficiency by meeting the established goals for flying hours per month, for both the active and reserve components of the Navy and Marine Corps. The active component of the Navy and Marine Corps exceeded the FY 1999 goal for monthly flying hours per crew, while the reserve component met their goal.



**An F/A-18 “Hornet” breaks the sound barrier.**



**U.S. naval vessels take part in training exercises.**

**Number of Steaming Days per quarter.** The Department of the Navy tracks the total number of steaming days (days at sea) per quarter for active and reserve component Naval vessels. Steaming days are planned and budgeted as fuel costs for ships. The goal is to maintain crew proficiency by meeting the established goals for the number of steaming days per quarter, for both the Navy Active deployed and non-deployed, as well as, the Navy Reserve deployed and non-deployed. The Navy met its steaming-day goal for FY 1999.

**Recruiting.** The Department of the Navy goal is to improve the recruiting process in order to increase the quality and number of enlisted accessions throughout the Navy and Marine Corps. The Marine Corps met both their goals for the Active Force and the Reserve Force. The Navy met enlisted recruiting goals for active forces, but fell short of their goal for reserve forces by 4,828.



**Recruiting and retaining quality individuals continues to be one of DON’s greatest challenges.**

## Overview

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**Retention.** The Navy and Marine Corps goal is to retain those enlisted and officer personnel whose mission critical skills contribute to readiness and whose talents are in shortest supply. During FY 1999, the Navy was unable to meet the retention goals for first or second term enlistees, but did show a positive trend since the manning gaps at-sea dropped from a high of 22,000 to less than 12,000. The Marine Corps met their goal for FY 1999.

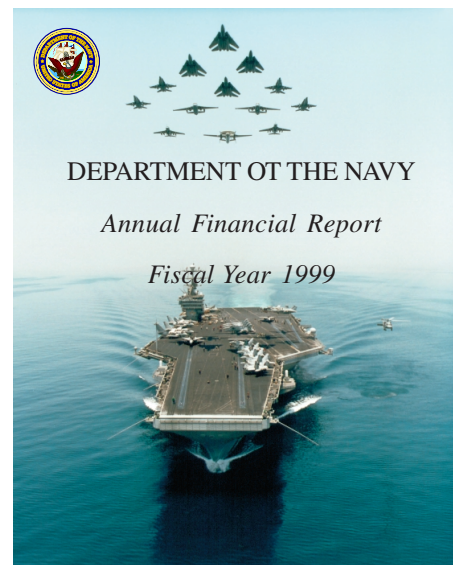


**A Marine rappels to the ground under the jungle sky.**



**CFO Act Compliance.** The Navy is aggressively implementing the CFO Act of 1990. FY 1999 marks the fourth year that the Department of the Navy has submitted an Annual Financial Statement in accordance with the CFO Act. While the auditors have been unable to express an opinion on the reliability of the data in the Navy's general fund statements, progress has been made. Each successive audit has noted continuing improvements in accounting controls, processes, and systems.

**Purchase Card Micro-Purchases.** The use of government purchase cards for micro-purchases streamlines the requisition process by virtually eliminating the need for purchasing items through the traditional requisition process. Micro-purchases are supplies or services valued at less than \$2,500 (less than \$2,000 for construction). Through purchase card use, the Department has already realized sizable manpower-related savings, which it has redirected to mission elements of the force. The DoD goal is to increase the use of the purchase card for micro-purchases of supplies or services to 90 percent of all micro-purchases. The Department exceeded this goal for FY 1999.



## Overview

The Department of the Navy (DON) sails this year not only into a new year, but also into a new century. Our obligations to the nation, however, remain the same. The Navy–Marine Corps team must plot a course that enables us to successfully address the daunting challenges, the expanding missions, and the potential dangers of the next 25 years and beyond.

Two enduring obligations help us to define that course. In the near term, we must be constantly prepared to perform any mission the nation puts before us. And in the longer term, we must seek to strengthen and improve the Navy and the Marine Corps so that we are able to fully serve America’s military and political needs through the first decades of the 21st century. Our vision is sharply focused. We are dramatically transforming America’s Navy and the power that America can project from the sea.



**U.S. Marines arrive in an LCAC (Landing Craft Air Cushioned).**

## Serving the Nation’s Needs in Fiscal Year 1999

The importance of U.S. naval power as an instrument of national security was clearly illustrated by the work we performed in Fiscal Year (FY) 1999. Our forces demonstrated repeatedly their capabilities and flexibility in operations worldwide. Throughout the year, five carrier battle groups and five amphibious readiness groups, manned by more than 55,000 sailors, were deployed and alert in the oceans and seas of the world. More than 33,000 Marine Corps personnel were also deployed worldwide.

During FY 1999, the nation called upon the Navy and the Marine Corps to:

- Play a key military and humanitarian role in Kosovo
- Maintain a continuous carrier presence in the Arabian Gulf
- Provide a military presence to support U.S. interests in East Asia
- Conduct joint exercises and operations around the globe, enhancing relationships with our friends and allies and promoting regional stability

- Provide assistance to the local authorities in the wake of the devastating earthquake in Turkey.

Additionally, the support provided by the Naval Reserves reached new levels in FY 1999, amounting to a total of more than 2.3 million workdays. Nowhere was this support more evident than during the Kosovo operations. In Kosovo, naval reservists provided more than one-third of the naval staff for the Joint Task Force headquarters and more than one-third of Construction Battalion personnel. Reservists did all of the Navy air maintenance, provided the entire ground security force, and flew many EA-6B strike support missions.

The Reserve Civil Affairs Marines were also called upon in support of Operation Joint Forge, a combat and humanitarian operation in Bosnia and Kosovo. In

“The accomplishments of 1999 underscore that we are dealing with a different kind of world—one in which naval power reaches further than its traditional domain as an instrument everywhere in the world.”

Richard Danzig  
Secretary of the Navy



## Overview

In addition, reserve KC-130s provided humanitarian assistance following Hurricanes Mitch and Georges, and the engineer and medical detachments of the 4th Force Service Support Group deployed to relieve the active units providing hurricane relief in the Dominican Republic.

The Navy and Marine Corps provide the nation with a permanent, adaptable, and practical instrument with which to promote stability and project power worldwide. Naval forces are engaged daily around the globe to protect U.S. interests, to support peace, and to enhance security. These forces have proven that they are ready to provide humanitarian assistance, disaster relief, or crisis response whenever the nation calls.



**Marines from the 26<sup>th</sup> Marine Expeditionary Unit help to provide fresh drinking water to earthquake victims in Turkey.**

## America's 21st Century Force

For more than 200 years, the nation has depended upon its Navy and Navy–Marine Corps team to promote peace and stability, and, when called upon, to win its wars. At the start of this new millennium, the international environment is possibly more complex than at any other time in our nation's history. The number and diversity of nations is growing and there are more and more international organizations and alliances competing for influence.

In addition, the global economy is becoming increasingly interdependent, offering the promise of prosperity to our nation but at the same time tying the security and well-being of Americans to events beyond our borders. Situations once considered peripheral to U.S. security—the spread of ethnic and religious conflict, the breakdown of law and order abroad, or the disruption of trade in distant regions—now potentially threaten our citizens and interests.

As we head into the 21st century, we are responding to these global changes by radically transforming the Navy–Marine Corps team to ensure its continuing operational dominance. The transformation will advance the team from a Cold War force to one capable of protecting America's citizens, interests, and friends at all times and in all places. Some historians describe the 20th century as the American Century. Others are predicting that the 21st century will be the Naval Century—an era in which maritime power will be the decisive factor in defining national strength and prestige.

## Global Strategies Require a Global Naval Presence

As the 20th century comes to a close, we find ourselves facing the challenges and uncertainties of a world in transition. The Cold War is over, but today's much smaller naval force must be prepared to deal with frequent and unfamiliar dangers. In this environment, the mobility, global reach, self-sufficiency, sustainability, and competence of the Navy–Marine Corps team will be more important than ever. Our naval forces are and will remain the most flexible tools of U.S. national security policy.

The mission of the Navy is to maintain, train, and equip combat-ready naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas.

Maintaining a presence of highly capable naval expeditionary forces in key regions of the world is the most effective means of preventing conflict and ensuring stability and peace. On any given day, approximately one-third of our forces are deployed overseas and one-fifth are underway from their home ports. Naval expeditionary forces are constantly “on-scene”—operating day in and day out—in each of the major deployment regions: the Mediterranean Sea, Arabian Gulf, Indian Ocean, Western Pacific, and the Caribbean. These forces typically comprise more than 50,000 men and women, embarked in some 120 ships.



## Strategic Concepts of U.S. Naval Force

The modern blueprint for security dictates that our armed forces remain globally engaged at all times, ready to address emerging crises or conflicts far from our shores. The Navy–Marine Corps team implements this strategy through four enduring concepts: forward presence, deterrence, sea and area control, and power projection.

**Forward Presence.** Forward deployed naval expeditionary forces prevent crisis and conflict, shape the security environment, and serve as the basis for regional peace and stability. This has become increasingly important as the number of U.S. naval bases overseas continues to decrease and continued access to some bases may be uncertain.

Through exercises and port visits, the Navy-Marine Corps team strengthen U.S. ties with allies and work toward establishing new relationships and partnerships that will foster regional stability and enhance the world economy. U.S. naval forces also train and exercise with countries that have limited infrastructure and a minimal ability to support large-scale military deployments.

Highly mobile, combat-ready naval forces are not as burdened by political constraints in foreign countries that often delay or disrupt the deployment of ground-based military forces. This flexibility is invaluable to the nation, as it allows the National Command Authorities — the President and his national security and military decision-makers — to act when necessary.

**Deterrence.** The strategic concept of deterrence is defined as the creation of a threat of unacceptable consequences to a would-be aggressor. One of our nation’s greatest deterrents is the Navy’s nuclear-powered Ohio-class Trident ballistic missile submarine. The Trident force powerfully demonstrates for futility of attempting to obtain nuclear advantage over the United States.

“In the Arabian Gulf, in the Mediterranean, off the coast of East Timor, in the Pacific, in the Caribbean: The Navy stands watch and is ready to respond to the full spectrum of crises. [This is] called forward presence, and we do it better than anyone in the world.”

Adm. Jay L. Johnson  
Chief of Naval Operations  
September 25, 1999



**Members of SEAL Team Two conduct SEAL Delivery Vehicle training.**

## Overview

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**Sea and Area Control.** The third strategy, sea and area control, requires the ability to defeat coastal defenses and dominate a foe at sea, on the ground, and in the air in the littoral battlespace. This battlespace may extend from hundreds of miles offshore to hundreds of miles inland. We must be able to command the sea and airspace to protect our ground forces, and we must also be able to control the sea lanes through which most of our troops, equipment, and supplies travel. Our naval forces are capable of conducting this mission anywhere in the world.

**Power Projection.** The strategic concept of power projection was forged in the Pacific theater during the Second World War. It remains an essential naval capability, and is of growing importance as overflight limitations and reductions in overseas basing rights restrict the reach of other branches of the U.S. armed forces. Today's Navy can project its power in a vast variety of ways, from carrier-based strike-fighter aircraft to sea-launched cruise missiles; from a Marine air-ground task force to clandestine special warfare forces. It can operate above, on, or below the surface of the sea, and as the situation demands, as a highly visible deterrent or from hidden and secure positions.

### Attributes of Naval Expeditionary Forces

America's military strategy is essentially of an expeditionary nature. Our naval forces have two fundamental attributes that make them ideally suited to execute this strategy: flexibility and self-sufficiency.

**Flexibility.** Our carrier battle groups and amphibious-ready groups are comprised of a diverse range of elements that can be brought into play to meet the needs of the situation at hand. They can be used to collect intelligence, to conduct maritime intercept operations, or simply to demonstrate U.S. commitment and political support. Their tools for battle include precision-guided bombs, Tomahawk land-attack missiles, Marine forces, and naval gunfire. Noncombatant support groups that are vital to our operational flexibility also complement our carrier and amphibious groups, at war and in peace. The support groups both supply forces for combat and conduct humanitarian operations, such as disaster relief and evacuations.

**Self-Sufficiency.** It is essential that an expeditionary force be capable of sustaining its operations in forward regions without the need for an extensive network of land bases and other support facilities. Our naval forces have this capability. An aircraft-carrier air wing, for example, has aircraft, crews, and weapons, and also, on the carrier, its own secure airfield. An amphibious-



**The guided missile frigate USS Reuben James and the attack submarine USS Tucson operate off the coast of Chile during Exercise Teamwork South 99.**

ready group has its own command-and-control systems, air support, and sea and sea-based troop billeting. The group is secure against terrorist attack and free from status-of-force agreements and sovereignty constraints. Intelligence, maintenance, security, and supply services are also available, on-scene, when and where needed.



**On the deck of the USS Kearsarge, Marines from the 26<sup>th</sup> Marine Expeditionary Unit board a CH-53D heavy assault helicopter headed for a NATO staging area in Macedonia.**

## Operational Challenges for the 21st Century

Emphasis on information superiority is underlined by Joint Vision 2010, a program published by the Joint Chiefs of Staff (JCS) that defines a common way forward for all U.S. military services. Joint Vision 2010 calls for the exploitation of new technologies to improve America's ability to conduct joint operations in all peacetime, crisis, and wartime situations. Information superiority is critical to this vision, and together with institutional, organizational, operational, and technological innovation will provide a new template for future naval expeditionary forces.

The Navy has responded to Joint Vision 2010 by embarking on a revolution in military affairs (RMA), driven by technological advances and operational, organizational, and institutional change. Drawing largely on commercial innovation, this transformation calls for the implementation of new civilian technologies and business practices to support the Navy–Marine Corps team's advanced concepts, doctrine, and operations.

The Navy's SmartShip program has been used to identify labor saving technologies that can be applied both to our existing ships and to future designs. The program is expected to save manpower costs and also to result in a greater proportion of our crews being focused on warfighting. When as much as 60 percent of a ship's life-cycle/total ownership costs can be attributed to its crew, even modest reductions in manning can free up funds and valuable internal space that can be devoted to combat systems and sensors, weapons, and ordnance. In addition to our existing vessels, we are applying the SmartShip approach to our future aircraft carriers, destroyers, and amphibious assault warships.



**The guided missile destroyer Winston S. Churchill is launched after being christened.**

“During the Revolutionary War, it was the Navy that cut off the supplies the British army needed to defeat the colonists. During the Second World War, it was the Navy who drove the Japanese back across the Pacific. And today, in places—dozens of them—around the globe, the Navy is there standing watch, around the clock.”

Adm. Jay L. Johnson  
Chief of Naval Operations  
September 25, 1999

*The SmartShip program is expected to generate significant cost savings for the Navy. By investing a total of \$23 million in workload-reduction initiatives for our Ticonderoga (CG-47)-class Aegis cruisers, we believe we could save 44 enlisted and two officer billets in each ship. This would produce direct, indirect, and logistics-support cost savings of \$2 million per ship per year, which for our 27 Aegis cruisers would mean some \$1.4 billion in savings during their remaining service lives—savings that could be reallocated to meet other pressing needs.*



### Improving Navy Capabilities and Business Processes

The Navy's RMA will be paralleled by a similarly far-reaching revolution in business affairs (RBA). The changes made under the RBA will include:

- reductions in overhead and the streamlining of infrastructure
- acquisitions reform
- outsourcing and the privatization of some support activities
- adoption of commercial/dual-use technologies and open computer systems
- elimination of duplicate or competing product standards
- introduction of integrated product development
- increased cooperative development and acquisition programs with our allies.

The DON is planning a Navy/Marine Corps Intranet (NMCI) to replace independent networks and provide increased business efficiencies, more cost effective IT investment, enhanced security, and interoperability with other CINCs/Services. The goal is to connect all commands/units in a common information environment by building the critical infrastructure, organizing data, and achieving process and cultural change. NMCI is intended to develop a long-term arrangement with the commercial sector which transfers the responsibility and risk for providing and managing the vast majority of DON desktop, server, infrastructure and communication assets and services.

The Navy's SmartBase program solicits industry, academia, and government agencies for innovative technologies and business practices that have the potential to improve shore installation efficiency. Examples of the innovations we have introduced under this program include the SmartLink wide-area computer network and the SmartCard ID system. Designed to connect 300 sites on completion, SmartLink in early 1999 was providing voice, video, and data communications to more than 80 sites on the Navy's Intranet, at significant savings. The SmartCard project, launched first at the Great Lakes recruit training center, sees the issue of a computer-chip ID card to each recruit. The card is already

returning significant savings in administrative costs, and has the potential to achieve even greater savings as further applications are introduced.



**Information Technology Specialists work together to verify an internet connection with USS John F. Kennedy's internet server.**

During FY 1999, the DON published the *Business Vision and Goals* (BVAG) guidelines. BVAG provides guidelines for modernizing its business operations to match more closely those of the private sector. This vision statement seeks to support future initiatives across the DON while encouraging local innovation. The vision statement is supported by four strategic goals that provide an overall framework for the organizational and cultural changes needed to make our business side as effective as our warfighting side:

- *Foster continued conceptual, technological, and operational superiority.* Develop business programs and technologies that offer a warfighting edge and align acquisition processes to take advantage of global market forces driving information and technology.
- *Recruit, engage, and retain the best people – military and civilian.* Create an environment that fosters a sense of purpose, and personal development. Make labor-saving investments that enhance capabilities and improve working conditions.
- *Implement decision support systems that deliver recognizable value for every dollar spent.* Give decision-makers the capability to rapidly access data, knowledge and expertise to enhance their understanding of complex situations.



- *Create a business environment focused on teamwork and outcomes.* Organize with a focus on outcomes versus activity.

Our business vision and goals seek to build a modern, efficient support structure that supports individual initiatives and corporate action simultaneously.

### Year 2000 Issues

One of the DON's highest priorities for FY 1999 was to ensure that no mission-critical system failures occur due to Year 2000 (Y2K) -related problems. To address this issue, the DON provided guidelines for a centralized management/decentralized execution policy. Congress additionally appropriated \$238.1 million to the DON budget exclusively to fund a resolution of the Y2K problem. Progress on the issue was reported to senior management during regularly scheduled briefings.

Our state of Y2K readiness at the close of 1999 was very strong, with 100 percent of mission-critical systems Y2K-compliant. Contingency plans for all mission-critical systems were also in place. With our mission-critical systems Y2K-ready, we enlarged our focus from fixing and testing individual systems to exercising these systems in an operational environment using existing processes such as battle group systems integration testing (BGSIT) and Marine Corps operational evaluations. We used BGSITs to operationally validate mission readiness for five battle groups, beginning with Constellation in February 1999 and concluding with Eisenhower in November. The Marine Corps participated in all five BGSITs and additionally ran Y2K operational validations in nine other exercises.

The DON also participated in Joint Chiefs of Staff / Commander-in-Charge operational evaluations and functional end-to-end testing. No mission-degrading failures were seen. All 203 DON shore installations also successfully completed installation-level Y2K testing and found their mission-essential services (safety and security of personnel and support to core mission) to be Y2K-compliant.

Contingency plans should the Y2K problem affect DON operations were handled by the contingency planning and consequence management (CM) effort. The CM program developed continuity-of-operations plans (COOPs) for all mission-critical systems for the Navy and the Marine Corps and exercised these where appropriate. The CM effort also developed a Y2K communications strategy, including table-top exercises to familiarize senior leaders with the types of problems they might potentially face as a result of Y2K breakdowns.

In October 1999, the Under Secretary of the Navy hosted an Expert Forum to address consequence management (both in light of Y2K and future events) and explore ways to consider unknowns. The forum, held at the Naval War College in Newport, brought together senior DON leadership and world-class thinkers with diverse areas of expertise. This team searched for new ideas, insights, perspectives and actions to better prepare the DON to address Y2K unknown consequences and other unknown conditions.



### Summary

There are many challenges that lie before us as we head into the 21st century. We plan on solving these challenges through the concerted and focused initiatives we have undertaken. These initiatives improve the Navy and Marine Corps team's capability to protect and promote America's interests anytime and anywhere we are called upon to do so.

It is imperative that we learn from the past as we plan for the future. The decisions we make today will fundamentally affect our ability to meet our future strategic, operational, and tactical obligations; they will affect our ability to work with other U.S., allied, and coalition forces; and they will affect our ability to influence events on the broad seas, in littoral regions, and far ashore. Were we to base these decisions on a short-term outlook, we would risk exposing the nation to technological or strategic surprise decades from now. We are therefore planning for the future, and the Naval Century—a 21st century in which our nation's maritime power will be an increasingly critical element of our global influence and prestige.

“Many Marines remain in uniform, always on watch, that Americans may live in peace.”

General James L. Jones  
Commandant of the Marine Corps



## Performance Results – Supporting DoD Corporate Goals

The Government Performance and Results Act (GPRA) of 1993 requires federal agencies to submit a comprehensive strategic plan that identifies their major goals and objectives. The Quadrennial Defense Review (QDR) of May 1997 serves as the Department of Defense's (DoD's) strategic plan. As required by GPRA, the FY 1999 performance report will additionally be submitted to Congress in March 2000 as an appendix to the DoD's Annual Report.

The DoD has developed two corporate goals consistent with the QDR strategy: "Shape and Respond" and "Prepare." Each of these corporate goals includes performance goals that are in turn supported by performance measures. The DON uses these performance measures to assess its results in key performance areas. Dedication to our performance goals helps the Navy and the Marine Corps ensure that we are ready to respond to any requirement that is made of us anywhere in the world. Success in pursuit of these goals means we are a force that will always be there when the nation calls.

### DoD Corporate Goal 1: Shape and Respond

The DoD's first corporate goal, to shape the international environment and respond to the full spectrum of crisis by providing appropriately sized, positioned, and mobile forces, incorporates three performance goals. They are:

- To support the U.S. regional security alliances through military-to-military contacts and through the routine presence of ready forces overseas, maintained at force levels determined by the QDR.
- To maintain ready forces and ensure they have the training necessary to provide the United States with the ability to shape the international environment and to respond to the full range of crises.
- To maintain sufficient airlift and sealift capability, with adequate prepositioning, to move military forces from the United States to any location in the world.

Our ability to dominate the oceans of the world and, when required, to project lethal force ashore enables us to shape the international environment by deterring aggression by unfriendly regional powers. We also have the ability, if called upon, to defeat hostile action by any potential adversary. Engaged daily around the world, we are a constant and visible reminder of U.S. commitment to its international interests.

### Support U.S. Regional Security Alliances

It is essential to the security of our nation that our naval forces are deployed overseas at a force level necessary to promote regional stability and to protect U.S. interests. The following performance measures provide an indication of how successfully the Navy achieves this goal.

### Overseas Presence

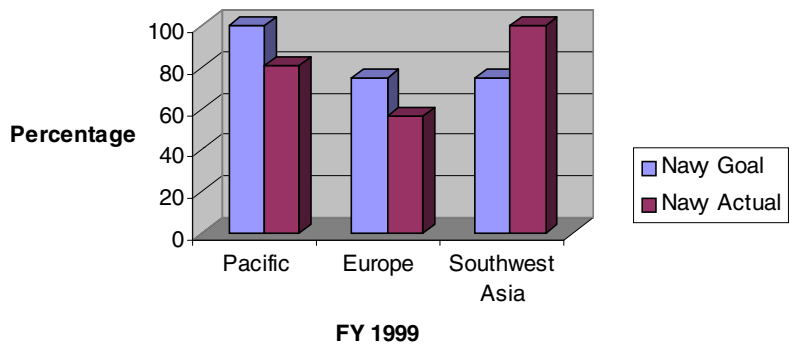
This performance measure records the percentage of time that each of three strategic regions are covered by the presence of a U.S. Navy carrier battle group (CVBG) or by Marine expeditionary units (MEUs) and amphibious-ready groups (ARGs). This measure gauges the ability of naval air, land, surface, and submarine forces to respond to crises and to engage in exercises, military-to-military contacts, and other activities in support of U.S. regional alliances. Our goal is to increase the amount of time that these strategic regions are covered by the presence of either a CVBG or an MEU and ARG.



**The USS Kitty Hawk turns into the wind in order to launch aircraft during Exercise Tandum Thrust 99.**

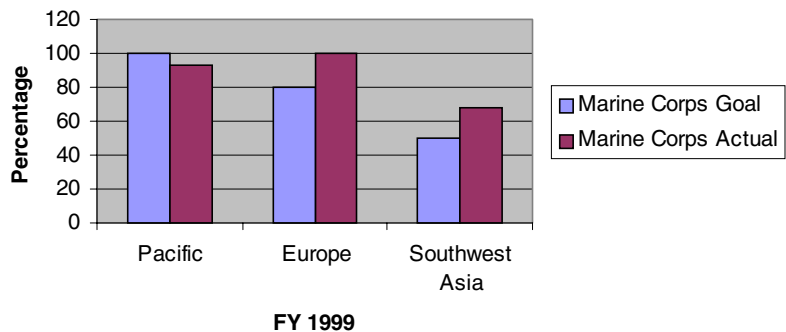
<i>Naval Overseas Presence</i> (Percentage of time regions are covered by an aircraft carrier battle group)				
	FY 1997	FY 1998	FY 1999	
	Actual	Actual	Goal /Actual	
<i>Pacific</i>	100	67	100	81
<i>Europe</i>	65	40	75	56
<i>Southwest Asia</i>	80	82	75	100

**Naval Overseas Presence**



<i>Marine Corps Overseas Presence</i> (Percentage of time regions are covered by a Marine expeditionary unit/amphibious ready group)				
	FY 1997	FY 1998	FY 1999	
	Actual	Actual	Goal /Actual	
<i>Pacific</i>	100	100	100	93
<i>Europe</i>	92	82	80	100
<i>Southwest Asia</i>	46	50	50	68

**Marine Corps Overseas Presence**



**Results:** The DON met its FY 1999 performance goals for Navy and Marine Corps presence in Southwest Asia. Deployments in the Pacific fell slightly short of their goals due to the diversion of forces to support operations in Europe and Southwest Asia. Targets for ARG/MEU presence in Europe were met, but CVBG deployments for that theater were short of target, again due to the reinforced deployments to Southwest Asia. Assuming a return to routine deployment patterns in Southwest Asia and the absence of further unanticipated requirements, the Navy and Marine Corps expect to meet all goals for overseas presence in FY 2000.



## Maintain Ready Forces

The force structure objectives established in the QDR reflect the need for us to strike an appropriate balance between investment in our existing forces and investment in preparations for the future. Today's security environment presents the same need for a military force that existed when the QDR was conducted in 1997—that is, for a force that can simultaneously fight and win two major theater wars. We must also be capable of responding to smaller-scale contingencies, however, which although much less demanding can be of great importance. This is particularly true in cases when swift intervention may be necessary to contain, resolve, or mitigate the consequences of a crisis that threatens to become far more costly and deadly.

The following performance measures assess our success in maintaining adequate trained forces to meet the requirements of the QDR.

### Naval Force Structure Levels

Naval Force Levels				
	FY 1997 Actual	FY 1998 Actual	FY 1999 Goal	FY 1999 Actual
<b>Aircraft Carriers (Active/Reserve)</b>	11/1	11/1	11/1	11/1
<b>Air Wings (Active/Reserve)</b>	10/1	10/1	10/1	10/1
<b>Amphibious Ready Groups</b>	12	12	12	12
<b>Attack Submarines</b>	73	65	57	57
<b>Surface Combatants (Active/Reserve)</b>	115/10	116/10	106/10	106/10

Marine Corps Force Levels				
	FY 1997 Actual	FY 1998 Actual	FY 1999 Goal	FY 1999 Actual
<b>Marine Expeditionary Forces</b>	3	3	3	3
<b>Divisions (Active/Reserve)</b>	3/1	3/1	3/1	3/1
<b>Air Wings (Active/Reserve)</b>	3/1	3/1	3/1	3/1
<b>Force Service Support Groups (Active/Reserve)</b>	3/1	3/1	3/1	3/1

**Results:** The DON met all FY 1999 performance targets for naval force structure. The QDR requires that the Navy maintain 12 aircraft carrier battle groups (CVBGs) and 12 amphibious-ready groups (ARGs). The number of carrier wings is 10 active and one reserve. While these numbers remain constant, the number of surface combatant ships has decreased from the 1997 level of 125 to 116, as newer and more capable systems have entered service. The attack submarine force is also scheduled to decline from the current 57 boats to 50 by FY 2002. Our goal is to maintain the number of CVBGs, ARGs, carrier wings, surface combatant ships, and attack submarines specified by the QDR. No significant changes to force structure goals are projected for FY 2000.

## Overview

The FY 2001 budget supports a force of 12 fully deployable aircraft carriers. While conducting some active deployments, one of these ships, the J. F. Kennedy, has been primarily engaged as a reserve/training asset. Starting in FY 2001, the J. F. Kennedy will be redesignated as an active carrier and will be fully integrated into the deployment cycle.

### Personnel and Deployment TEMPO

Each service has a different approach to ensuring force readiness, based on its own force characteristics, wartime and contingency response requirements, peacetime forward-deployment levels, the availability of training infrastructure, perishable skills, and the need for flexibility. Less tangible factors—such as morale, leadership development, and team building—are also taken into account. The Navy and Marine Corps maintain a cyclical readiness posture, tied to the deployment schedules of their forces. Training, maintenance, and resupply activities in home port are carried out in rotation with active deployment at sea.



**In preparation for their deployment to the Mediterranean sea, U.S. Marines from the 22<sup>nd</sup> Marine Expeditionary Unit check gear that has been stored in the hanger bay of the USS Bataan.**

Force readiness measures include an established threshold beyond which the pace of operations is considered likely to threaten operational readiness, quality of life, or the service's ability to retain personnel. The Navy uses a combination metric to measure personnel tempo, such that a unit must deploy for no more than six months at a time, must spend twice as much time nondeployed as deployed, and must spend 50 percent of its time in home port over any five-year cycle. The Marine Corps metric is similar, but also incorporates a reporting threshold set at the number of units deploying for more than 180 days per year over a 36-month scheduling period. The Navy and the Marine Corps share the same goal: To maintain operational readiness while improving the quality of life and personnel retention by meeting the planned personnel and deployment tempo goals.

<i>Navy Personnel Tempo</i>				
	FY 1997 Actual	FY 1998 Actual	FY 1999 Goal	FY 1999 Actual
<i>Units Not Meeting Personnel Tempo Goal</i>	2	2	0	2

<i>Marine Corps Deployment Tempo</i>				
	FY 1997 Actual	FY 1998 Actual	FY 1999 Goal	FY 1999 Actual
<i>Units Deploying More Than 180 Days per Year Over a 36-Month Scheduling Period</i>	N/A <sup>a</sup>	1	0	0

<sup>a</sup>*The Marine Corps tempo indicator took effect in 1998.*

**Results:** Operation Allied Force resulted in two Navy units failing to meet tempo goals in FY 1999. The Marine Corps met its FY 1999 tempo goal, despite the increased pace of operations. Operation Allied Force continues, but the DON nonetheless expects to meet its FY 2000 tempo goals.

**Number of Flying Hours per Month**

This metric reflects the flying hours per month required by the Navy to maintain pilot and crew proficiency, including proficiency in training and maintenance activities, in the active and reserve components. The DON goal is to maintain pilot and crew proficiency by meeting the established goals for flying hours per month for both the active and reserve components of the Navy and the Marine Corps.

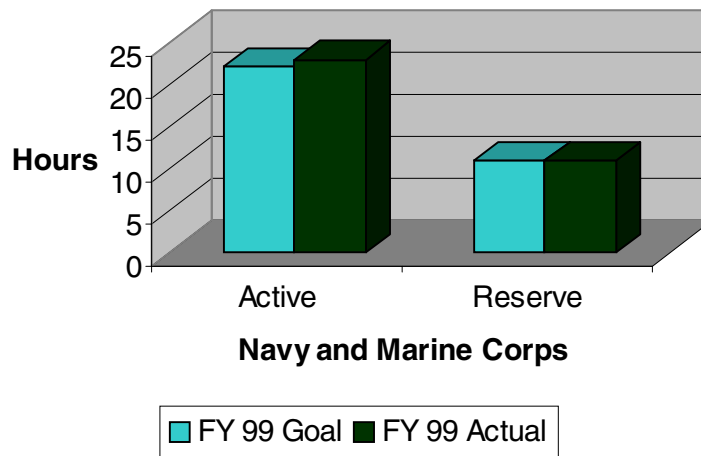


**A pilot from Strike Fighter Squadron One Four Six expends flares from an F/A-18C “Hornet”.**

Flying Hours per Month		
	FY 1999 Goal	FY 1999 Actual
Navy and Marine Corps (Active)	22.1	23
Navy and Marine Corps (Reserve)	11.0 <sup>a</sup>	11.0 <sup>a</sup>

NOTES: Flying hour data is expressed in monthly flying hours per crew.  
<sup>a</sup>Naval Reserve only

**Flying Hours Per Mont**



**Results:** The active components of the Navy and the Marine Corps exceeded their FY 1999 goal for monthly flying hours per crew. The Naval Reserve component met its goal.

**Number of Steaming Days per Quarter**

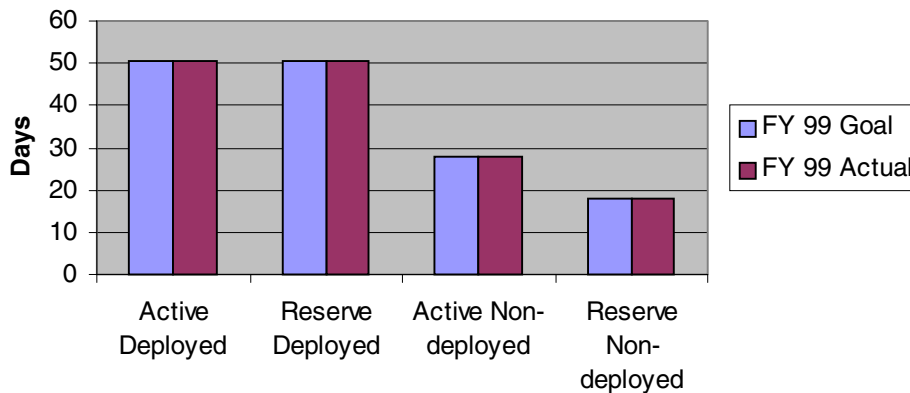


The USS Curtis Wilbur patrols the waters of the Arabian Gulf as part of Carrier Task Force Five Zero deployed in support of Operation Southern Watch.

This metric tracks the total number of steaming days (days at sea) per quarter for active and reserve component naval vessels. Steaming days are planned and budgeted as fuel costs for ships. The DON goal is to maintain crew proficiency by meeting the established goals for the number of steaming days per quarter, for both the active Navy and the Naval Reserve deployed and nondeployed components.

<i>Number of Steaming Days per Quarter</i>			
	FY 1998	FY 1999	FY 1999
	Actual	Goal	Actual
<i>Navy (Active Deployed)</i>	50.5	50.5	50.5
<i>Navy (Reserve Deployed)</i>	50.5	50.5	50.5
<i>Navy (Active Non-deployed)</i>	26.8	28.0	28.0
<i>Navy (Reserve Non-deployed)</i>	18.0	18.0	18.0

**Number of Steaming Days Per Quarte**



**Results:** The Navy met its steaming-day goal for FY 1999. No shortfalls are projected for FY 2000.



## Maintaining Airlift and Sealift Capability

The Navy’s projection forces—airlift, sealift, and equipment prepositioning—give the nation the capability to respond as appropriate to any crisis that might arise worldwide. The QDR recognized that America’s mobile forces must be able to respond to all operations from peacetime engagements to major theater wars, and reaffirmed the baseline requirements for a surge sealift capacity of 10 million square feet of cargo space. (Surge sealift refers to seaborne transport capacity that can be brought to bear at the outset of a crisis. It does not include ships routinely used for prepositioning purposes.) The following performance measures help us to monitor our ability to deliver this projection capability.

### Surge Sealift Capacity

The QDR defines the baseline requirement for surge sealift capacity as 10 million square feet of cargo space. Square footage serves as the aggregate measure of ship capacity. It is computed from ship deck plans by the Maritime Administration (MARAD) or the Military Sealift Command (MSC), and is tracked as a planning consideration by the U.S. Transportation Command (USTRANSCOM). Our FY 1999 goal was to increase the planned organic surge sealift capacity for the Navy to 7.7 million square feet to improve our ability to meet activation schedules.

<b>Surge Sealift (Million Square Feet)</b>				
	FY 1997	FY 1998	FY 1999	FY 1999
	Actual	Actual	Goal	Actual
<b>Organic Surge Sealift</b>	7.3	7.3	7.7	7.7
<i>NOTE: Reflects capacity contributed by DoD-owned or chartered vessels. Excludes additional capacity provided by commercial ships that could be requisitioned for military use in a major deployment.</i>				

**Results:** The DoD met its performance goals for organic surge sealift in FY 1999 and expects to meet its targets for FY 2000. Projections for FY 2001 point to a shortfall of 400,000 square feet, primarily because of the delay from FY 2001 to FY 2002 of delivery of the Navy’s 19th large medium-speed roll-on/roll-off ship (LMSR).

Congress has approved funds for the purchase in FY 2000 of a 20th LMSR as the DoD seeks to meet its long-term goal of delivering surge sealift capacity of 10 million square feet. The new ship will be used to free an older, smaller vessel for employment with the maritime prepositioning force.

### DoD Corporate Goal 2: Prepare

The DoD's second corporate goal is to prepare for an uncertain future by pursuing a force modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. This goal also calls for the transformation of the force through the revolution in military affairs, and the reengineering of the department to realize a 21st century infrastructure. The second corporate goal incorporates four performance goals:

- To recruit, retain, and train the personnel necessary to maintain a highly skilled and motivated force capable of meeting tomorrow's challenges.
- To transform the U.S. forces of the future.
- To streamline the defense infrastructure by redesigning the DoD support structure and pursuing business practice reforms.
- To faster and more efficiently serve the needs of the combat forces with products and services that work better and cost less. This is to be achieved by improving the efficiency of the DoD's acquisition processes.

The key to the Navy's continued success lies in recruiting, training, and retaining high-quality personnel. As we continue with the revolution in business processes we must also seek to improve our procurement procedures, to modernize and recapitalize our assets, and to advance our research and technology. We must additionally improve our military family housing and our depot maintenance procedures.

### Recruiting, Retaining, and Training Personnel

#### Enlisted Recruiting

A top priority and one of the DON's greatest challenges continues to be the recruitment and retention of enough people of the right quality to meet our operational requirements. The DON needs to recruit and retain a quality force in the future to keep abreast of the advanced technology designed into our new weapon systems. We are continuing to focus on recruiting and retaining those enlisted and officer personnel whose mission critical skills contribute to readiness and whose talents are in shortest supply. The recruiting market is improving in some areas, but the strong economy and low unemployment continue to challenge our efforts to find and retain personnel. In

addition, the 17–21 years old population group is shrinking, and there is a popular misconception that the drawdown of the armed forces means the military is no longer a viable career option.



**Recruits from Division 109 pass containers for 3" rounds through a bulkhead scuttle during the Magazine Flooding Scenario of Battle Stations at Recruit Training Center Great Lakes.**

Maintaining the quality of enlisted personnel is a critical element of the DoD's plan for the 21st century. The increasingly difficult challenge of leadership and the technological sophistication of our ships, submarines, aircraft, and ground weapon systems make this an unavoidable demand.

Within the context of the annual DoD goals, the Navy sets monthly recruiting objectives based on prevailing personnel trends. At the end of the fiscal year, these monthly objectives are summed to determine how many recruits were required to replace those that left the service. This summation provides a figure against which Navy recruiting is evaluated. The DON goal is to improve the recruiting process in order to increase the quality and number of personnel that enlist with the Navy and the Marine Corps.

<b>Enlisted Recruiting</b>				
	FY 1997	FY 1998	FY 1999	FY 1999
	Actual	Actual	Goal	Actual
Navy				
<i>Active</i>	50,135	48,429	52,524	52,595
<i>Reserve</i>	17,106	14,986	20,455	15,627
Marine Corps				
<i>Active</i>	34,548	34,123	33,594	33,610
<i>Reserve</i>	10,744	9,376	5,820	5,820

**Results:** The Marine Corps met its goals for both the active force and the reserve force, and foresees no problems meeting its FY 2000 goals. The Navy met enlisted recruiting goals for active forces, but fell short of their goal for reserve forces by 4,828. The Navy anticipates no problems in meeting its FY 2000 goals for active forces, but will be challenged to meet the reserve forces goal. To help meet its FY 2000 goals, the Naval Reserve is funding several initiative programs to decrease attrition and to improve recruitment.

**Quality Benchmarks**

The quality benchmarks for recruiting were established in 1992, based on a study conducted jointly by the DoD and the National Academy of Sciences. The study developed a model to compare recruit quality and recruiting resources with the job performance of enlistees, highlighting the relationships between recruiting and training costs and the costs of attrition and retention. The model used as a standard the performance levels demonstrated by the recruit cohort that served in the Gulf War. The DoD was able to use the model to derive recruitment targets of 90 percent high school diploma graduates and 60 percent top-half aptitude (AFQT categories I-III A). The Navy has taken the same targets as its threshold of minimum acceptable quality. Adherence to these benchmarks reduces training and other personnel costs and ensures that Navy personnel are able to meet the performance standards of the force.



**An Aviation Electronic Technician performs maintenance on an F/A-18 “Hornet” on the flight deck of the USS Carl Vinson.**

**Results:** The Navy met or exceeded its goal for recruit quality in FY 1999 in all categories and expects to meet or exceed FY 2000 targets in all categories.

<b>Quality Benchmarks for Enlisted Recruits (in percents)</b>				
	FY 1997	FY 1998	FY 1999	
	Actual	Actual	Goal	Actual
	(Active/ Reserve)	(Active/ Reserve)	(Active/ Reserve)	(Active/ Reserve)
<b>Recruits Holding High School Diplomas</b>	95 / N/A	95/95	90/90	90/93
<b>Recruits in AFQT Categories I-III A</b>	66 / N/A	64/ 64	62/100	65/100
<i>NOTE: AFQT = Armed Forces Qualifying Test. The AFQT is a subset of the standard aptitude test administered to all applicants for enlistment. It measures math and verbal aptitude and has proven to correlate closely with trainability and on-the-job performance.</i>				

## Overview

### Retention

The post-Cold War drawdown of U.S. military forces affected retention goals for nearly a decade. The Navy gave some members early retirement and released others from active duty to achieve force reduction targets. Since retention rates are based on required staffing in each paygrade, retention goals were relaxed while the Department of the Navy was decreasing in size. The drawdown is now effectively over, and personnel levels have begun to stabilize. However, retention rates still reflect effects of the drawdown, a strong economy, and low unemployment.

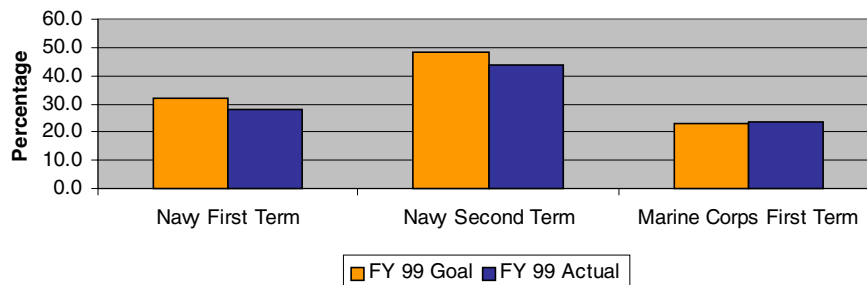
One initiative presently underway to encourage retention is "LIFELines". LIFELines is a web-based system that reinvents the delivery of Quality of Life programs and services, improving the availability and range of information to uniformed and civilian service members. This is accomplished by using five modern telecommunication media – the Internet, Internet Simulcasting, Satellite Broadcasting, Teleconferencing and Cable Television. Among the many quality of life benefits LIFELines provides, service members will soon be able to check their records, register their children for school, or participate in distance learning programs. The LIFELines initiative is meant to use the military's technological strengths to resolve lifestyle challenges, and it appears to be effective. The site, which receives in excess of a million hits per month, will continue to expand in FY 2000.



The following table provides FY 1987 retention rates as a basis for comparison. The FY 1987 rates do not represent goals; rather, they serve as reference points from a period when the force was stable. The Navy and Marine Corps goal is to retain those enlisted and officer personnel whose mission critical skills contribute to readiness and whose talents are in shortest supply. The retention figures for FY 1998 serve as references against which to compare FY 1999 performance.

<i>Active Component Enlisted Retention Rates</i>				
	FY 1987 Pre-Drawdown Baseline	FY 1998 Post-Drawdown Baseline	FY 1999 Goal	FY 1999 Actual
<i>Navy First Term</i>	35.7%	30.5%	32.0%	28.2%
<i>Navy Second Term</i>	51.8%	46.3%	48.0%	43.8%
<i>Marine Corps First Term</i>	35.4%	21.6%	23.0%	23.8%
<i>Marine Corps Second Term</i>	53.2%	57.7%	N/A <sup>a</sup>	56.5%
<i><sup>a</sup>The Marine Corps, while monitoring trends, does not set management goals for second-term retention.</i>				

**Active Component Retention Rates**



**Results:** Although the Navy was unable to meet its retention goals for first- or second-term enlistees, we were able to successfully reduce manning gaps at-sea from a high of 22,000 to less than 12,000. The Marine Corps met its goals for FY 1999.



## Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms

U.S. military forces and operations are changing dramatically as security demands evolve and technology advances. The forces envisioned by Joint Vision 2010 and the RMA will require a support structure radically different from that of today. In order to realize Joint Vision 2010, the DON must increase its investment in force modernization while at the same time improving the military family housing for our sailors and Marines. Our overarching responsibility, as always, is to be ready to meet the nation's needs. To achieve our goals, we must increase the cost efficiency of our support operations and develop an infrastructure that delivers the greater responsiveness that our increasingly agile and capable forces demand.

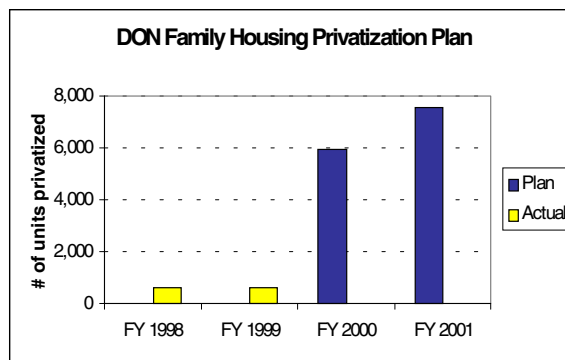
The 1999 DoD Logistics Strategic Plan identified areas in which logistics costs can be reduced, throughout their life cycle, for personnel, weapons, and equipment. The goals for efficiency in these areas are established in terms of logistics response time and the ability to track items in the supply channel. Faster delivery and greater worldwide visibility of assets will enable us to reduce our supply inventories and therefore also our costs.

### Military Family Housing

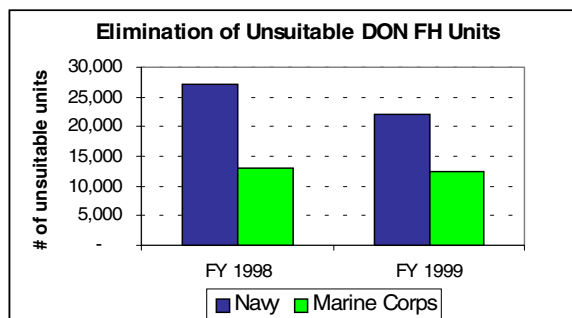
Improving the quality of life of service members is essential if the Navy and Marine Corps are to continue attracting and retaining high caliber professionals. A critically important quality of life initiative is improvement of military family housing. Approximately twenty five percent of Navy and Marine Corps families live in housing provided by the DON. At the end of fiscal year 1999, the DON owned over 60,000 military family housing units worldwide. In addition, 6,000 leased homes in the United States and overseas are currently assigned to military families.



In an effort to improve the living conditions of the families making use of these facilities, DoD has established a goal of eliminating unsuitable military family housing units by FY 2010. The Navy and Marine Corps are making progress in this area through a combination of military construction and, where feasible, the use of housing privatization authorities. The Navy and Marine Corps housing privatization plans are illustrated below.



The Navy and Marine Corps reduced the combined number of unsuitable DON-owned family housing units by approximately 6,000 units during FY 1999 as illustrated below.



## Improve the Efficiency of the DoD's Acquisition Processes

The ultimate goal of all business efficiency efforts in the Navy is to maximize the resources available to the operating forces. The QDR identified the need for a radical reengineering of defense infrastructure and support activities, and the revolution in business affairs outlines ways in which this might be achieved. This goal, which addresses both acquisition reform and those Defense Reform Initiatives that involve the acquisition of new property, systems, and services, is to ensure that the combat forces be more quickly and more efficiently supplied with affordable, better products and services.

DoD acquisition reform echoes the themes of modern business procurement: The minimizing of product introduction times and of cost growth, and the simplification of the purchase process through adoption of practices such as the use of purchase cards and the leveraging of e-commerce capability. By reforming our acquisition processes, we expect to free up resources to perform the fundamental operational mission of the Navy.

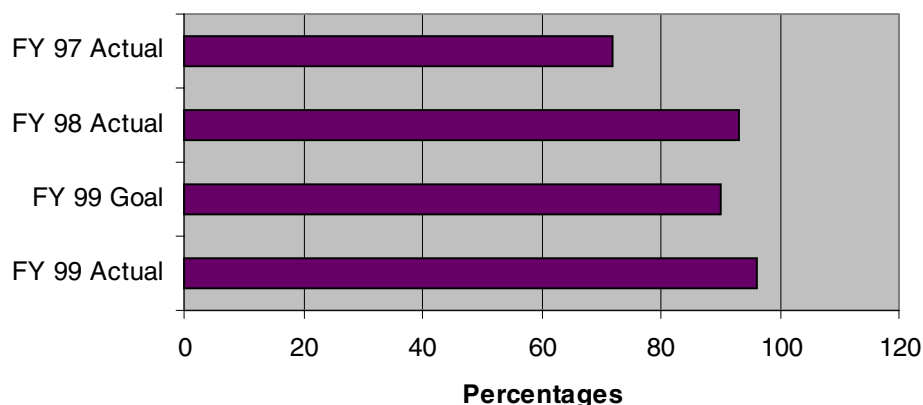
### Purchase Card Micro-Purchases

In the traditional acquisition process, a requisition document is forwarded sequentially through the various offices of the supply chain, including, for example, the resource management office, which approves funding, and the supply manager. If the requirement cannot be filled through the normal channels, the purchase order will be forwarded to a local contractor. The use of government purchase cards for micro purchases—supplies or services (other than construction) valued at less than \$2,500—virtually eliminates this workload. By introducing purchase cards, the DON has significantly reduced its administrative labor costs and successfully freed up funds for use by mission elements of the Navy. Our goal is to increase the use of the purchase card to 90 percent of all micro purchases.



<i>Purchase Card Micro-purchases (In percents)</i>				
	FY 1997	FY 1998	FY 1999	FY 1999
	Actual	Actual	Goal	Actual
<i>Percentage of Purchases Made by Purchase Card</i>	72%	93%	90%	96%

### Purchase Card Micro-Purchases



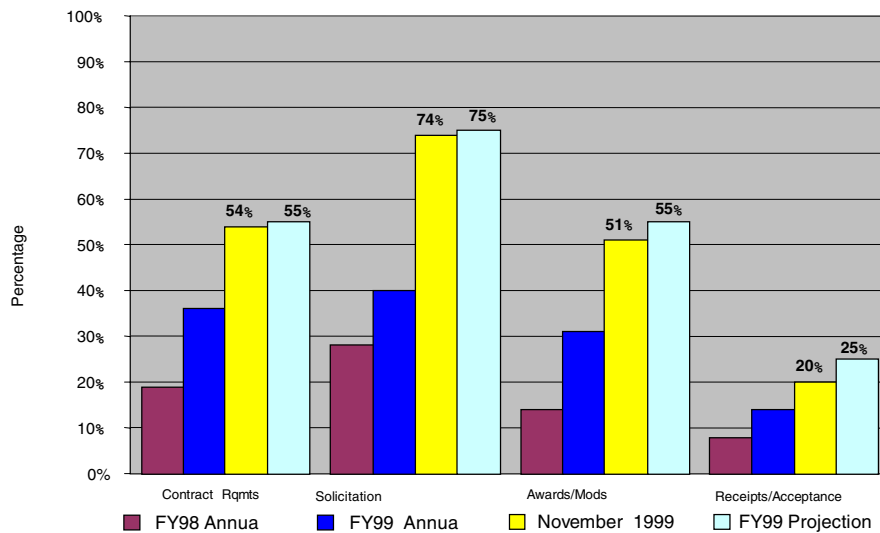
**Results:** The Navy exceeded its FY 1999 micro-purchase goal, continuing a long term growth trend.

### Percentage of Paperless Transactions

The DON is committed to the use of information technology and modern commercial practices to reform its contracting processes. We are currently seeking to standardize all of our contracting and payment practices in accordance with the guidelines of the Defense Reform Initiative.

Contracting, particularly that related to high-cost weapons systems, consumes a large portion of the DON budget and employs a significant portion of our workforce. By converting to paperless contracting we can streamline the acquisition process and significantly reduce acquisition cycle time. Government purchase cards are one feature of this reform; we will also use the Internet, computer workflow systems, and e-commerce and electronic data interchange (EDI) transactions, supported by digital signature and public key encryption technology. The DON goal is to increase the use of paperless transactions for contracting which will ultimately lead to reducing acquisition cycle times and streamlining acquisition.

### Paperless Transactions



**Results:** The DON demonstrated significant increases in all phases of the paperless contracting process.







**DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, D.C. 20350-1000**

**February 2000**

**Message from the Senior Civilian Official  
For the Office of the  
Assistant Secretary of the Navy  
(Financial Management & Comptroller)**



I am pleased to submit the Department of the Navy's (DON) fourth Annual Financial Report. By submitting this Report we are doing more than fulfilling the requirements of the Chief Financial Officers' Act of 1990 (P.L. 101-576) as amended by the Government Management Reform Act of 1994 (P.L. 103-356). We are instituting a process that provides complete, reliable, timely and consistent financial and program information for use by Senior Leadership in strategic decision making, resource management, and program and performance evaluation.

Recognizing the critical need for producing usable financial and program information for an enterprise such as the Department of the Navy, a number of working groups of functional area experts, each headed by a senior DON official to confront the challenges, have been established. These groups are focused on the issues identified in the Biennial Financial Management Improvement Plan as well as the Department of Defense Implementation Strategies for "clean financial statements". We can no longer be wedged in the past and continue to use resources by just coping with outdated systems and archaic technology. The DON is creating an environment where new structures, processes, and systems can be developed that will enable the enterprise to operate effectively in the rapidly changing global environment. The old map of business stovepipes and business-as-usual no longer accurately reflects contemporary thinking. Rather than turning inwardly for the answers to the enterprise challenge, senior leadership is being encouraged to think cross functionally and look to the outside environment for creative solutions and best practices.

It is absolutely clear that these enterprise challenges must be addressed so senior leadership in DON will have the financial and management information to make informed decisions. The time and effort required to deal with these challenges varies. In some cases, we have responded to the enterprise challenge, changed the culture, and adapted a new strategy. In others, we are still researching the solution. Regardless, we have accepted the challenges for improving program and financial management and demonstrating accountability to government officials and the public over the use of those resources. I am encouraged by our efforts and results during FY 1999 and eagerly anticipate breakthrough results in FY 2000 and beyond.

Charles P. Nemfakos

A handwritten signature in blue ink, which appears to read "Charles P. Nemfakos". The signature is stylized and cursive.

## Financial Management Accomplishments and Initiatives

In 1998, the Department of Defense (DoD) initiated two efforts to attain auditable financial statements: the Biennial Financial Management Improvement Plan and the DoD Implementation Strategies. Implementation of the Biennial Financial Management Improvement Plan was made compulsory by the Defense Authorization Act of 1998. The plan addresses financial management within the DoD, including management of any feeder systems not owned or controlled by the Department that provide data to the financial and accounting systems. It defines the environment DoD wants to attain in the future and provides a concept of operations to guide transition toward this environment.

The DoD Implementation Strategies incorporate the requirement of the Office of Management and Budget (OMB) that agencies submit a plan, including milestones, for resolving the financial reporting deficiencies identified by the General Accounting Office and the DOD Inspector General. The plan supports the Administration's goal to attain auditable financial statements government wide.

In response to these two initiatives, the Department of the Navy established 13 Non-Financial Feeder Working Groups under the leadership of the Deputy Undersecretary of the Navy. Each team is responsible for assessing, developing alternatives, and implementing the solution that will lead to better business processes, full accountability of our assets and ultimately, auditable financial statements. The Department is committed to this effort and has allocated the resources necessary to sustain this effort which is without precedent in the history of naval financial management.



### Working Groups

Working Groups have been established for each of the DoD Implementation Strategies. Each working group is led by a senior civilian or a flag officer and includes broad representation of program and financial personnel from the Secretariat, Navy and Marine Corps Headquarters, the audit community (General Accounting Office, DoD Inspector General and Naval Audit Service), Defense Agencies, and where appropriate, contractor support. In addition, a representative from each working group attends Executive Steering Committee (ESC) meetings with the staff of the Office of the Under Secretary of Defense (Comptroller). DON Working Groups include:

- Plant Property and Equipment (Real, Personal, National Defense, Heritage and Property in Possession of Contractors).
- Inventory and Operating Materials and Supplies.
- Deferred Maintenance.
- Environmental Restoration and Hazardous Waste.
- Two additional working groups were formed to pursue DON initiatives related to standardizing Time and Attendance and Personnel Systems.

During FY 1999, the working groups examined the need for changes in business practices and elimination of redundant and manually intensive systems; to bring remaining systems into compliance with Federal Accounting Standards as required by statute and, most importantly, to achieve the Administration's goal of auditable financial statements. All the teams made considerable progress, but have reached different stages of completion, due to the complexity of the specific implementation strategy. For example, in cases where a standard system exists and is used for accountability and financial reporting such as Real Property, the implementation process is accomplished more quickly than an area where accountability and financial information reside in multiple databases such as Personal Property. The following section highlights the progress during FY 1999 and outlines the FY 2000 plan.

- Real Property.* The Naval Facilities Asset Database (NFADB) is the Department's central repository for buildings and land assets (includes general and working capital fund). FY 1999 efforts focused primarily on the accuracy of data (existence, completeness and valuation) and remedies to bring the system in to compliance with federal accounting standards. Contractor support was provided by PricewaterhouseCoopers to statistically sample various properties to attain a reasonable estimate of value for financial reporting purposes. The team also identified the necessary modifications to calculate depreciation, analyzed Heritage asset reporting requirements, and internal controls necessary to sustain accurate financial reporting over the long term. The team plans to complete these actions in FY 2000. In addition, the team will work with the Defense Finance and Accounting Service to develop an electronic interface with our standard accounting and reporting system (STARS) during FY 2000.
- Time and Attendance.* This initiative is not linked to a specific DoD Implementation Strategy, but represents a change to our business process under the Smart Work initiative. The primary focus of this team was to define departmental time and attendance reporting requirements, and evaluate and eliminate redundant and non-compliant systems. There are numerous Time and Attendance systems of varying complexity and origin in use throughout the Department. Some are fully integrated with major automated information systems, while others (at lower echelon commands) were standalone systems. Information is fed to both the Defense Civilian Pay System and to the accounting system which required development and maintenance of multiple electronic interfaces to meet information requirements of hierarchical organizations. The team identified twenty existing systems that potentially could be used as a standard system and conducted a detailed functional analysis. One system, the Standard Labor Data Collection And Distribution Application (SLDCADA) system was recommended as the one most appropriate, with some modifications to serve as the Department's standard time and attendance system. Implementation is underway and should be completed implemented DON-wide by the end of FY 2001.
- National Defense Plant Property and Equipment (NDPP&E).* The National Defense team identified 13 non-financial feeder systems for review. The team is currently assessing the systems to evaluate data accuracy and compliance with laws



**A guided missile frigate, attack submarine, and nuclear powered aircraft carrier during battle group formation maneuvers.**

and regulations. In addition the team will consider alternatives to the number and adequacy of systems and the business process of reporting and accounting for National Defense assets.

- Personal Property.* This focus area is unique in that it represents implementing a totally new system and represents a significant change in our business culture and process. In addition, it is the only area where separate Navy and Marine Corps teams have been established. The Department selected the Defense Property Accountability System (DPAS) as the standard property accountability system in lieu of investing resources to bring hundreds of local systems into compliance with federal accounting standards with marginal improvement in terms of overall accountability. Implementing a new accountability system has required the development of personal property policy, operating procedures and internal controls including audit quality



## Overview

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physical inventory procedures. Additional work is underway to develop a standard personal property catalog, a standard barcode, and extensive personnel training necessary to ensure sustainability over the long term. It is an ambitious and innovative undertaking that will improve management decision making and ensure accountability of assets.



- *Marine Corps.* The Marine Corps implemented DPAS during FY 1999, a notable achievement in a period of about nine months. Since implementation occurred while standard operating procedures and catalog were being developed, some activities are conducting a revised physical inventory and reviewing the accuracy of items in the database. These actions will be completed in FY 2000.

- *Navy.* Starting in FY 2000, DPAS will be implemented at more than 900 Navy activities. Priority is being given to those activities have the majority of capitalized assets (acquisition cost of \$100K or higher).

- *Inventory and Logistics.* The Material Financial Control System (MFCS) is the standard system for Navy logistic support, including inventory requirements, replenishment, accounting and financial reporting. The team has reviewed the system for accuracy, compliance and utility. Working closely with OSD, the Defense Finance and Accounting Service (DFAS) and the audit community, the team is developing a valuation model, which would factor in historical prices and calculate net inventory value. This approach appears to be the most cost effective and least disruptive alternative to bringing the system into compliance with federal accounting standards. System modifications and revised internal control procedures could be implemented by the end of FY 2000. Marine Corps logistics data is currently contained in the Supported Activity Supply System (SASSY). The system satisfies logistics requirements, but does not meet FMFIA compliance standards. The Marine Corps has designated ATLAS II+ as the migratory system which will combine logistics and tactical requirements for the Marine Corps.
- *Personnel Systems.* The objective of this team is to develop a hybrid military manpower management

system. There are a number of unique and diverse systems in use today as tools for managing various segments of Navy manpower. These include accessions, promotions, training, operational assignment and career progression. Most of the systems link to each other, but are obsolete, with today's technology standards. During FY 1999, the team analyzed these systems and identified the desired elements for a future standard integrated personnel system.

- *Heritage Assets.* The team contributed to the overall DoD effort to clarify definitions and reporting requirements. In addition, the team performed a DON-wide inventory of all Heritage Assets in an effort to identify and evaluate systems. During FY 2000, the team will make recommendations regarding the overall process, selection of a standard system and transition plan; and ensure internal controls are consistent with hierarchical policy to ensure sustainability over the long term.
- *Environmental Restoration.* During FY 1999, the team reviewed the business process for environmental restoration data reported in the Normalization of Data System (NORM). The team is examining accuracy of cost estimates and reviewing the cost estimating process to validate the model used to project environmental restoration cost estimates and changes in the process to improve the timeliness of data to accommodate financial reporting due dates.
- *Government Property in Possession of Contractors (GPPC).* The team is working to identify an appropriate approach to account for property and material held by contractors. The effort is complicated by the constraints imposed by hierarchical regulations such as the Federal Acquisition Regulations and the DoD Financial Management Regulations. During FY 2000, the team will participate in a DoD study to determine the extent that existing systems already maintain accountability of GPPC in an effort to reduce areas of duplicate reporting and to develop a methodology for collecting GPPC information within the constraints of federal regulations.
- *Operating Materials and Supplies (OM&S).* This is the newest of the non-financial feeder teams, established during the latter part of FY 1999. The implementation strategy is similar to Inventory and Logistics but more complex given that there are multiple systems in use throughout the Department. The team worked closely with the OSD staff to establish standard definitions. In addition, the team began identifying the different



categories of OM&S, established common terminology, and began the process of identifying the number of systems used to track OM&S assets. During FY 2000, the team will evaluate the business process, evaluate systems for compliance with laws and regulations, and examine the feasibility of consolidating the systems used for reporting OM&S.



- *Deferred Maintenance.* The team reviewed the reporting processes and terminology used to define deferred maintenance for ship, aircraft, weapons systems and real property; and the use of budget justification exhibits as the basis or collecting cost information needed for financial reporting. Subsequently, the Federal Accounting Standards Advisory Board (FASAB) requested that DoD chair a government-wide task force to study deferred maintenance. Pending the outcome, implementation of the OSD strategy has been deferred. The team will participate as part of the task force and pursue efforts related to internal process improvements.

### **Summary**

The Department is committed to this effort, consistent with the Smart Work initiative. Our approach significantly redefines core business processes and provides additional tools for decision makers. The Department is on course to achieve auditable financial statements that are sustainable over the long term.

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### Limitations Concerning National Defense PP&E Stewardship

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for National Defense property, plant and equipment (ND PP&E). Therefore, the Department of Defense (DoD) elected to report ND PP&E in fiscal year (FY) 1999 in the same manner as ND PP&E was reported in FY 1998. For FY 1998, the DoD implemented early, as encouraged by the FASAB, then proposed amendments to the Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," and No. 8, "Supplementary Stewardship Reporting." Those amendments required ND PP&E quantities, condition and investment trends to be reported for major types of ND PP&E. Since the FASAB did not adopt the proposed amendments to SFFAS No. 6 and No. 8, in electing to report in accordance with the proposed amendments to the standards, the DoD is not in full compliance with the existing reporting requirements contained in SFFAS No. 8 (SFFAS No.8 requires the Department to report acquisition costs). The DoD cannot fully comply with the SFFAS No. 8 reporting requirement because many of the Department's ND PP&E accountability and logistics systems do not contain a value for all or a portion of the ND PP&E assets. These systems were designed for purposes of maintaining accountability and other logistics requirements of ND PP&E, and not for reporting on the value of ND PP&E. Consequently, many of these systems do not accumulate costs or otherwise report values for individual items of ND PP&E.

The ND PP&E cost information is captured in the DoD accounting systems and reported in the Department's "Statement of Net Costs." However, the Department's accounting systems were designed to provide appropriated fund accounting reports required by the Congress, the Department and other applicable federal agencies. In addition, the Department's accounting systems were not designed to accumulate and retain costs for individual items of ND PP&E. Further, in many instances, even where values were recorded for some ND PP&E in some of the Department's systems, documentation (such as copies of purchase receipts) no longer is available to support such amounts. In part, such documentation is not available, because until recently, the Department was not required to maintain such documents for audit purposes. According to Title 36, Code of Federal Regulations, Chapter XII, "National Archives and Records Administration," receipts for the purchase of items such as ND PP&E are required to be retained for only 6 years and 3 months. Therefore, much of the supporting documentation that would be required to validate the reported values of ND PP&E for audit purposes no longer is available.

Due to the difficulties noted above, implementing the reporting requirements of the SFFAS No. 8 would be an enormous undertaking involving significant cost (requiring the expenditure of perhaps hundreds of millions of dollars). Given the complexity of the reporting requirements contained in the SFFAS No. 6 and SFFAS No. 8, the enormous cost of implementing those reporting requirements and the interim nature of the current reporting requirements, the Department is continuing its FY 1998 reporting display until such time as the Department has a better indication of the more permanent reporting requirements expected to be recommended by the FASAB. In the meantime, the Department believes that the most reasonable and responsible course of action is to report quantity information for the DoD's weapons systems until such time as the FASAB adopts permanent reporting requirements for ND PP&E.